

CAPINFO

Capinfo Company Limited

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



Interim Report 2005

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.

This report, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (i) the information contained in this report 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 report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Achieved a turnover of approximately RMB101 million for the six months ended 30th June, 2005, representing an approximately 2% decrease over the same period of the previous year;
- Attained a net profit attributable to equity holders of the parent of approximately RMB1.9 million for the six months ended 30th June, 2005;
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2005.

Management Discussion and Analysis

Financial Review

The board (the "Board") of Directors (the "Directors") of Capinfo Company Limited (the "Company") announces that, for the six months ended 30th June, 2005, the Company and its subsidiaries (collectively the "Group") recorded an unaudited turnover of approximately RMB101 million, representing a decrease of approximately 2% over the same period of last year, and a gross profit margin of 32%, as compared with 30% for the same period of last year. The Group has attained an unaudited net profit attributable to equity holders of the parent of approximately RMB1.9 million for the period under review as against net loss of approximately RMB6 million in the same period of last year.

During the period under review, turnover recognised from projects which had relatively low profit margin reduced. As a result, turnover decreased but gross profit margin increased.

During the period under review, the Group devoted more resources on research and development and, thus, increased the research and development expenses. On the other hand, the Group exercised more stringent cost control, which resulted in a decrease in selling and administrative expenses for the period, and in turn, led to the change to the net profit for the period under review from net loss in the corresponding period in last year.

Other operating income including interest income and government grants increased in the period under review.

The Group's current ratio, defined as total current assets over total current liabilities, remained at 4.7 while the gearing ratio, defined as total borrowing over net assets, stayed at a relatively low level of less than 2%. Both ratios reflected that the Group has sufficient financial resources.

As at 30th June, 2005, the Group had unsecured borrowings of RMB10 million, at an annual interest rate of 2.25% out of which, RMB4 million will become mature within 1 year and RMB6 million will mature within 2-5 years from 30th June, 2005. Cash and bank deposits of the Group were RMB282 million as at 30th June 2005 which mainly came from shareholders' contribution and working capital generated from operations.

As at 30th June 2005, the Group had no assets pledged and had capital commitment of approximately RMB133 million.

In addition to the capital expenditure disclosed above, the Company also entered into an agreement with a supplier on 21st June, 2005 (the "Agreement"). Details of the Agreement are disclosed as below:

- (a) The Company agreed to acquire 23% equity interest in that supplier at a consideration of approximately RMB7,450,000, of which RMB2,000,000 will be satisfied in cash while the remaining RMB5,450,000 was previously paid in 2000 as deposits for trading goods. The aforesaid investment is subject to further negotiation between the parties.
- (b) The Company also agreed to grant an entrust loan of RMB6,000,000 to that supplier. The entrust loan will be unsecured, bear interest at prevailing bank interest rate and be guaranteed by an investor of that supplier. Pursuant to the Agreement, the entrust loan will be repayable in two years after the entrust loan agreement being signed, and the Company will also be granted an option to convert the entrust loan to additional capital injection to the supplier upon expiry of that entrust loan agreement.
- (c) The supplier agreed to withdraw its claim of approximately RMB14,000,000 against the Group for the cost and loss arising from the suspension of a material supplier contract.

The supplier withdrew its claims against the Company on 22nd June, 2005. The investment agreement or entrust loan agreement has not yet been signed between the parties up to the balance sheet date.

As at 30th June, 2005, there was a claim of approximately RMB28,000,000 from a contractor against the Group for the suspension of a contract of RMB8,400,000 regarding development and maintenance of intellectual properties of an e-Government information system. The remaining consideration payable by the Company for such service under the contract amounted to RMB6,300,000. On 9th December, 2004, a judgement was handed down by First Intermediate Court of Beijing of the PRC, and the judge found in favour of the contractor and the Company was ordered to pay damages of approximately RMB14,280,000. An appeal was lodged by the Company on 23rd December, 2004. Based on the advice of the Group's legal consultant, the directors are of the opinion that except for the remaining consideration mentioned above, other amount claimed is irrelevant to the contract. In addition, the directors are of the opinion that the contractor failed to perform its obligations under the contract and therefore the Group has strong grounds to defend against the claim. No provision for the claim has been made.

