

CAPINFO Capinfo Company Limited

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

1st Quarterly Report **2002**



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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Capinfo Company Limited 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on the basis and assumptions that are fair and reasonable.

Highlights

- Turnover rose by approximately 4 times over the same quarter in previous year.
- Net profit of approximately RMB1.27 million was recorded as against net loss of approximately RMB8.54 million in the corresponding period last year.

Business Review and Prospects

Capinfo Company Limited (the “Company”) and its subsidiaries (the “Group”) are delighted to announce unaudited turnover for the three months ended 31st March, 2002 of approximately RMB55.48 million, representing an increase of approximately 4 times over the same quarter in previous year. The Group’s result was changed to net profit of approximately RMB1.27 million from net loss of approximately RMB8.54 million in the corresponding period of last year. Net profit achieved was largely resulted from the continuing development of both our e-Government and e-Commerce Technology Services businesses. Major developments are discussed below.

Along side with progress in businesses, the Company constantly strengthens internal management, and upgrades the quality control system of the Company. In January 2002, the Company has become a corporate member of China Software Industry Association (中國軟件行業協會團體會員) .

e-Government Technology Service

1. Beijing e-Government Private Network

Being commissioned by the Beijing Municipal Government, the Company is establishing a unified high-speed broadband information network between various government departments based on our Capital Public Information Platform, with a view to accomplishing the digitalization and networking of the activities of the government departments.

The Company is responsible for the network’s design, construction of core nodes and distribute nodes, equipment supply and configuration. After completion of the network platform, the Company will be responsible for its operation and maintenance, and develop e-government application based on the network, such as VPN-based security access and guarantee of QoS (Quality of Service) for visual conference system and IP phone system.

2. *Beijing Social Security Information System – Medical Insurance Information Sub-system*

The network and hardware environment of Medical Insurance Information Sub-system have basically been completed, and operated normally, with business requirements fulfilled, while softwares with different functions such as receipt of medical insurance fund and examination of medical insurance expenses are running smoothly. The number of individual participants of the system was approximately 2.6 million as at 31st March, 2002. The Company extended the functions of medical insurance system to cope with the growth in demand accompanied by the growth in participants. Enquiry hotline 96102 was opened on 4th February, 2002, for providing easier access for the participants to medical service, and lessening the administrative burdens of the participants and insurance fund management centres in district and county levels.

3. *Beijing Citizen Card Project*

On 22nd January, 2002, the Company was commissioned to construct the three centres of the Citizen Card Project, including data exchange centre, key centre and service centre. Negotiations for co-operation with various internationally renowned card technology service providers were in progress.

4. *Beijing Municipal Community Services Information Network System*

The phase of operation and maintenance of Beijing Municipal Community Services Information Network System has commenced since 2002. To raise customers' level of satisfaction, the Company set guidelines for maintenance. Meanwhile, the Company began to provide city community digitalization solutions based on the system, including community hotline system, public voice services enquiry system, community committee management information system and alike, as well as securities-related information services based on the system.

e-Commerce Technology Service

1. *Online payment platform*

The Company's payment service is available for more than 60 kinds of card issued by banks, linking to gold card centres in Shanghai, Guangzhou and Xiamen. The transaction amount made through the payment platform in the first quarter of 2002 grew 88% compared to that of last year.

2. *Digital certificate*

In 2002, Beijing Certificate Authority Center Co. Ltd., (“BJCA”) promoted digital certificates with its e-government application, and began the promotion of certificates application for civil servant. BJCA is establishing agencies in the bureau of quality and technical supervision in the 18 districts and countys in Beijing and has established agencies via online securities trading systems in Beijing, Shanghai, Chongqing, Haerbin, Shenyang, Dalian, Changchun, Tianjin, Nanjing, Shenzhen, Jishou, etc. BJCA issued 20,000 digital certificates in this quarter, making it one of the largest issuers of CA certificates in The People’s Republic of China (“PRC”).

3. *Medicine tender*

The Company was rewarded “Certificate of Qualified Medicine Tender Distribution Institution” (「藥品招標代理機構資格證書」) by Beijing Drug Administration (北京市藥品監督管理局), and qualified to carry out the business of medicine tender distribution. The Company built up a platform which leads to the digitalization of the entire process including tender placing and bidding, benchmark review, price negotiations and procurement.

