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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2003**

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 (the “Directors”) of Capinfo Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on the basis and assumptions that are fair and reasonable.

HIGHLIGHTS

- Achieved a turnover of approximately RMB 127 million for the six months ended 30th June, 2003, representing an approximately 20% increase as compared with the same period in previous year;
- Accomplished a net profit of approximately RMB 3.5 million for the six months ended 30th June, 2003;
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The board of Directors (the “Board”) of Capinfo Company Limited announces that, for the six months ended 30th June, 2003, the Company and its subsidiary (“the Group”) recorded an unaudited turnover of approximately RMB127 million, representing an increase of approximately 20% as compared with the same period of last year, and a gross profit margin of 26%, as compared with 31% for the same period of last year. The Group has accomplished an unaudited net profit of approximately RMB3.5 million for the period under review, representing a decrease of approximately 45% as compared with the same period of last year.

During the period under review, the Group devoted many resources on marketing which resulted in increase in operating expenses as well as increase in revenue from both e-Government and e-Commerce sectors. Increase in operating expenses for the period was also attributable to the increase in equipment and human resources and applying of a more prudent provision policy to cope with the business development. Although the above-mentioned increase in devoting resources raised the operating expenses and, in turn, decreased the net profit for the period under review, the Directors believe that such steps are essential to the overall development of the Group.

The businesses including credit rating and information kiosk carried out by the Group’s associates newly incorporated last year were still at the development stage. Losses sustained by such associates were also reasons for the decrease in net profit for the period under review when compared to that in the same period last year.

Gross profit margin for the period under review decreased because the ratio of revenue from e-Commerce business to total revenue was increased and e-Commerce business generally had a lower profit margin. Other operating income mainly included interest income and government grants which increased during the period under review.

The Group’s current ratio, defined as total current assets over total current liabilities, increased from 2.9 as at 31st December, 2002 to 3.2 as at 30th June, 2003. Gearing ratio, defined as total borrowing over net assets, maintained at a relatively low level of less than 2%. Both ratios reflected the sufficiency in financial resources of the Group.

As at 30th June, 2003, the Group had unsecured borrowings of RMB10 million at an annual interest rate of 2.55%, out of which, RMB2 million will mature within 1 year and RMB8 million will mature within 2-5 years from 30th June, 2003. Cash and bank deposits of the Group were RMB284 million as at 30th June, 2003 which mainly came from shareholders’ contribution and working capital generated from operations.

As at 30th June, 2003, the Group had no assets pledged and had capital commitment of approximately RMB77 million. Among which, the Group committed to acquire 28% equity interests in Beijing Zhengtong Network Communication Co., Ltd. (北京正通網絡通訊有限公司) from CNC Beijing Communication Corporation at a consideration of RMB56 million. Details of which has been set out in the announcement of the Company dated 24th January, 2003.

As at 30th June, 2003, the Group had no significant contingent liabilities and, during the period under review, the Group's financial position was not exposed to significant fluctuations in exchange rates and any related hedges.

BUSINESS REVIEW

During the period under review, the Group experienced stable growth in traditional business sectors while maintaining a relatively fast pace of growth in e-Commerce. In response to increasing demand from government clients and consumers, the Group put significant efforts in the development of emerging business domains by allocating more resources to research and development of related software and emergency response service system. Meanwhile, the Group's marketing strength, management quality as well as research and development capability were steadily enhanced.

Recently, the Group was admitted respectively by China Information Industry Association as a member unit of the e-Government Committee under China Information Industry Association, and by the Smart Card Society under China Information Industry Trade Association as one of its standing member units. Such membership is expected to effectively promote the Group's business of e-Government and card-based application.

