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CAPINFO COMPANY LIMITED*

首都信息發展股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8157)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004

Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers.

Accordingly, prospective investors should note that they need to have access to the GEM website at “www.hkgem.com” in order to obtain up-to-date information on GEM-listed issuers.

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This announcement, for which the directors of Capinfo Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Achieved a turnover of approximately RMB103 million for the six months ended 30th June, 2004, representing an approximately 18% decrease over the same period of the previous year;
- Sustained a net loss of approximately RMB6 million for the six months ended 30th June, 2004;
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The board of Directors (the “Board”) of Capinfo Company Limited (the “Company”) announces that, for the six months ended 30th June, 2004, the Company and its subsidiaries (collectively the “Group”) recorded an unaudited turnover of approximately RMB103 million, representing a decrease of approximately 18% over the same period of last year, and a gross profit margin of 30%, as compared with 26% for the same period of last year. The Group has sustained an unaudited net loss of approximately RMB6 million for the period under review as against net profit of approximately RMB3.5 million in the same period of last year.

During the period under review, the revenue generated from the e-Commerce business decreased and which had a relatively low gross profit margin. As a result, the Group’s turnover decreased and the gross profit margin increased.

During the period under review, the Group devoted more resources to marketing to cope with business development and, in turn, increased the selling and marketing expenses. Increase in operating expenses for the period was also attributable to the increase in general provision on receivables and inventories.

The businesses including credit rating, information kiosk and emergency aid system which were carried out by the Group’s associates and a jointly controlled entity incorporated in recent years were still at the development stage. Losses sustained by such associates and jointly controlled entity plus the increase in operating expenses mentioned above were attributable to the net loss sustained for the period under review.

Other operating income included interest income and government grants which decreased in the period under review.

The Group’s current ratio, defined as total current assets over total current liabilities, increased from 3.7 to 4.4 while the gearing ratio, defined as total borrowing over net assets, stayed at a relatively low level of less than 2%. Both ratios reflected the sufficiency in financial resources of the Group.

As at 30th June, 2004, the Group had unsecured borrowings of RMB10 million at an annual interest rate of 2.55%, out of which, RMB4 million will become mature within 1 year and RMB6 million will mature within 2 - 5 years from 30th June, 2004. Cash and bank deposits of the Group were approximately RMB186 million as at 30th June, 2004 which mainly came from shareholders’ contribution and working capital generated from operations.

As at 30th June, 2004, the Group had no assets pledged and had capital commitment of approximately RMB125 million.

During the Period, there was a claim of approximately RMB14 million from a supplier against the Group as the compensation for the cost and loss arising from the suspension of a material supply contract. In the opinion of the directors, the Group has strong grounds to defend against the claim and will defend the case vigorously. Moreover, the directors believe that the Group will be able to recover the loss, if any, from its customer since the suspension of the material supply contract was arising from the customer's request to suspend its contract with the Group. Therefore, the directors are of the view that the Group is not expected to suffer any significant loss in this litigation and no provision has been made in the interim financial report.

Business Review

During the Period, the Group steadily promoted the construction of the Beijing private network of e-Government, and was engaged in the operation and maintenance of the Beijing Medical Insurance Information Sub-system and the Beijing Municipal Community Services Information Network System. Except for online payment, the Group reduced the e-Commerce business which had a relatively lower gross profit margin. The Group has solid achievements in its research and development.

1. Continuous Development of its Core Business

During the Period, the Group had completed the implementation of e-Government access service for a number of institutions including Beijing Entry-Exit Inspection and Quarantine Bureau. Up to now, the Group had constructed an aggregate of 26 vertical and horizontal business information systems based on the e-Government private network, and provided e-Government private network access service for nearly 320 organizations.