Research and Development Centre

The Company’s Research and Development Centre co-ordinates closely with its core business activities, and focuses on four major areas: multilingual intelligence information system, core IT technologies for public affairs, broadband access technologies, and city informatization.

1. *Multilingual intelligent information service system*

Results of the research on “Multilingual Intelligent Information Service System” will be useful to the Olympic Games to be held in Beijing in 2008, and research was included in “Beijing Municipal Olympic Games Action Plans” by Beijing Municipal Government. After completion of fundamental research and the pilot system, “Chinese Intelligence Search Engine” enhances further research on “Network Intelligent Information Processing”, and which is undergoing technology upgrade and in the process of developing product prototype in accordance to continuing growth of user demand.

2. *Core technologies of Platform for Public services*

“Platform for Public Services” is a key technology project in Beijing which aims at solving the problem on public service access and information sharing between various government departments. It is financed by Beijing Municipal Technology Committee. In this quarter, the Company completed the fine-tuning, software requirement analysis and design of core modes of workflow engine, public services portal, XML-based data exchange service and alike services, and is set to enter the coding phase.

3. *Broadband access technology*

“Broadband access technology” is a key technology project in Beijing financed by Beijing Municipal Technology Committee. The self-developed PCI Cable Modem has been applied in selected model districts; Cable Modem Termination System (CMTS) jointly-developed with overseas companies has been completed; as for the self-developed Resources Management System of broadband multimedia community network, the first version has been applied in selected model districts for trial run.

4. *City informatization*

“General Framework, Kernel Technologies & Application Projects of the City Informatization” is a key item in the PRC’s National High Technology Research and Development Project (863 Project). Research of city informatization target evaluation system has begun in this quarter.

Prospects

The PRC government gives great emphasises on the establishment of a system for the creditability of the society. The Company expects that the market of credit-related services will grow rapidly as credit services are gaining higher public awareness. The Company participated in the formulation about Beijing credit system management measures, and invested into a company engaged in credit related business. Through such investment, the Company will develop its business in credit rating, risk management and corporate management consulting.

The Company is participating in the formulation of the action plans in technology aspect of the Olympic Games in Beijing and is confident in catching business opportunities arisen from the Olympic Games.

With the precious experience and branding over the years, the Company is dedicated to market “Digital City”, and signed co-operation/framework agreements in various provinces and municipals such as Chongqing, Guilin and Nanning. Through long-term business and technology co-operative relationship with these regions, the Company is confident that its competitiveness and profitability can be further strengthened.

Condensed Consolidated Income Statement

For the period from 1st January, 2002 to 31st March, 2002

	<i>Notes</i>	1.1.2002 to 31.3.2002 RMB'000 (unaudited)	1.1.2001 to 31.3.2001 RMB'000 (unaudited)
Turnover	3	55,484	11,235
Cost of sales		(42,712)	(9,283)
Gross profit		12,772	1,952
Other revenue		1,369	730
Research and development costs		(3,888)	(5,405)
Marketing and promotional expenses		(2,198)	(1,228)
Administrative expenses		(6,608)	(4,086)
Profit (loss) from operations		1,447	(8,037)
Interest on bank borrowings wholly repayable within five years		(98)	(171)
Share of losses of an associate		–	(330)
Profit (loss) before taxation		1,349	(8,538)
Taxation	4	(137)	–
Profit (loss) before minority interests		1,212	(8,538)
Minority interests		59	–
Net profit (loss) for the period		1,271	(8,538)
Earnings (loss) per share			
– Basic	5	0.04 cent	(0.39) cent

Notes to the Condensed Financial Statements

For the period from 1st January, 2002 to 31st March, 2002

1. General

The Company was established in Beijing, the People's Republic of China (the "PRC") on 14th July, 2000 as a joint stock limited company. Following the consent from the China Securities Regulatory Commission on 31st October, 2001, the Company's overseas-listed foreign shares ("H shares") were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 21st December, 2001.

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

2. Accounting Policies

The condensed financial statements have been prepared under the historical cost convention and the accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31st December, 2001.