1. Stable Development of Traditional Business and Fast Growth of e-Commerce Business

There was stable development in the Group's traditional business of "Digital City" and e-Government. Meanwhile, in respect of its Capital Public Information Platform business, new services were launched by the Group by providing video conference service to the government institutions of Beijing recently after the Group completed its Severe Acute Respiratory Syndrome ("SARS") expert consultation video conference system. The development and testing of the Beijing Medical Insurance Information Sub-system project and its software and hardware installation and personnel training were in progress as scheduled. Entrusted by the Beijing municipal government, the Group actively took part in the construction of the Beijing SARS information reporting system and the SARS hospital informatization project. Such involvement will promote the Group's long-term cooperation with Beijing government and create other business opportunities as well. During the period under review, Community Service Information Network System ran smoothly and was integrated with the call centre system as scheduled. Entrusted by the government agencies of Beijing, the Group recently completed the development and system integration of the "Beijing rural area epidemic prevention and control information system", which is part of the Beijing city four-level health care and epidemic prevention network system.

The transaction volume through the Group's e-Commerce payment platform increased rapidly. Up to mid-May, the transaction volume of the e-Commerce payment platform reached the level equivalent to the total transaction volume of the whole year of 2002.

Digital certificate business of Beijing Certificate Authority Center Company Limited ("BJCA"), the subsidiary of the Group, achieved stable growth as it further undertook provision of security solutions for the intra-net and office system to Beijing's government institutions. In the wake of outbreak of SARS, BJCA issued Certificates of Authentication and related services and provided security services of online visits of database made by senior officials of the municipal government.

2. Developing the National Market and Capturing Digital Olympic Business Opportunities

Leveraging on its years' experience of digital city construction and operation, the Company is entering the nationwide digital city market as a provider of solution designing, project construction, and consultation service to cope with the emerging digital city market and e-Government market as well as the vast potential of the Digital Olympic Games project. Up till now, cooperative agreements have been signed with the governments of Guangxi Autonomous Region, Fujian province, and Yingkou city, and some achievements, such as the completion of entire plan for information systems, were attained.

The Group obtained the order of technical development and platform support for the web site (www.beijing-olympic.org.cn) of the Organizing Committee of the 29th Olympic Games after its successful bid of Beijing emergency response service system due to its good reputation and quality service. The above-mentioned order carries strategic value and will help enhance the Company's leading position in the market.

3. Investment in New Business Domains

In order to improve the construction and operation of the "Beijing emergency response service system", the Group together with other business partners jointly incorporated 北京中佳訊信息技術有限公司 (Beijing ZJX Information Technology Company Limited), in which the Group invested RMB4 million and holds 40% equity interests. The core business of this company is to develop the technology of urban emergency commanding and emergency response service system and technologies and products with self-owned intellectual property rights in a move to provide a complete solution for the emergency commanding system to governments at various levels.

The Group together with the Business Incubator of Chongqing Hi-tech Industrial Development Zone incorporated 重慶宏信軟件有限責任公司 (Chongqing Hongxin Company Limited) on 18th July, 2003. This company, in which the Group invested RMB18 million and holds 90% equity interests, will be mainly engaged in software development and outsourcing. Meanwhile, this company intends to establish its software market brand with self-owned intellectual property rights.

4. Research and Development

One-stop office core technology

The Group launched i-service2.0 edition and its component, "Capinfo Workflow Engine" V2.0 edition in the first half of 2003. This technology has already been applied in many government projects, including projects of the "Beijing e-Government Online Service Platform", "Foshan Tax Bureau Office Platform" and "Beijing Labour and Social Security Bureau Office Information System". "Beijing e-Government Online Service Platform" has been running well since its start of operation in September of 2002.

Broadband access technology

External cable modem in line with European standards EuroDOCSIS and network resource management software system 2.5 edition were launched by the Group. The developed products were provided to cable TV network operators of several cities for testing and pilot operation. Currently the Group is engaged in research and development of the Chinese standard cable modem security mechanism and e-Government private network management system.

Multilingual intelligent information service for Olympic Games, a key project of the State's "863 Project" and Beijing Science and Technology Plan, undertaken by the Group, have made satisfactory progress. The overall design of the system has been completed, and the core technology is being jointly developed by the Group and its business partners. Intelligent multilingual dialogue platform has started trial operation, and the construction of data resources has been basically completed.