As at the end of June, the Medical Insurance Information Sub-system under the Beijing Social Security Information System constructed and operated by the Group can support the information of 4,600,000 insured person. The medical insurance statistical enquiry and decision-making support system based on the Beijing Medical Insurance Information Sub-system had been officially put into on-line operation, implementing an effective control of the medical insurance fund and supporting and guaranteeing the smooth progression of the reform of the Beijing medical insurance policy. During the Period, the Group further improved the "Multi-application data exchange prototype system of the Beijing Citizen Card Project", successfully connecting the Citizen Card data center system and the medical insurance center system and simultaneously updating data in the 2 systems, in order to be technically prepared for the large scale issuance of the Citizen Cards. The smart card system developed by the Group has been applied to the Beijing real name medical system (實名就診系統). The system is currently operated in 4 hospitals in Beijing, issuing over 40,000 smart cards in aggregate. The system will be gradually implemented in other hospitals in Beijing according to the centralized plan of the municipal government.

Following the successful approval and acceptance of the Beijing Municipal Community Services Information Network System constructed by the Group, the Group continued to provide quality operating and maintenance service for the system. Based on the experience concluded, the Group created the primary digital community solution. The PC version of the community management information system has applied for and was granted the protection by the computer copyright. The Group focused on the present conditions of the community services in Central China and adopted the Beijing Municipal Community

Service Information Network System as model, in order to plan and construct localized community service information system. The “Beijing Avian Flu Preventive Information System” developed by the Group was evaluated and recognized by the expert group unanimously as fulfilling the original design requirements, and was approved and accepted by the expert group. The system had significant impact on disease control in Beijing.

2. *Investment and Development of Business*

During the Period, in order to facilitate the cooperation between the Beijing Certificate Authority Center Company Limited (“BJCA”) and the government authorities, the Group transferred RMB2,500,000 out of the RMB4,500,000 it held as BJCA’s share capital to the Beijing State-owned Assets Management Corporation Limited (“BSAM”). After the transfer, the Group, BSAM and the Shanghai Electronic Certificate Authority Center Co., Ltd. (“SHECA”) injected RMB7,340,000, RMB7,500,000 and RMB160,000 to the capital of BJCA respectively. After the capital contribution, the shareholdings of the three parties were 46.7%, 50.0% and 3.3% respectively and the registered capital of BJCA was increased to RMB20,000,000.

The Group recently established branch organizations at Hangzhou and Guangxi, capitalizing on the wealth of digital city construction and operation experience to further develop business there.

During the Period, U-Soft Company Limited (“U-Soft”) controlled by the Group held a press release conference, officially launched the two products, “Adventure in Forest” and “Magic Cabin”, which form part of the large scale children intelligent game software “Miaomiao” series. The Aurora business intelligence software of U-Soft was constructed on the OLAP server, and includes two parts, “Aurora Analyst workbench” and “business intelligence server”. The development of the “business intelligence platform” was currently completed. The products focused on handling active data enquiry, intelligent data analysis, statement preparation and distribution of larger numbers of statements for enterprise users. U-Soft actively works towards the establishment of a national distribution network and has set up distribution networks in various forms.

3. *Research and Development*

The Group completed the research and development of the “Capinfo content management system” and the “Capinfo intellectual archive management system” and obtained the computer software copyright registration certificate from the National Copyright Administration recently. Content management system is software which gathers, creates, categorizes, distributes, stores and controls information based on the web. It can categorize and manage all kinds of information efficiently. The intellectual archive management system will provide users with services such as document storage, document rights control and intelligent document search. The Group is now continuing the research and development of the unified information center in order to further improve solutions on electronic public services.

The Group actively pushed forward the research on the “Multi-lingual Intelligent Information Service Network System for Olympic Games” and further improved the multi-lingual information processing platform prototype system. The project is listed as the significant task of the state’s “863 Project” and the Beijing Science and Technology Program, and one of the ten technical Olympic Games topics. The project achieved breakthroughs in the research of the three core technologies, namely speech recognition, machine translation and speech synthesis. All the application functions based on the system passed the tests and the demand analysis and standard setting for the Olympic Games were also completed. The system designed

three intelligent service terminals, namely the personal digital assistant (PDA), information kiosk and websites, for the foreign participants of the 2008 Beijing Olympic Games. The primary template of the PDA was developed and successfully displayed in the China Cable Broadcasting Network (CCBN) and the 7th China Beijing International High-tech Expo (CHITEC 7th) held respectively in March and May this year.

