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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)

CONTINUING CONNECTED TRANSACTION IN RELATION TO DEDICATED CIRCUIT LEASING SERVICES

BCC provided DCLS to the Company pursuant to DCLS Original Agreement (as extended and amended by DCLS Renewal Agreement I and further by DCLS Renewal Agreement II), the term of which expired on 30 June 2004. The Company has entered into the DCLS Renewal Agreement III on 9 July 2004 with BCC to extend the term of the DCLS Original Agreement for a further period from 1 July 2004 to 30 June 2005.

BCC holds 80% equity interest in Beijing Telecommunication Investments Co., Ltd., one of the promoters of the Company which holds 1.82% shareholding in the Company; therefore, the DCLS Transaction under the DCLS Renewal Agreement III will constitute a continuing connected transaction under the GEM Listing Rules.

Since the relevant percentage ratio, as defined under Chapter 20 of the GEM Listing Rules, of the proposed caps of the DCLS Transaction in aggregate (which is RMB15.7 million (approximately HK\$14.8 million)) is on an annual basis less than 2.5% and, as a result, the DCLS Transaction will be exempt from independent shareholders' approval requirement and will only be subject to the reporting and announcement requirements under Chapter 20 of the GEM Listing Rules.

TRANSACTIONS

The Company and BCC entered into the DCLS Original Agreement on 4 April 2001 for a fixed term of one year for the provision of the Dedicated Circuit Leasing Service and a waiver from strict compliance with the reporting, announcement and shareholders' approval requirements of the GEM Listing Rules in respect of the DCLS Original Agreement was granted by the Stock Exchange to the Company. The DCLS Renewal Agreement I and the DCLS Renewal Agreement II were entered into on 14 December 2001 and 20 June 2003 respectively, among other things, to extend the term of the DCLS Original Agreement up to 30 June 2004. Details of the DCLS Transaction were disclosed in the Prospectus.

The Company has entered into the DCLS Renewal Agreement III with BCC on 9 July 2004 to extend the term of the DCLS Original Agreement for a further period from 1 July 2004 to 30 June 2005.

Major terms of the DCLS Original Agreement (as amended by the DCLS Renewal Agreement I and DCLS Renewal Agreement II):

BCC provided the Dedicated Circuit Leasing Service to the Company at a fee payable by the Company based on the estimated number of leased lines and a monthly fee equal to 20% off the DCLS Standard Fees.

In the event that i) either BCC or the Company wishes to terminate the agreement prior to the expiry of the agreement; or ii) BCC encounters any force majeure event (an event possibly affecting the contract and that is completely outside the parties' control) or has any fee adjustment requirement, either BCC or the Company might terminate the agreement by giving thirty days' notice to the other party. In any event that the monthly fee has been overdue for any two consecutive months, the agreement will be terminated automatically.

If there is any adjustment in the fee standards stipulated by the PRC government, the DCLS Original Agreement will be terminated and the parties shall continue with the leasing of dedicated circuits pursuant to the terms of the agreement for lease of dedicated circuits (專線租用協議書), a standard agreement of BCC with standard terms for the provision of dedicated circuit leasing services which was entered into between the Company and BCC in August 2000, prior to the entering into of the DCLS Original Agreement.

For the three years ended 31 December 2003, the fee incurred by the Group under the DCLS Original Agreement, the DCLS Renewal Agreement I and the DCLS Renewal Agreement II were approximately RMB5.96 million (approximately HK\$5.62 million), RMB6.56 million (approximately HK\$6.19 million) and RMB7.82 million (approximately HK\$7.38 million) respectively.

THE DCLS RENEWAL AGREEMENT III

Date:

The DCLS Renewal Agreement III was entered into by the parties on 9 July 2004.

Parties:

BCC and the Company

Major terms:

The Company and BCC extended the terms of the DCLS Original Agreement commencing from 1 July 2004 to 30 June 2005, which may further be extended by the parties before expiration of the terms by entering into another renewal agreement.

The DCLS Renewal Agreement III forms an integral part of the DCLS Original Agreement. BCC will provide the Dedicated Circuit Leasing Service to the Company and a fee will be payable by the Company based on the estimated number of leased lines and a monthly fee equal to 20% off the DCLS Standard Fees. Different DCLS Standard Fees will be charged according to the speed capacities of the circuit line as measured by kbps or Mbps. There is no minimum purchase requirement specified in the agreement in relation to the DCLS Transaction. All other terms and conditions of the DCLS Original Agreement stated under the section headed "Major terms of the DCLS Original Agreement (as amended by the DCLS Renewal Agreement I and DCLS Renewal Agreement II)" will remain applicable.