5. Employees

The Group had a total of 525 employees as at 30th June, 2003, as compared with 515 at the end of the year of 2002. The structure of salary is determined in accordance with government policies and the Group's regulations, and by reference to market conditions as well as the performance, qualifications and experience of employees. Discretionary bonus and additional retirement pension schemes based on individual performance will be provided to individual employees as recognition of and reward for their contribution. Other benefits available to employees include retirement benefits and share options. Total staff costs paid during the period were approximately RMB19 million (2002: RMB12 million).

PROSPECTS

The Group will put more resources into software development and other emerging business domains while actively looking for more business opportunities on its traditional market of e-Government and e-Commerce. The development into the market outside Beijing is also becoming increasingly important in the overall strategy of the Group. In this epidemic situation of SARS, the Group's business and the operation of its management departments were not materially affected. To the contrary, the government and the public have become more conscious with health care issues, which leads to further growth in the e-Government and e-Commerce business and is advantageous to the Group in realising its overall strategic goals.

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

From 1st January, 2003 to 30th June, 2003

BUSINESS OBJECTIVES

ACTUAL PROGRESS

e-Government technology services

Products and services launching

- One-stop office technology

To launch a one-stop Internet office suite which will serve as an integral part of the e-Government solutions offered by the Group, it will establish an online service platform for the PRC Government with the adoption of Web technology, Web services technology and XML

Research and development have been proceeded smoothly with the main focus on workflow engine technology, which integrated with other technologies has successfully implemented in the "Beijing e-Government Online Service Platform" project.

technologies for the provision of public services that are geared to the needs of enterprises (G2B), individuals (G2P) and other government departments (G2G), and such public services may include enterprise registration examinations and approval, online tax declaration, online custom declaration, immigration, examination and approval and inter-departmental cooperation of judicial systems, social security systems and cross-community services

- To launch credit rating service

北京信用管理有限公司 (Beijing Credit Bureau Co., Ltd), one of the Group's associates, has established a relatively complete credit rating system, which has been initially recognized by financial institutions.

Sales and Marketing

To cooperate with other intermediaries such as banks and third party guarantee service institutions for the promotion and joint advertising campaign of credit rating services in the PRC

Collaborated with financial institutions in Beijing to jointly take part in the Financial Support Project for Small and Medium-sized Businesses in Beijing administered by the relevant government bodies.

Research and Development

- e-Commerce platform

To research and develop of online legal environment and the related supporting technologies

Related research and development has been postponed due to market conditions.

e-Commerce technology services

Products and services launching

- e-Commerce Platform

To launch CRM module based on the operating environment of i-Service

The related research and development has been postponed due to market situation.

To launch a platform to perform cross sections workflow tasks

Related research has been proceeded accordingly. The Capinfo Workflow Engine V2.0 edition has been launched and implemented in the "Beijing labour and social security bureau office information system" and "Foshan Tax Bureau Office Platform."

To launch security solutions on wireless appliances	Wireless and mobile IP products (to be used in the emergency response service system) are being researched and developed in accordance with the Group's strategy.
To launch wireless CA services	Related technical service has been postponed due to market conditions.
To incorporate call centre functions with the integrated community systems	This project has proceeded smoothly, and system integration can be completed as scheduled.

Sales and Marketing

Continue to promote e-Commerce solutions and services to other cities in the PRC through the development of additional sales channel comprising sales agents	Proceeded with the optimization of the entire solution and penetration of potential markets. More efforts have been made to increase sales outside Beijing through sales agents.
Continue to cooperate with major commercial corporations in Beijing for the commercialisation of the information stored in the database of CPIP	This service has been postponed due to market conditions.
Continue to promote e-Commerce solutions by utilising an ASP	This service has been postponed due to market conditions.
Continue to seek strategic partnerships with major foreign IT companies and major system integrators and traditional enterprises in the PRC	The Group continued close cooperation with major foreign IT companies, major system integrators and Chinese traditional enterprises. During the period under review, the Group, 中國電腦軟件及技術服務總公司 and other prestigious enterprises in the industry became the first batch of companies to officially enter into partnership with China-IBM Linux Solution Cooperation Centre.

Research and Development

- e-Commerce platform

To research and develop wireless certificate applications	Related research and development has been postponed due to the market situation.
Continue to research workflow technology application on wireless appliances	Researches on the application of the wireless and mobile IP products technology is being carried out in accordance with the Company's strategy.
Continue to research intelligent appliances that is based on HFC network structure	Related research has been postponed due to market conditions.