4. *Employees*

Professionals are the Group's precious assets. As at 30 June, 2004, the Group had 519 employees as against 525 employees as at 30 June, 2003. Remuneration is determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include retirement benefits and share options.

5. *Future Prospects*

The Group will continue to develop its core business and to maintain its leading position in the PRC e-Government and e-Commerce business. Meanwhile, the Group will continue to focus on the research and development of the multi-lingual intelligent information service network system, software based on Linux and business intelligent software. The Group will also actively expand its business throughout the country to ensure that the overall results of the Group will improve steadily.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30TH JUNE, 2004

	NOTES	Unaudited		Unaudited	
		Three months ended		Six months ended	
		30th June, 2004	30th June, 2003	30th June, 2004	30th June, 2003
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	49,606	76,240	103,627	127,054
Cost of sales		<u>(33,256)</u>	<u>(56,851)</u>	<u>(72,129)</u>	<u>(94,013)</u>
Gross profit		16,350	19,389	31,498	33,041
Other operating income		1,692	2,837	3,948	7,596
Research and development costs		(3,647)	(5,988)	(5,550)	(10,143)
Marketing and promotional expenses		(4,985)	(3,890)	(9,065)	(6,378)
Administrative expenses		<u>(8,241)</u>	<u>(9,031)</u>	<u>(22,881)</u>	<u>(18,597)</u>
Profit (loss) from operations	4	1,169	3,317	(2,050)	5,519
Interest on bank borrowings					
wholly repayable within five years		(86)	(86)	(150)	(181)
Amortisation of goodwill arising on					
acquisition of an associate		(104)	–	(104)	–
Share of losses of associates		(796)	(1,129)	(2,352)	(1,338)
Share of losses of a jointly controlled entity		(264)	–	(784)	–
Gain on disposal of a subsidiary		–	–	250	–
(Loss) profit before taxation		<u>(81)</u>	<u>2,102</u>	<u>(5,190)</u>	<u>4,000</u>
Income tax expense	5	<u>(1,056)</u>	<u>(359)</u>	<u>(1,056)</u>	<u>(559)</u>
(Loss) profit before minority interests		<u>(1,137)</u>	<u>1,743</u>	<u>(6,246)</u>	<u>3,441</u>
Minority interests		<u>149</u>	<u>24</u>	<u>250</u>	<u>79</u>
Net (loss) profit for the period		<u><u>(988)</u></u>	<u><u>1,767</u></u>	<u><u>(5,996)</u></u>	<u><u>3,520</u></u>
(Loss) earnings per share					
– Basic	6	<u><u>(0.03 cents)</u></u>	<u><u>0.06 cents</u></u>	<u><u>(0.21 cents)</u></u>	<u><u>0.12 cents</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2004

	NOTES	30th June, 2004 RMB'000 (unaudited)	31st December, 2003 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	7	190,501	222,847
Interests in associates		28,056	21,171
Interest in a jointly controlled entity		2,664	3,448
Investments in securities		16,350	16,350
Deposits paid on acquisition of property, plant and equipment		849	1,152
		<u>238,420</u>	<u>264,968</u>
Current assets			
Inventories		21,277	16,337
Amounts due from customers for contract work		49,343	30,001
Trade and other receivables	8	137,015	88,966
Amount due from an associate		3,324	1,059
Amount due from a jointly controlled entity		1,078	1,078
Bank balances and cash		186,257	259,572
		<u>398,294</u>	<u>397,013</u>
Current liabilities			
Trade and other payables	9	55,792	60,726
Customers' deposits for contract work		28,528	41,079
Taxation payable		1,205	2,077
Current portion of other loans		4,000	2,000
		<u>89,525</u>	<u>105,882</u>
Net current assets		<u>308,769</u>	<u>291,131</u>
		<u><u>547,189</u></u>	<u><u>556,099</u></u>
Capital and reserves			
Share capital	10	289,809	289,809
Reserves		249,750	255,746
		<u>539,559</u>	<u>545,555</u>
Minority interests		<u>1,630</u>	<u>2,544</u>
Non-current liabilities			
Other loans		<u>6,000</u>	<u>8,000</u>
		<u><u>547,189</u></u>	<u><u>556,099</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	Share capital <i>RMB'000</i> <i>(unaudited)</i>	Share premium <i>RMB'000</i> <i>(unaudited)</i>	Statutory surplus reserve <i>RMB'000</i> <i>(unaudited)</i>	Statutory welfare fund <i>RMB'000</i> <i>(unaudited)</i>	Accumulated profits (losses) <i>RMB'000</i> <i>(unaudited)</i>	Total <i>RMB'000</i> <i>(unaudited)</i>
At 1st January, 2004	289,809	254,079	550	275	842	545,555
Net loss for the period	—	—	—	—	(5,996)	(5,996)
At 30th June, 2004	<u>289,809</u>	<u>254,079</u>	<u>550</u>	<u>275</u>	<u>(5,154)</u>	<u>539,559</u>
At 1st January, 2003	289,809	254,079	—	—	(4,282)	539,606
Net profit for the period	—	—	—	—	3,520	3,520
At 30th June, 2003	<u>289,809</u>	<u>254,079</u>	<u>—</u>	<u>—</u>	<u>(762)</u>	<u>543,126</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