REASONS FOR ENTERING INTO THE DCLS RENEWAL AGREEMENT III

The Directors confirm that local dedicated circuits are major components for the operation of the Community Services Project and the development of the Social Security Project. Moreover, the Company also intends to utilise the local dedicated circuits for the operation of the Private Network Project starting from 2005. The Directors also confirm that BCC is the largest operator with the broadest coverage of the local dedicated circuit in Beijing which covers the locations required under the above-mentioned projects carried out or to be carried out by the Group and the entering of the DCLS Renewal Agreement III will facilitate the operation and the completion of the Community Services Project, the Private Network Project and the Social Security Project.

The Community Services Project, the Private Network Project and the Social Security Project are under the Company's e-Government technology service, which is the core business of the Company. Contents of each of the projects are summarized as follows:

- The Community Services Project is focused on the construction of equipment facilities, a website system and hotline call centre system as well as the construction of the street level offices network centers administered under the 18 districts/counties of Beijing. The construction of the information network system in relation to the Community Services Project was completed in 2003 and the Company continues to operate and upgrade the system.
- The Social Security Project is aimed at centralising and providing online management of patient's data including real-time debit of expenditure on the outpatient's personal account as well as establishment of a disaster prevention centre to ensure a 365 x 24 up time for the system. As at the end of 2003, the Company has already established the core technologies of the Social Security Project, including four sub-systems of medical insurance payment, social insurance collection, social insurance finance and hospital termination, and steadily improved mass data treatment capacity and system stability. To the best of the Directors' knowledge, the system in relation to the Social Security Project will be operated in an on-going basis and the Directors anticipate that the Social Security Project will be able to serve 6 million users in Beijing by 2005.
- The Private Network Project is aimed to establish a unified high-speed broadband information network between various government departments based on the CPIP to accomplishing the digitalization and networking of the activities of the government departments. The expansion of this project depends on the number of government department to be connected to the network and the Company will continuously upgrade the system as required. As at the end of June 2004, there were approximately 320 government departments with access to the network.

The terms of the DCLS Renewal Agreement III were arrived at after arm's length negotiation between the parties. Having considered (i) the above-mentioned terms and reasons of entering into the DCLS Renewal Agreement III; and (ii) the terms of the DCLS Original Agreement (as amended by the DCLS Renewal Agreement I and DCLS Renewal Agreement II), the Directors, including the independent non-executive Directors, consider that the DCLS Transaction was entered into on normal commercial terms and is in the ordinary and usual course of business of the Company and that the terms of the DCLS Transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole.

BASIS OF DETERMINATING THE CAP

Under Chapter 20 of the GEM Listing Rules, the Board is required to obtain a confirmation from the auditors of the Company to confirm that the DCLS Transaction has not exceeded the proposed caps and the Company is required to disclose such confirmation in its annual report. As such, the Directors propose two caps of RMB6.0 million (approximately HK\$5.66 million) and RMB9.7 million (approximately HK\$9.15 million) for the anticipated service fee to be incurred in relation to the DCLS Transaction for the six months ending 31 December 2004 and the six months ending 30 June 2005 respectively in order to facilitate the preparation of the aforesaid confirmation by the auditors of the Company for each of the year ending 31 December 2004 and 2005 respectively.

The caps are determined after taking into consideration of (i) the number of existing locations (government departments, hospitals and clinics) and the targeted number of locations to be connected in each of the year 2004 and 2005 and (ii) the monthly fee equal to 20% off the DCLS Standard Fees charged for different types of lines (measured by the speed and capacity of data transmission). The Directors consider the proposed caps of RMB6.0 million (approximately HK\$5.66 million) and RMB9.7 million (approximately HK\$9.15 million) for the six months ending 31 December 2004 and the six months ending 30 June 2005 respectively are in line with the development progress of the Community Services Project, the Private Network Project and the Social Security Project.

CONNECTED PERSONS

BCC owns 80% equity interest in Beijing Telecommunication Investments Co., Ltd., one of the promoters of the Company which holds 1.82% shareholding in the Company. Accordingly, CNC Beijing Communication Corporation is an associate of a promoter of the Company as defined in the GEM Listing Rules, and, therefore, a connected person pursuant to Rule 20.04(1)(b) of the GEM Listing Rules. The DCLS Transaction constitutes a continuing connected transaction exempt from independent shareholders' approval requirement since the relevant percentage ratio, as defined under Chapter 20 of the GEM Listing Rules, of the proposed caps of the DCLS Transaction for each of the six months ending 31 December 2004 and 30 June 2005 of RMB6.0 million (approximately HK\$5.66 million) and RMB9.7 million (approximately HK\$9.15 million) respectively in aggregate (which is RMB15.7 million (approximately HK\$14.8 million)) is on an annual basis less than 2.5% and, as a result, the DCLS Transaction will be, pursuant to Rule 20.34 of the GEM Listing Rules, subject to reporting and announcement requirements of the GEM Listing Rules, as well as the following:

1. the aggregate fee payable by the Company pursuant to the DCLS Renewal Agreement III for the DCLS Transaction for the six months ending 31 December 2004 and the six months ending 30 June 2005 shall not exceed the cap amount of RMB6.0 (approximately HK\$5.66 million) million and RMB9.7 (approximately HK\$9.15 million) million respectively;
2. the independent non-executive Directors will review the DCLS Transaction annually and confirm in the annual reports and accounts for each of the two financial years ending 31 December 2004 and 2005 that the DCLS Transaction has 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 DCLS Original Agreement and the Renewal Agreements 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 to the Board (with a copy to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report), confirming that the DCLS Transaction:
- (i) has received the approval of the Board;
 - (ii) has been entered into in accordance with the DCLS Original Agreement and the Renewal Agreements;
and
 - (iv) has not exceeded the cap amount as disclosed in this announcement.;
4. the Company shall allow, and shall procure that BCC should allow the auditors of the Company sufficient access to their records for the purpose of reporting on the DCLS Transaction pursuant to Rule 20.39 of the GEM Listing Rules;
5. details of the DCLS Transaction will be disclosed in the Company's annual report whatever its auditors have confirmed the matters stated in paragraph (3) above; and
6. the Company will promptly notify the Stock Exchange and publish an announcement 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 20.35(3) and (4) of the GEM Listing Rules and any other conditions the Stock Exchange considers appropriate.
7. In the event that the DCLS Original Agreement (as amended by the DCLS Renewal Agreement I, DCLS Renewal Agreement II and DCLS Renewal Agreement III) is terminated due to any adjustment in the fee standards stipulated by the PRC government and the standard agreement for lease of dedicated circuits (專線租用協議書) comes into force, the Company shall promptly comply with all applicable requirements of the GEM Listing Rules in relation to connection transactions.

GENERAL

The Group is an Internet technology and network solutions provider with its principal place of business located in Beijing, 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 Beijing for the delivery of its solutions to its clients.

DEFINITIONS

“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))
“Board”	the board of Directors
“Community Services Project”	the Beijing Municipal Community Services Information Network Systems, which the Beijing Civil Affairs Bureau appointed the Company to construct and operate in August 2000
“Company”	Capinfo Company Limited (首都信息發展股份有限公司), a joint stock limited company incorporated in the PRC
“CPIP”	Capital Public Information Platform, an electronic information exchange platform established and operated by the Company, comprising two high speed nodes providing connection to various public, government and special networks, and information resources in Beijing, the PRC
“Dedicated Circuit Leasing Service” or “DCLS”	being the provision of dedicated circuit leasing service by BCC to the Company
“DCLS Original Agreement”	an agreement dated 4 April 2001 between the Company and BCC for provision of the Dedicated Circuit Leasing Service
“DCLS Renewal Agreement I”	an agreement dated 14 December 2001 between the Company and BCC to further extend the term of the DCLS Original Agreement for DCLS to 31 December 2002
“DCLS Renewal Agreement II”	an agreement dated 20 June 2003 between the Company and BCC to further extend the term of the DCLS Original Agreement for DCLS to 30 June 2004
“DCLS Renewal Agreement III”	an agreement dated 9 July 2004 entered into between the Company and BCC to further extend the term of the DCLS Original Agreement for DCLS to 30 June 2005
“DCLS Standard Fees”	the standard fees published on the official website of BCC and are the fees offered by BCC to its ordinary customers in relation to the dedicated circuit leasing services announced by BCC from time to time and different standard fees will be charged according to the speed capacities of the circuit line (as measured by kbps or Mbps)

“DCLS Transaction”	being the continuing connected transaction between the Company and BCC contemplated under the DCLS Renewal Agreement III
“Directors”	the directors of the Company
“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
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of the Hong Kong Special Administrative Region
“kbps”	kilobits per second (or thousands of bits per second), is a measure of bandwidth (the amount of data that can flow in a given time) on a data transmission medium
“Mbps”	megabits per second (or millions of bits per second), is a measure of bandwidth (the amount of data that can flow in a given time) on a data transmission medium
“Private Network Project”	the Beijing e-Government Private Network, the establishment and operation of which was commissioned by the Beijing Municipal Government
“PRC”	The People’s Republic of China and for the purpose of this announcement, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus of the Company dated 17 December 2001
“Renewal Agreements”	being the DCLS Renewal Agreement I and the DCLS Renewal Agreement II
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Social Security Project”	the Beijing social security information system– medical insurance information sub-system, the construction and operation of which was assigned to the Company by the Beijing Municipal Labour and Social Security Bureau on 16 August 2000
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

For the purpose of this announcement, translations of RMB into Hong Kong dollars is made for illustration purposes only at the exchange rate of HK\$1 to RMB1.06.

By Order of the Board
Dr. CHEN Xinxiang
Chairman

Beijing, The People's Republic of China

13th July 2004

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars 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.

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 purpose only*