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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)*

**CONTINUING CONNECTED TRANSACTIONS  
IN RELATION TO  
COMPREHENSIVE SERVICES AND TELEPHONE RELATED SERVICES**

The Company will continue to provide technical support and leasing of equipment to Network Company pursuant to the Comprehensive Services Agreement, and will continue to subscribe to the Telephone Related Services of BCC, after the expiry of the waiver previously granted by the Stock Exchange from strict compliance with Rules 20.35 and 20.36 of the GEM Listing Rules on 31 December 2003.

Network Company is a subsidiary of BSAM, a controlling shareholder, management shareholder and a promoter of the Company, and BCC is the holding company of Beijing Telecom Investments Co., Ltd., a promoter and a management shareholder of the Company; therefore, Network Company and BCC are associates of the promoters of the Company and are connected persons of the Company for the purpose of the GEM Listing Rules. In such circumstances, the transactions under the Comprehensive Services Agreement and utilisation of the Telephone Related Services will constitute non-exempt continuing connected transactions under the GEM Listing Rules, and are subject to the reporting, announcement and Independent Shareholders' approval requirements under the GEM Listing Rules. A circular containing, among other things, details of the Comprehensive Services Agreement and the utilisation of the Telephone Related Services, the recommendations from the independent board committee of the Company and the advice of Crosby Limited, the independent financial adviser to the independent board committee will be despatched to the shareholders of the Company as soon as practicable together with a notice convening the Extraordinary General Meeting.

\* *for identification purposes only*

The Company will continue to provide technical support and leasing of equipment to Network Company pursuant to the Comprehensive Services Agreement, and will continue to subscribe to the Telephone Related Services of BCC, after the expiry of the waiver previously granted by the Stock Exchange from strict compliance with Rules 20.35 and 20.36 of the GEM Listing Rules on 31 December 2003.

## **COMPREHENSIVE SERVICES AGREEMENT**

Date	:	20 October 2003
Parties	:	The Company and Network Company
Conditions Precedent	:	(i) approval of the Comprehensive Services Agreement and transactions thereunder by passing of an ordinary resolution by the Independent Shareholders in the Extraordinary General Meeting; and  (ii) approval of the maximum aggregate annual value of the transactions under the Comprehensive Services Agreement by the Stock Exchange.
Term	:	Commencing from the later of (i) 1 January 2004 or (ii) the fulfilment of the conditions precedent of the Comprehensive Services Agreement and ending on 31 December 2006
Services	:	The Company will provide services including, among others, technical support and leasing of equipment to Network Company
Fees	:	According to the standard rate prescribed by the Company

For the five months ended 31 December 2001, the financial year ended 31 December 2002 and six months ended 30 June 2003, the fees paid to the Company for services provided by the Company to Network Company under the Previous Comprehensive Services Agreement were RMB1,650,000, RMB3,466,000 and RMB2,201,000 respectively, and the charges were mainly based on cost of the staff members who provide the technical support, and market rate of equipment being leased.

On the bases of the historical trading records and projected increase in the demand of services of Network Company and the staff cost of the Company, the Company proposed to set the annual caps for the fees payable by Network Company to the Company under the Comprehensive Services Agreement for the three financial years ending on 31 December 2006 to RMB4.4 million, RMB5.6 million and RMB7.4 million respectively.

## **TELEPHONE RELATED SERVICES**

The Company has been subscribing to the Telephone Related Services (principally the telephone line services) upon normal commercial terms and at market rates. The expenses incurred for the Telephone Related Services for the two financial years ended 31 December 2001 and 2002 and six months ended 30 June 2003 were RMB1,233,000, RMB1,380,000 and RMB673,000 respectively. The expenses paid by the Company for the Telephone Related Services were mainly based on the duration of usage, and the prescribed market rate. The Company presumes that the expenses incurred in the subscription of telephone lines services were directly correlated to number of staff of the Group. Accordingly, based on projected

growth in the staff number, the historical expenses and projected price adjustment in telephone line services and incidental services, the Company proposed to set the annual caps of subscription of telephone line services and incidental services for the three financial years ending 31 December 2004, 2005 and 2006 to RMB1.6 million, RMB1.8 million and RMB2 million respectively.