	Six months ended	
	30th June, 2004 <i>RMB'000</i> <i>(unaudited)</i>	30th June, 2003 <i>RMB'000</i> <i>(unaudited)</i>
Net cash used in operating activities	(57,907)	(17,979)
Net cash (used in) from investing activities	(15,258)	67,441
Net cash used in financing activities	<u>(150)</u>	<u>(181)</u>
(Decrease) increase in cash and cash equivalents	(73,315)	49,281
Cash and cash equivalents at 1st January	<u>259,572</u>	<u>235,006</u>
Cash and cash equivalents at 30th June	<u>186,257</u>	<u>284,287</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

1. GENERAL

The Company was established in Beijing, the People's Republic of China (the "PRC") as a joint stock limited company. The Company's overseas-listed foreign shares ("H shares") were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company's ultimate holding company is Beijing State-Owned Assets Management Corporation Limited, a state-owned enterprise, also established in the PRC.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The interim financial information has been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31st December, 2003.

3. BUSINESS SEGMENTS

For management purposes, the Group's operations are organised into two operating divisions namely e-Government technology services and e-Commerce technology services. These divisions are the basis on which the Group reports its primary segment information.

Business segments for the period are as follows:

	Three months ended		Six months ended	
	30.6.2004	30.6.2003	30.6.2004	30.6.2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
TURNOVER				
e-Government technology services	46,133	48,719	95,338	87,061
e-Commerce technology services	3,473	27,521	8,289	39,993
	<u>49,606</u>	<u>76,240</u>	<u>103,627</u>	<u>127,054</u>
RESULTS				
e-Government technology services	10,982	8,964	20,701	16,962
e-Commerce technology services	(7,045)	(364)	(12,262)	(3,320)
	<u>3,937</u>	<u>8,600</u>	<u>8,439</u>	<u>13,642</u>
Other operating income	1,692	2,837	3,948	7,596
Central marketing and promotional expenses	(756)	(592)	(1,465)	(592)
Central administrative expenses	(3,704)	(7,528)	(12,972)	(15,127)
	<u>1,169</u>	<u>3,317</u>	<u>(2,050)</u>	<u>5,519</u>
Profit (loss) from operations	1,169	3,317	(2,050)	5,519
Interest on bank borrowings wholly repayable within five years	(86)	(86)	(150)	(181)
Amortisation of goodwill arising on acquisition of an associate engaged in e-Commerce technology services	(104)	–	(104)	–
Share of losses of associates engaged in e-Commerce technology services	(796)	(1,129)	(2,352)	(1,338)
Share of losses of a jointly controlled entity engaged in e-Commerce technology services	(264)	–	(784)	–
Gain on disposal of a subsidiary	–	–	250	–
	<u>(81)</u>	<u>2,102</u>	<u>(5,190)</u>	<u>4,000</u>
(Loss) profit before taxation	(81)	2,102	(5,190)	4,000
Taxation	(1,056)	(359)	(1,056)	(559)
	<u>(1,137)</u>	<u>1,743</u>	<u>(6,246)</u>	<u>3,441</u>
(Loss) profit before minority interests	(1,137)	1,743	(6,246)	3,441
Minority interests	149	24	250	79
	<u>(988)</u>	<u>1,767</u>	<u>(5,996)</u>	<u>3,520</u>
Net (loss) profit for the period	<u>(988)</u>	<u>1,767</u>	<u>(5,996)</u>	<u>3,520</u>