3. Turnover

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with the provision of e-Government technology services, e-Commerce technology services and internet services. In August 2001, the business of internet service provision was discontinued. An analysis of the Group's turnover is as follows:

	1.1.2002	1.1.2001
	to	to
	31.3.2002	31.3.2001
	RMB'000	RMB'000
Continuing operations		
– e-Government technology services	28,091	8,916
– e-Commerce technology services	27,393	1,016
	55,484	9,932
Discontinued operations		
– internet service	–	1,303
	55,484	11,235

4. Taxation

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.

There was no significant unprovided deferred taxation for the period or at the balance sheet date.

5. Earnings (Loss) Per Share

The calculation of the basic earnings (loss) per share is based on the net profit for the period of RMB1,271,000 (2001: a loss of RMB8,538,000) and the weighted average number of 2,893,560,838 (2001: 2,193,997,000) shares in issue during the period.

No diluted earnings per share has been presented as the effect of the potential shares outstanding during the period was anti-dilutive.

No diluted loss per share for 2001 was presented as there were no potential dilutive shares.

6. Share Capital

	Number of Shares		Registered, issued and fully paid RMB'000
	Domestic shares	H shares	
Ordinary shares of RMB0.10 each			
At 1st January, 2002	2,126,497,182	742,498,000	286,900
Exercise of over-allocation options	(2,909,091)	32,000,000	2,909
At 31st March, 2001	2,123,588,091	774,498,000	289,809

On 14th January, 2002, 29,090,909 H shares were issued at a price of HK\$0.48 per share pursuant to the exercise of over-allocation options which were granted to the placing underwriters on 17th December, 2001.

7. Reserves

	Share premium	Deficit	Total
	RMB'000	RMB'000	RMB'000
At 1st January, 2001	–	(4,368)	(4,368)
Net loss for the period	–	(8,538)	(8,538)
At 31st March, 2001	–	(12,906)	(12,906)
At 1st January, 2002	243,231	(14,301)	228,930
Premium arising on issue of shares	11,902	–	11,902
Expense incurred in connection with the issue of shares	(1,054)	–	(1,054)
Net profit for the period	–	1,271	1,271
At 31st March, 2002	254,079	(13,030)	241,049

Dividend

The board of directors do not recommend the payment of interim dividend for the three months ended 31st March, 2002 (2001: Nil).

Directors' and Supervisors' Interests in Securities

As at 31st March, 2002, none of the directors, supervisors, or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

Directors' and Supervisors' Rights to Acquire Shares or Debentures

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 nor exercised during the three months ended 31st March, 2002. A summary of these share options outstanding is as follows:

Name of director	Number of share options outstanding at 1.1.2001 and 31.3.2002
Dr. Chen Xinxiang	1,309,750
Dr. Wang Xu	1,297,350
Zhang Yan	1,308,200
Dr. Wu Bo	1,261,700
Gao Fenqian	1,283,400
Li Ye	1,309,750
Zuo Feng	1,309,750
Fan Dazhi	1,244,650
Qi Qigong	1,244,650
Pan Jiaren	1,244,650
Liang Mei	1,244,650
Wong Ying Ho, Kennedy	1,241,550
Ng Kin Fai, Francis	1,241,550
	<hr/>
	16,541,600
	<hr/> <hr/>
Name of supervisor	
Zhang Zhenlong	1,264,800
Liu Jian	1,244,650
Cheng Huajun	1,286,500
	<hr/>
	3,795,950
	<hr/> <hr/>

Save as disclosed above, at no time during the period was the Company or its holding company or any of its fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors and supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors and supervisors or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

Substantial Shareholders

As at 31st March, 2002, according to the register maintained under Section 16(1) of the SDI Ordinance, Beijing State-Owned Assets Management Corporation Limited owned 1,783,631,919 domestic shares in the Company which represents 61.55% of the issued share capital of the Company.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 31st March, 2002.

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.

Sponsor's Interests

Core Pacific-Yamaichi Capital Limited, its directors, employees or associates (as referred to in Note 3 to the 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 31st March, 2002.

Pursuant to the agreement dated 17th December, 2001, Core Pacific-Yamaichi Capital Limited has been retained to act as the Company's sponsor for the period up to 31st December, 2003 in return for a monthly advisory fee.

Competing Interest

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

Corporate Governance

During the period, 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.

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

The People's Republic of China, 10th May, 2002