The Company expects that commencing from 2004, the Company will extend its use of Telephone Related Services to ADSL. ADSL is a fast, continuously available type of Internet connection. The Company will subscribe ADSL to enhance services in the projects for social security and community services information systems, and expects that at the end of year 2006, the connections to ADSL may reach 4,500. On the bases of the business development and the projected price adjustment in the ADSL, the Company proposed to set the annual caps for ADSL for the three financial years ending 31 December 2004, 2005 and 2006 to RMB7.3 million, RMB14.1 million and RMB21 million respectively.

## **REASONS FOR ENTERING INTO THE COMPREHENSIVE SERVICES AGREEMENT AND UTILISATION OF TELEPHONE RELATED SERVICES**

International Internet connection business was severed from the Company to Network Company before the listing of H Shares. Since then, the Company has been providing technical support and leasing of equipment to Network Company under the Previous Comprehensive Services Agreement.

The Company, being an Internet technology and network solutions provider, has been subscribing Telephone Related Services from BCC in its ordinary course of business since commencement of business. A waiver from strict compliance with Rules 20.35 and 20.36 of the GEM Listing Rules was granted by the Stock Exchange for those transactions under the Previous Comprehensive Services Agreement and utilisation of Telephone Related Services and the waiver will expire on 31 December 2003.

The Comprehensive Services Agreement was entered into to govern the provision of such services from 1 January 2004 onwards. The Company will also utilize the Telephone Related Services beyond 1 January 2004.

The Directors consider that the transactions under the Comprehensive Services Agreement and the utilisation of Telephone Related Services of BCC are on normal commercial terms, and will be entered into in the ordinary and usual course of business of the Company and that the terms are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## **CONNECTED PARTIES**

Network Company which is principally engaged in Internet services provider business and is a subsidiary of BSAM, a controlling shareholder, a management shareholder and a promoter of the Company. BCC, which is principally engaged in telecommunication business, is the holding company of Beijing Telecom Investments Co., Ltd., a promoter of the Company. Accordingly, Network Company and BCC are associates, as defined in the GEM Listing Rules, of promoters of the Company and, therefore, connected persons of the Company under Rule 20.10(4) of the GEM Listing Rules. The transactions under the Comprehensive Services Agreement and the utilisation of the Telephone Related Services constitute non-exempt continuing connected transactions and will be subject to reporting, announcement and Independent Shareholders' approval requirements of the GEM Listing Rules.

The Extraordinary General Meeting will be convened as soon as practicable at which ordinary resolutions will be proposed to approve the Comprehensive Services Agreement and transactions thereunder, and the utilisation of the Telephone Related Services. Any connected person (as defined in the GEM Listing Rules) who is interested in the transactions shall be abstained from voting at the Extraordinary General Meeting.

The Company will also comply with the reporting, announcement and shareholders' approval requirements under Rules 20.34, 20.35 and 20.36 of the GEM Listing Rules, as well as the following:

1. (a) the annual aggregate fees receivable by the Company pursuant to the Comprehensive Services Agreement for the three financial years ending 31 December 2004, 2005 and 2006 shall not exceed the respective cap amount of RMB4.4 million, RMB5.6 million and RMB7.4 million respectively;
- (b) the annual aggregate fees payable by the Company pursuant to the utilisation of Telephone Related Services for the three financial years ending 31 December 2004, 2005 and 2006:
  - (i) in respect of telephone line services and incidental services, shall not exceed the respective cap amount of RMB1.6 million, RMB1.8 million and RMB2 million respectively;
  - (ii) in respect of ADSL, shall not exceed the respective cap amount of RMB7.3 million, RMB14.1 million and RMB21 million respectively.
2. the independent non-executive Directors will review the transactions pursuant to the Comprehensive Services Agreement and the utilisation of the Telephone Related Services annually and confirm in the annual reports and accounts for each of the three financial years ending 31 December 2006 that such transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Company;
  - (ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
  - (iii) in accordance with the terms of the relevant agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
3. the auditors of the Company will provide a letter (at least 10 business days prior to the bulk printing of the annual report) to the Board (with a copy to the Stock Exchange), confirming that the transactions pursuant to the Comprehensive Services Agreement and the utilisation of the Telephone Related Services for each of the three financial years ending 31 December 2006:
  - (i) have received the approval of the Board;
  - (ii) are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services by the Company, if applicable;