USE OF NET PROCEEDS

	Approximate amount for intended use RMB'000	Actual amount used up to 30th June, 2003 RMB'000
The expansion and maintenance of the CPIP	31,000	31,000
<i>e-Government Technology Services</i>		
– research and implementation of platform	63,000	48,224
– research on GPS integrated application service system	37,000	7,805
– research on workflow system technology	16,000	3,569
– research on one-stop office core technology and solutions	21,000	6,138
<i>e-Commerce Technology Services</i>		
– research and implementation of platform	31,000	20,870
– development of e-commerce security application system software	19,000	5,042
– research on CSCW system	16,000	6,827
<i>Internet Technology Services</i>		
– research on broadband multimedia access total solutions based on HFC technology	21,000	3,756
Marketing and brand building	27,000	10,076
Settle payment to supplier	5,000	5,000

The unused proceeds from the placing of the Company's H shares pursuant to the prospectus dated 17th December, 2001 (being the difference between the approximate amount for intended use and approximate amount actually used up to 30th June, 2003 stated above) included (i) the amount required for achieving business objectives scheduled for the second half year of 2003, and (ii) the amount not being utilized as a result of the delay in the progress of certain business objectives, and (iii) saving in costs for achieving business objectives. The aforesaid unused proceeds were placed in a PRC bank as deposits at 30th June, 2003.

**CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED 30TH JUNE, 2003**

	<i>NOTES</i>	(Unaudited)		(Unaudited)	
		Three months ended		Six months ended	
		30th June,	30th June,	30th June,	30th June,
		2003	2002	2003	2002
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	76,240	50,254	127,054	105,738
Cost of sales		<u>(56,851)</u>	<u>(29,868)</u>	<u>(94,013)</u>	<u>(72,580)</u>
Gross profit		19,389	20,386	33,041	33,158
Other operating income		2,837	1,273	7,596	2,642
Research and development costs		(5,988)	(6,364)	(10,143)	(10,252)
Marketing and promotional expenses		(3,890)	(1,702)	(6,378)	(3,900)
Administrative expenses		<u>(9,031)</u>	<u>(7,617)</u>	<u>(18,597)</u>	<u>(14,225)</u>
Profit from operations	4	3,317	5,976	5,519	7,423
Interest on bank and other borrowings wholly repayable within five years		(86)	(126)	(181)	(224)
Share of losses of associates		<u>(1,129)</u>	<u>–</u>	<u>(1,338)</u>	<u>–</u>
Profit before taxation		2,102	5,850	4,000	7,199
Taxation	5	<u>(359)</u>	<u>(636)</u>	<u>(559)</u>	<u>(773)</u>
Profit before minority interests		1,743	5,214	3,441	6,426
Minority interests		<u>24</u>	<u>(90)</u>	<u>79</u>	<u>(31)</u>
Net profit for the period		<u><u>1,767</u></u>	<u><u>5,124</u></u>	<u><u>3,520</u></u>	<u><u>6,395</u></u>
Earnings per share					
– Basic	6	<u><u>0.06 cents</u></u>	<u><u>0.18 cents</u></u>	<u><u>0.12 cents</u></u>	<u><u>0.22 cents</u></u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AT 30TH JUNE, 2003**