4. PROFIT (LOSS) FROM OPERATIONS

	Three months ended		Six months ended	
	30.6.2004	30.6.2003	30.6.2004	30.6.2003
	RMB'000	RMB'000	RMB'000	RMB'000
Profit (loss) from operations has been arrived at after charging:				
Depreciation	18,489	20,190	37,449	38,880
Less: Depreciation included in research and development costs	(255)	(1,191)	(380)	(1,488)
Depreciation capitalised in contract work	(5,286)	(8,201)	(10,801)	(14,469)
	<u>12,948</u>	<u>10,798</u>	<u>26,268</u>	<u>22,923</u>
Cost of goods sold	692	21,838	998	27,983
and after crediting:				
Government grants	1,257	2,250	3,350	3,881
Interest income from bank	<u>408</u>	<u>473</u>	<u>560</u>	<u>3,625</u>

5. INCOME TAX EXPENSE

	Three months ended		Six months ended	
	30.6.2004	30.6.2003	30.6.2004	30.6.2003
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC enterprise income tax	1,056	1,514	1,056	1,714
Deferred taxation credit	<u>–</u>	<u>(1,155)</u>	<u>–</u>	<u>(1,155)</u>
	<u>1,056</u>	<u>359</u>	<u>1,056</u>	<u>559</u>

The Company is recognised as a new-technology enterprise according to PRC tax regulations and is entitled to exemption from PRC enterprise income tax for the first three years of its operations and entitled to a 50% tax relief for the following three years commencing 2001. The charge for the period represents PRC enterprise income tax calculated at the rate of 15% (2003: 7.5%) pursuant to the relevant rules and regulations in the PRC.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

6. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the six months ended 30th June, 2004 is based on the net loss for the period of RMB5,996,000 (2003: net profit of RMB3,520,000) and 2,898,086,091 (2003: 2,898,086,091) shares in issue during the period.

The calculation of the basic (loss) earnings per share for the three months ended 30th June, 2004 is based on the net loss for the period of RMB988,000 (2003: net profit of RMB1,767,000) and 2,898,086,091 (2003: 2,898,086,091) shares in issue during the period.

No diluted earnings per share has been presented as the exercise price of the Company's options was higher than the average market price of the Company's shares for the periods.

7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB8,179,000 (2003: RMB38,305,000) on acquisition of property, plant and equipment.

8. TRADE AND OTHER RECEIVABLES

	30.6.2004 <i>RMB'000</i>	31.12.2003 <i>RMB'000</i>
Trade receivables from a fellow subsidiary	301	1,844
others	106,033	52,517
	<u>106,334</u>	<u>54,361</u>
Other receivables	30,681	34,605
	<u>137,015</u>	<u>88,966</u>

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 180 days of issuance except for certain well established customers. The following is an aged analysis of trade receivables at the reporting date:

	30.6.2004 <i>RMB'000</i>	31.12.2003 <i>RMB'000</i>
Age		
0 to 60 days	26,815	19,615
61 to 90 days	17,021	633
91 to 180 days	35,860	1,925
181 to 365 days	10,161	18,392
Over 1 year	16,477	13,796
	<u>106,334</u>	<u>54,361</u>

9. TRADE AND OTHER PAYABLES

	30.6.2004 <i>RMB'000</i>	31.12.2003 <i>RMB'000</i>
Trade payables	5,753	21,132
Other payables	24,465	30,838
Other customers' deposits	25,574	8,756
	<u>55,792</u>	<u>60,726</u>

The following is an aged analysis of trade payables at the reporting date:

	30.6.2004 <i>RMB'000</i>	31.12.2003 <i>RMB'000</i>
Age		
0 to 60 days	2,880	13,564
61 to 90 days	1	1,999
91 to 180 days	4	14
Over 180 days	2,868	5,555
	<u>5,753</u>	<u>21,132</u>

10. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid <i>RMB'000</i>
	Domestic shares	H shares	
Ordinary shares of RMB0.10 each			
At 1st January, 2004 and 30th June, 2004	<u>2,123,588,091</u>	<u>774,498,000</u>	<u>289,809</u>

11. PARTIAL DISPOSAL OF A SUBSIDIARY

During the period, the Group has disposed part of its equity interest in a subsidiary at a consideration of RMB2,750,000 and resulted in a gain on disposal of RMB250,000. As a result of the disposal, that company became an 46.7% associate of the Group. The Group has then further contributed RMB7,340,000 to the registered capital of this associate.

12. CAPITAL COMMITMENTS

	30.6.2004	31.12.2003
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of		
– property, plant and equipment	68,924	1,144
– investment	56,000	56,000
	<u>124,924</u>	<u>57,144</u>

13. RELATED PARTY TRANSACTIONS

During the period, the Group has the following significant transactions with related parties:

<u>Name of related party</u>	<u>Nature of transactions</u>	Three months ended		Six months ended	
		30.6.2004	30.6.2003	30.6.2004	30.6.2003
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CNC Beijing Communication Corporation (“CNC Beijing”)	Dedicated circuit leasing services paid	1,816	1,725	3,763	3,422
	Information port connection services paid	293	1,501	586	3,022
	Telephone related services paid	87	513	182	673
Capnet Company Limited	Comprehensive services income received	841	1,148	1,617	2,201
Beijing IC Design Park Co., Ltd.	Property rentals paid	995	1,025	1,990	1,025

The balance of amounts due from related parties are set out in the condensed consolidated balance sheet.

Note: CNC Beijing is the controlling shareholder of a promoter of the Company while Capnet Company Limited and Beijing IC Design Park Co., Ltd. are fellow subsidiaries of the Company.

14. CONTINGENT LIABILITIES

During the period, there was a claim of approximately RMB14,000,000 from a supplier against the Group as the compensation for the cost and loss arising from the suspension of a material supply contract. In the opinion of the directors, the Group has strong grounds to defend against the claim and will defend the case vigorously. Moreover, the directors believe that the Group will be able to recover the loss, if any, from its customer since the suspension of the material supply contract was arising from the customer's request to suspend its contract with the Group. Therefore, the directors are of the view that the Group is not expected to suffer any significant loss in this litigation and no provision has been made in the interim financial report.

DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30th June, 2004 (2003: Nil).

INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE (CAP.571 OF THE LAWS OF HONG KONG)(THE "SFO")

a. Directors and Chief Executive of the Company

Save as disclosed below, as at 30th June, 2004, none of the Directors, and chief executive of the Company had any interest and short position in shares, debentures or underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

Long positions in the underlying shares – options under share option scheme

Name	Number of H Shares subject to options outstanding at 1st January, 2004 and 30th June, 2004	Percentage to the issued H share capital
<i>Directors</i>		
Dr. Chen Xinxiang	1,309,750	0.1691%
Dr. Wang Xu	1,297,350	0.1675%
Ms. Zhang Yan	1,308,200	0.1689%
Dr. Wu Bo	1,261,700	0.1629%
Mr. Fan Dazhi	1,244,650	0.1607%
Mr. Qi Qigong	1,244,650	0.1607%
Mr. Pan Jiaren	1,244,650	0.1607%
Mr. Wong Ying Ho, Kennedy	1,241,550	0.1603%
Mr. Ng Kin Fai, Francis	1,241,550	0.1603%
	<u>11,394,050</u>	<u>1.4711%</u>

All of the above-mentioned share options were granted on 6th December, 2001 at nil consideration with exercise price at HK\$0.48 per H Share. The share options granted to the Directors of the Company are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule subject to restrictions imposed by the relevant PRC laws and regulations:

Proportion of share options granted and held by each of the directors which become exercisable

	Exercise period
20%	7th December, 2002 to 6th December, 2011
20%	7th December, 2003 to 6th December, 2011
20%	7th December, 2004 to 6th December, 2011
20%	7th December, 2005 to 6th December, 2011
20%	7th December, 2006 to 6th December, 2011

b. Substantial shareholders of the Company and other persons

Save as disclosed below, the Directors are not aware of any other interests and short positions in shares and underlying shares of any person (other than a Director or chief executive of the Company) as recorded in the register required to be kept under section 336 of the SFO.