- (iii) have been entered into in accordance with the terms of the relevant agreement governing such transactions; and
- (iv) have not exceeded the respective cap amount as stated in the above paragraph 1;
4. the Company, Network Company and BCC will undertake to the Stock Exchange to allow the auditors of the Company sufficient access to its records for the purpose of reporting on the transactions for the three financial years ending 31 December 2006;
  5. details of the transactions pursuant to the Comprehensive Services Agreement and the utilisation of the Telephone Related Services will be disclosed in the Company's annual report for the three financial years ending 31 December 2006, in accordance with Rule 20.34(1) to Rule 20.34(5) of the GEM Listing Rules;
  6. the Company will promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in paragraphs 2 and/or 3 above respectively. The Company will then re-comply with Rules 20.26(3) and (4) of the GEM Listing Rules and any other conditions the Stock Exchange considers appropriate; and
  7. where the cap in any year is to be greater than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company, the transactions pursuant to the Comprehensive Services Agreement and the utilisation of the Telephone Related Services and the cap are subject to review and re-approval by Independent Shareholders at the annual general meeting following the initial approval and at each subsequent annual general meeting so long as such transaction(s) continue(s). The independent non-executive Directors will be required to opine in the annual report whether or not the Company should continue with the agreement(s) for the transaction(s).

## **GENERAL**

The Group is an Internet technology and network solutions provider with its principal place of business located in the Beijing Municipality, the PRC. Currently, the Group provides an integrated and focused portfolio of Internet based solutions to Web-enable the operations of government entities, enterprises and other organizations in the PRC. In addition, the Group also deploys a scalable and secure information exchange platform in the Beijing Municipality for the delivery of its solutions to its clients.

A circular containing, among other things, details of the Comprehensive Services Agreement and the utilisation of the Telephone Related Services, the recommendations from the independent board committee of the Company and the advice of Crosby Limited, the independent financial adviser to the independent board committee will be despatched to the shareholders of the Company as soon as practicable together with a notice convening the Extraordinary General Meeting.

## DEFINITIONS

As used in this announcement, the following words and phrases shall have the following meanings:

“ADSL”	asymmetrical digital subscriber lines provided by BCC
“BCC”	CNC Beijing Communication Corporation (中國網通集團北京市通信公司) (formerly known as China Telecom Group Beijing Corporation (中國電信集團北京市電信公司)), a company incorporated in the PRC
“Board”	the board of Directors
“BSAM”	Beijing State-owned Assets Management Corporation Limited (北京市國有資產經營有限責任公司), a company incorporated in the PRC
“Company”	首都信息發展股份有限公司 (Capinfo Company Limited*), a joint stock limited company incorporated in the PRC
“Comprehensive Services Agreement”	the agreement dated 20 October 2003 entered into between the Company and Network Company for provision of the technical support service, and leasing of equipment by the Company to Network Company
“Directors”	the directors of the Company
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened and held to consider, among other things, the Comprehensive Services Agreement and Telephone Related Services
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“H Shares”	overseas-listed foreign shares of the Company with a nominal value of RMB0.1 each
“Independent Shareholders”	shareholders of the Company other than BSAM (in respect of Comprehensive Services Agreement), Beijing Telecom Investments Co. Ltd. (in respect of the Telephone Related Services) and their respective associates
“Network Company”	Capnet Company Limited (北京首信網創網絡信息服務有限責任公司), a limited liability company established by BSAM and China Broadcast Cable Information Network Company Limited (中廣有線信息網絡有限公司) which is an independent third party

“PRC”	The People’s Republic of China and for the purpose of this announcement, does not include Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Previous Comprehensive Services Agreement”	the agreement dated 5 August 2001 entered into between the Company and Network Company (as amended by a supplemental agreement dated 23 November 2001) which will expire on 31 December 2003
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Telephone Related Services”	provision of telephone lines and related services by BCC

By Order of the Board  
**Capinfo Company Limited**  
**Dr. CHEN Xinxiang**  
*Chairman*

Beijing, The People’s Republic of China

20 October 2003

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, 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.*

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