	<i>NOTES</i>	30th June, 2003 <i>RMB'000</i> (unaudited)	31st December, 2002 <i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment	7	228,821	229,458
Interests in associates		7,055	8,393
Interest in a jointly controlled entity		4,000	–
Investments in securities		15,350	15,350
Deposits made on acquisition of property, plant and machinery		1,110	1,015
Deferred taxation		1,155	–
		<u>257,491</u>	<u>254,216</u>
Current assets			
Inventories		25,052	28,415
Amounts due from customers for contract work		24,545	1,352
Trade and other receivables	8	96,131	77,913
Amount due from an associate		–	735
Pledged bank deposits		–	106,110
Bank balances and cash		284,287	235,112
		<u>430,015</u>	<u>449,637</u>
Current liabilities			
Trade and other payables	9	70,179	50,856
Customers' deposits for contract work		62,014	101,394
Taxation payable		1,774	1,505
Current portion of other long-term loans		2,000	–
		<u>135,967</u>	<u>153,755</u>
Net current assets		<u>294,048</u>	<u>295,882</u>
Total assets less current liabilities		551,539	550,098
Non-current liabilities			
Other long-term loans		8,000	10,000
Minority interests		<u>413</u>	<u>492</u>
Net assets		<u><u>543,126</u></u>	<u><u>539,606</u></u>
Capital and reserves			
Share capital		289,809	289,809
Reserves		<u>253,317</u>	<u>249,797</u>
Shareholders' funds		<u><u>543,126</u></u>	<u><u>539,606</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2003**

	Share capital <i>RMB'000</i> (unaudited)	Share premium <i>RMB'000</i> (unaudited)	Deficit <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
At 1st January, 2002	286,900	243,231	(14,301)	515,830
Issue of shares	2,909	11,902	–	14,811
Expenses incurred in connection with the issue of shares	–	(1,054)	–	(1,054)
Net profit for the period	–	–	6,395	6,395
At 30th June, 2002	289,809	254,079	(7,906)	535,982
Net profit for the period	–	–	3,624	3,624
At 31st December, 2002	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>(762)</u>	<u>543,126</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2003**

	Six months ended 30th June, 2003 <i>RMB'000</i> (unaudited)	Six months ended 30th June, 2002 <i>RMB'000</i> (unaudited)
Net cash used in operating activities	(17,979)	(56,001)
Net cash from (used in) investing activities	67,441	(214,914)
Net cash (used in) from financing activities	(181)	23,757
Increase (decrease) in cash and cash equivalents	49,281	(247,158)
Cash and cash equivalents at 1st January	235,006	442,605
Cash and cash equivalents at 30th June	<u>284,287</u>	<u>195,447</u>

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2003**

1. GENERAL

The Company is a joint stock limited company established in Beijing, the People's Republic of China (the "PRC"). Its ultimate holding company is Beijing State-owned Assets Management Corporation Limited, a state-owned enterprise, also established in the PRC.

2. ACCOUNTING POLICIES AND ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

The condensed financial statements have been prepared under the historical cost convention. The interim financial report has been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

In the current period, the Company has adopted the revised SSAP 12 "Accounting for income taxes" for the first time. This revised SSAP has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements, which have been adopted in the condensed financial statements.

The principal effect of the implementation of revised SSAP 12 is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. Revised SSAP 12 requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of revised SSAP 12 resulted in the recognition of deferred taxation credit for the period of RMB1,155,000 and deferred taxation asset at 30th June, 2003 of RMB1,155,000 and has had no significant effect on the results for the prior accounting periods.

Other than the above, the accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31st December, 2002.

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	
	30.6.2003	30.6.2002	30.6.2003	30.6.2002
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
TURNOVER				
e-Government technology services	48,719	50,005	87,061	78,096
e-Commerce technology services	27,521	249	39,993	27,642
	<u>76,240</u>	<u>50,254</u>	<u>127,054</u>	<u>105,738</u>
RESULTS				
e-Government technology services	8,964	13,750	16,962	20,118
e-Commerce technology services	(364)	(1,630)	(3,320)	(1,741)
	<u>8,600</u>	<u>12,120</u>	<u>13,642</u>	<u>18,377</u>
Other operating income	2,837	1,273	7,596	2,642
Central marketing and promotional expenses	(592)	–	(592)	–
Central administrative expenses	(7,528)	(7,417)	(15,127)	(13,596)
	<u>3,317</u>	<u>5,976</u>	<u>5,519</u>	<u>7,423</u>
Profit from operations	3,317	5,976	5,519	7,423
Interest on bank and other borrowings wholly repayable within five years	(86)	(126)	(181)	(224)
Share of losses of associates engaged in e-Commerce technology services	(1,129)	–	(1,338)	–
	<u>2,102</u>	<u>5,850</u>	<u>4,000</u>	<u>7,199</u>
Profit before taxation	2,102	5,850	4,000	7,199
Taxation	(359)	(636)	(559)	(773)
	<u>1,743</u>	<u>5,214</u>	<u>3,441</u>	<u>6,426</u>
Profit before minority interests	1,743	5,214	3,441	6,426
Minority interests	24	(90)	79	(31)
	<u>1,767</u>	<u>5,124</u>	<u>3,520</u>	<u>6,395</u>
Net profit for the period	<u>1,767</u>	<u>5,124</u>	<u>3,520</u>	<u>6,395</u>