Name of shareholder	Number of shares	Nature of interests	Percentage to the issued share capital
Beijing State-owned Assets Management Corporation Limited	1,783,631,919 domestic shares	Beneficial owner	61.55%

So far as is known to any Director or chief executive of the Company, the following companies/persons were interested in 10% or more of the equity interests of any other members of the Group as at 30th June, 2004:

Name	Equity interests held in members of the Group (except for the Company)	Nature of interests	Approximate percentage
Business Incubator of Chongqing Hi-tech Industrial Development Zone	U-Soft Company Limited	Beneficial owner	10%

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SHARE OPTIONS

(a) Pre-IPO Share Option Plan

Under the Company's pre-IPO share option plan, share options (the "Pre-IPO Options") had been granted in prior years at an exercise price of HK\$0.48 per H Share, which is the placing price upon the listing of the Company's H Shares, exercisable within a period of ten years from the date of grant subject to restrictions imposed by the relevant PRC laws and regulations. These options were to recognise the past and present contributions of the grantee to the Group. A summary of these share options granted is as follows:

	At 1st January, 2004	Lapsed during the period	At 30th June, 2004
Directors of the Company	11,394,050	–	11,394,050
Supervisors of the Company	3,795,950	–	3,795,950
Senior management of the Company	5,607,590	–	5,607,590
Senior advisors of the Company	3,929,250	–	3,929,250
Advisors of the Company	5,083,690	–	5,083,690
Other employees of the Company and its subsidiaries and associates	26,228,015	(3,461,925)	22,766,090
	<u>56,038,545</u>	<u>(3,461,925)</u>	<u>52,576,620</u>

(b) Share Option Scheme

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company dated 6th December, 2001, (the "Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for H Shares in the Company with initial payment of RMB1 upon each grant of options offered and the options granted must be taken up within 14 trading days from the date of grant. The exercise price of the share option will be determined at the higher of the average of closing prices of H Shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; the closing price of H Shares on the Stock Exchange on the date of grant; and the nominal value of H Shares.

The share options are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years from the date of grant.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the number of shares to be issued by the Scheme and other option scheme and the number of issued H Shares of the Company from time to time and no employee shall be granted an option which, if all the options granted to the employee (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued H Shares of the Company.

No option was granted by the Company under the Scheme since its adoption up to 30th June, 2004.

COMPETING INTEREST

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company and their respective associates had any interest in a business which competes with the Company or may compete with the business of the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30th June, 2004. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the period of review.

An audit committee was established on 6th December, 2001 with written terms of reference in compliance with Rules 5.34 to 5.45 of the GEM Listing Rules. The two independent non-executive directors, Mr. Wong Ying Ho, Kennedy and Mr. Ng Kin Fai, Francis, have been appointed to the audit committee. Mr. Wong Ying Ho, Kennedy was appointed as the Chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

By Order of the Board
CAPINFO COMPANY LIMITED*
Dr. CHEN Xinxiang
Chairman

Beijing, The People's Republic of China, 10th August, 2004

As of the date hereof, the executive directors of the Company are Dr. Chen Xinxiang, Dr. Wang Xu, Ms. Zhang Yan, Dr. Wu Bo; the non-executive directors of the Company are Mr. Fan Dazhi, Mr. Xu Zhe, Mr. Bai Liming, Mr. Qi Qigong, Mr. Pan Jiaren, Mr. Ye Yongdong, Mr. Lu Tongtao, Ms. Tan Guoan; and the independent nonexecutive directors of the Company are Mr. Wong Ying Ho, Kennedy and Mr. Ng Kin Fai, Francis.

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* For identification purposes only