4. PROFIT FROM OPERATIONS

	Three months ended		Six months ended	
	30.6.2003	30.6.2002	30.6.2003	30.6.2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit from operations has been arrived at after charging:				
Depreciation	20,190	16,490	38,880	29,974
Less: Depreciation included in research and development costs	(1,191)	(959)	(1,488)	(1,817)
Depreciation capitalised in contract work	(8,201)	(6,391)	(14,469)	(13,529)
	<u>10,798</u>	<u>9,140</u>	<u>22,923</u>	<u>14,628</u>
Cost of goods sold	21,838	1,266	27,983	20,062
and after crediting:				
Government grants [#]	2,250	1,440	3,881	3,047
Interest income from				
– bank	473	1,010	3,625	2,360
– investment in held-to-maturity debt securities	–	138	–	275
	<u>–</u>	<u>138</u>	<u>–</u>	<u>275</u>

The government grants are obtained specifically for the Group's certain research and development projects, that are eligible to receive government grants, in which attributable depreciation, staff costs, operating lease rentals in respect of land and buildings and cable network and research and development costs are compensated.

5. TAXATION

The charge comprises:

	Three months ended		Six months ended	
	30.6.2003	30.6.2002	30.6.2003	30.6.2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC income tax	(1,514)	(636)	(1,714)	(773)
Deferred taxation	<u>1,155</u>	<u>–</u>	<u>1,155</u>	<u>–</u>
	<u>(359)</u>	<u>(636)</u>	<u>(559)</u>	<u>(773)</u>

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

6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	Three months ended		Six months ended	
	30.6.2003	30.6.2002	30.6.2003	30.6.2002
Net profit for the period	<u>RMB1,767,000</u>	<u>RMB5,124,000</u>	<u>RMB3,520,000</u>	<u>RMB6,395,000</u>
Weighted average number of ordinary share for the purposes of basic earnings per share	<u>2,898,086,091</u>	<u>2,898,086,091</u>	<u>2,898,086,091</u>	<u>2,895,823,465</u>

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 period.

7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB38,305,000 (2002: RMB45,608,000) on acquisition of property, plant and equipment.

8. TRADE AND OTHER RECEIVABLES

	30.6.2003	31.12.2002
	RMB'000	RMB'000
Trade receivables from		
– a fellow subsidiary	–	997
– others	<u>74,635</u>	<u>47,016</u>
	74,635	48,013
Others receivables	<u>21,496</u>	<u>29,900</u>
	<u>96,131</u>	<u>77,913</u>

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 60 days of issuance except for certain well established customers. The following is an aged analysis of trade receivables at the reporting date:

	30.6.2003	31.12.2002
	<i>RMB'000</i>	<i>RMB'000</i>
Age		
0 to 60 days	25,077	32,053
61 to 90 days	27,994	2,179
91 to 180 days	12,827	306
Over 180 days	8,737	13,475
	<u>74,635</u>	<u>48,013</u>

9. TRADE AND OTHER PAYABLES

	30.6.2003	31.12.2002
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	11,271	10,334
Other payables	46,440	32,601
Other customers' deposits	12,468	7,921
	<u>70,179</u>	<u>50,856</u>

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

	30.6.2003	31.12.2002
	<i>RMB'000</i>	<i>RMB'000</i>
Age		
0 to 60 days	7,466	8,531
61 to 90 days	175	28
91 to 180 days	1,063	19
Over 180 days	2,567	1,756
	<u>11,271</u>	<u>10,334</u>

10. CAPITAL COMMITMENTS

	30.6.2003	31.12.2002
	<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	21,290	20,641
– investment in an associate	56,000	–
	<u>77,290</u>	<u>20,641</u>

11. CONNECTED TRANSACTIONS

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

Name of connected company	Nature of transaction	Three months ended		Six months ended	
		30.6.2003	30.6.2002	30.6.2003	30.6.2002
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CNC Beijing Communication Corporation (“CNC Beijing”)	Fixed line rentals paid	40	60	100	120
	Dedicated circuit leasing services paid	1,725	1,248	3,422	2,956
	Information port connection services paid	1,461	1,461	2,922	2,922
	Telephone related services paid	513	401	673	691
Capnet Company Limited	Comprehensive services income received	1,148	781	2,201	1,589
Beijing IC Design Park Co., Ltd.	Property rentals paid	1,025	–	1,025	–

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.

DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30th June, 2003 (2002: Nil).

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

1. Directors, supervisors and chief executive of the Company

Save as disclosed below, none of the Directors, supervisors 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 SFO), which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section

352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

Directors' and supervisors' interests in the underlying shares pursuant to equity derivatives

Under the Company's pre-IPO share option plan, the Directors and supervisors of the Company have personal interest in share options which had been granted to them on 6th December, 2001 to subscribe for H Shares in the Company at an exercise price of HK\$0.48 per H Share exercisable within a period of ten years from the date of grant subject to certain restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H Shares. No share option has been granted, exercised, cancelled or lapsed during the six months ended 30th June, 2003. A summary of these share options outstanding is as follows:

Name of director	Number of share options outstanding at 1.1.2003 and 30.6.2003
Dr. Chen Xinxiang	1,309,750
Dr. Wang Xu	1,297,350
Ms. Zhang Yan	1,308,200
Dr. Wu Bo	1,261,700
Mr. Gao Fengqian (resigned on 1st July, 2003)	1,283,400
Mr. Li Ye (resigned on 1st July, 2003)	1,309,750
Mr. Zuo Feng (resigned on 1st July, 2003)	1,309,750
Mr. Fan Dazhi	1,244,650
Mr. Qi Qigong	1,244,650
Mr. Pan Jiaren	1,244,650
Ms. Liang Mei (resigned on 1st July, 2003)	1,244,650
Mr. Wong Ying Ho, Kennedy	1,241,550
Mr. Ng Kin Fai, Francis	1,241,550
	<hr/>
	16,541,600
	<hr/> <hr/>
Name of supervisor	
Ms. Liu Jian	1,244,650
Mr. Zhang Zhenlong	1,264,800
Mr. Cheng Huajun	1,286,500
	<hr/>
	3,795,950
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2. 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 substantial shareholders of the Company and other persons, which will have to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

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

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 year 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 certain restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H Shares. 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, 2003	Number of the Pre-IPO Options outstanding		At 30th June, 2003
		Lapsed during the period	Regrouped due to reallocation of human resources	
Directors of the Company	16,541,600	–	–	16,541,600
Supervisors of the Company	3,795,950	–	–	3,795,950
Senior management of the Company	4,847,780	(774,690)	1,534,500	5,607,590
Senior advisors of the Company	3,929,250	–	–	3,929,250
Advisors of the Company	4,309,930	–	773,760	5,083,690
Other employees of the Company and its subsidiaries	35,500,890	(5,596,120)	(760,740)	29,144,030
Employees of Capnet Company Limited, a subsidiary of BSAM	1,547,520	–	(1,547,520)	–
	<u>70,472,920</u>	<u>(6,370,810)</u>	<u>–</u>	<u>64,102,110</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 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.

SPONSOR'S INTERESTS

Core Pacific-Yamaichi Capital Limited, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) did not have any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 30th June, 2003.

Pursuant to the agreement dated 17th December, 2001, Core Pacific-Yamaichi Capital Limited has been retained to act as the Company's sponsor, in return for a fee, for the period up to 31st December, 2003 or the date on which the agreement is terminated upon the terms and conditions as set out therein.

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 an interest in a business which competes with the Company or may compete with the business of the Group.

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 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 5.23 to 5.25 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, PRC, 8th August, 2003

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* For identification purpose only