During the period under review, the Group's financial position was not exposed to significant fluctuations in exchange rates and did not engage in any related hedges.

Business Review

1. *Continuous Development of its Core Business*

During the period under review, the Group systematically established the Beijing Municipal e-Government private network and operated and maintained the Beijing Medical Insurance Information Sub-system and Beijing Municipal Community Service Information Network, and e-commerce business also achieved significant progress. The transaction volume achieved a 100% growth compared to the corresponding period in last year. The Group worked together with the Bank of Beijing, the Industrial and Commercial Bank of China and Chinapay (上海銀聯電子支付服務有限公司) to develop phone banking systems for several banks in the Beijing district.

During the period under review, the access points of e-Government private network continuously increased. The vertical and horizontal development of private network was immense laying down an ideal foundation for the Group to provide in-depth IT service in the future. The Group had connected over 300 Social Security Offices' networks to the Capital Public Information Platform. Testing on the Medical Insurance and Financial Sub-system Version 5.1.4 and the Medical Insurance Administration and Management Business Sub-system Version 1.1 was completed and use of the systems have commenced.

The Group had successfully completed the operation and maintenance of the Community Network for the second quarter of 2005 and secured 99.85% average accessibility rate for the network system. Being granted recognition by the Beijing Community Services Center, project planning of the Community and Public Affairs Information Management System under Community Affairs Geographical Information Sub-system will be formally commence development.

2. *Investment and Business Development*

During the period under review, development and testing on the e-Government Data Sharing and Exchange Platform for Nanning City undertaken by the Group were completed. The project is entering the planning, piloting and training stages.

Dongguan City Longxin Information Development Limited (東莞市龍信信息開發有限公司), which was recently invested and founded by the Group, is operating well. The copyright registration for "Dongguan City Community Management Information System" v1.0 was concluded, which established a good market foundation.

3. *Research and Development*

During the period under review, the Group's researched and developed product "Olympic Integrated Information Service System" has been confirmed by the Beijing Olympics Organizing Committee as the number one project among the "Five Key Projects" to be implemented as proposed by the Beijing Olympics Organizing Committee. Targeting at the Olympic Games, the Multi-lingual Intelligent Information Service Network System has been developed smoothly according to the planned schedule. The development of the Olympic proprietary terminal procedure and its backup support system was concluded, and the connection of terminal and system was finished, which achieved preliminary success.

The Group researched and developed the "Facing Olympics, PDA based & Audio Driven Geographic Information System (GIS) Service Prototype (English and French)" and "Public Security Application Requirement and Application Scenario Definition". These projects had attained preliminary success. Being assessed at the annual evaluation conference of SAFIR Project, such work and prototype system were given recognition by the EU expert assessment unit.

4. *Employees*

As at 30 June 2005, the Group had 495 employees compared with 519 employees as at 30 June 2004. Remuneration is determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employees. Discretionary bonuses are paid according to individual performance of the employees as reward for their contribution. Other benefits include retirement benefits and share options.

5. *Future Prospects*

In order to continue to strengthen its position in the PRC e-Government and e-Commerce business, the Group will further consolidate its businesses in e-Government, e-Commerce, network security and multi-lingual intelligent information service. Devoting its effort in offering integrated overall IT service and solution project for corporate customers, the Group will increase its brand influence and ensure a steady growth for its overall result in the PRC.

INDEPENDENT REVIEW REPORT



INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CAPINFO COMPANY LIMITED

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 9 to 21.

Responsibilities

The Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 (SAS 700) "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report, and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2005.

Without modifying our review conclusion, we draw to your attention that the condensed income statements for each of the three-months ended 30th June, 2005 and 2004 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong, 10th August, 2005

Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	NOTES	(Unaudited)		(Unaudited)	
		Three months ended		Six months ended	
		30.6.2005	30.6.2004	30.6.2005	30.6.2004
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	4	56,561	49,606	101,232	103,627
Cost of sales		(38,763)	(33,256)	(69,076)	(72,129)
Gross profit		17,798	16,350	32,156	31,498
Other operating income		1,549	1,692	5,009	3,948
Research and development costs		(3,437)	(3,647)	(8,702)	(5,550)
Marketing and promotional expenses		(1,795)	(4,985)	(3,475)	(9,065)
Administrative expenses		(10,380)	(8,241)	(18,761)	(22,881)
Profit (loss) from operations	5	3,735	1,169	6,227	(2,050)
Amortisation of goodwill		–	(104)	–	(104)
Interest on other loan wholly repayable					
within five years		(64)	(86)	(128)	(150)
Share of losses of associates		(908)	(796)	(3,604)	(2,352)
Share of losses of a jointly controlled entity		(216)	(264)	(405)	(784)
Gain on disposal of a subsidiary		–	–	–	250
Profit (loss) before taxation		2,547	(81)	2,090	(5,190)
Taxation	6	468	(1,056)	(509)	(1,056)
Profit (loss) for the period		3,015	(1,137)	1,581	(6,246)
Attributable to:					
Equity holders of the parent		3,136	(988)	1,877	(5,996)
Minority interests		(121)	(149)	(296)	(250)
		3,015	(1,137)	1,581	(6,246)
Earnings (loss) per share					
– Basic	8	0.11 cents	(0.03 cents)	0.06 cents	(0.21 cents)

Condensed Consolidated Balance Sheet

AT 30TH JUNE, 2005

	NOTES	30.6.2005 RMB'000 (Unaudited)	31.12.2004 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	156,319	165,029
Goodwill	10	3,488	–
Interests in associates		19,052	26,370
Interests in a jointly controlled entity		1,552	1,957
Available-for-sale investments		16,350	16,350
Deposits made on acquisition of property, plant and equipment		3,019	658
		199,780	210,364
Current assets			
Inventories		22,943	19,766
Amounts due from customers for contract work		34,480	17,973
Trade and other receivables	11	112,382	104,773
Amounts due from associates		1,182	4,670
Bank balances and cash		281,760	285,703
		452,747	432,885
Current liabilities			
Trade and other payables	12	74,431	61,275
Customers' deposits for contract work		17,528	22,012
Taxation payable		658	4,931
Current portion of other loan		4,000	4,000
		96,617	92,218
Net current assets		356,130	340,667
Total assets less current liabilities		555,910	551,031
Capital and reserves			
Share capital	13	289,809	289,809
Reserves		255,817	253,940
Equity attributable to equity holders of the parent		545,626	543,749
Minority interests		4,284	1,282
Total equity		549,910	545,031
Non-current liabilities			
Other loan		6,000	6,000
		555,910	551,031

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Attributable to equity holders of the parent							Total equity
	Share capital	Share premium	Statutory surplus reserve	Statutory welfare fund	Accumulated profits (losses)	Minority Total interests		
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
At 1st January, 2004	289,809	254,079	550	275	842	545,555	2,544	548,099
Disposal of a subsidiary	-	-	-	-	-	-	(664)	(664)
Net loss for the period	-	-	-	-	(5,996)	(5,996)	(250)	(6,246)
At 30th June, 2004	289,809	254,079	550	275	(5,154)	539,559	1,630	541,189
At 1st January, 2005	289,809	254,079	1,378	689	(2,206)	543,749	1,282	545,031
Acquisition of a subsidiary	-	-	-	-	-	-	2,498	2,498
Capital contribution by a minority investor of a subsidiary	-	-	-	-	-	-	800	800
Net profit (loss) for the period	-	-	-	-	1,877	1,877	(296)	1,581
At 30th June, 2005	289,809	254,079	1,378	689	(329)	545,626	4,284	549,910

Condensed Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	(Unaudited)	
	Six months ended	
	30.6.2005	30.6.2004
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash from (used in) operating activities	20,207	(57,907)
Net cash used in investing activities:		
Cash paid for purchase of property, plant and equipment	(30,077)	(8,179)
Capital contribution to an associate	–	(7,340)
Acquisition of a subsidiary	4,413	–
Other investing cash flows	714	261
	(24,950)	(15,258)
Net cash from (used in) financing activities:		
Capital contribution from minority shareholders of a subsidiary	800	–
Other financing activities	–	(150)
	800	(150)
Decrease in cash and cash equivalents	(3,943)	(73,315)
Cash and cash equivalents at 1st January	285,703	259,572
Cash and cash equivalents at 30th June, being bank balances and cash	281,760	186,257

Notes to the Condensed Financial Statements

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

1. GENERAL

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

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

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

3. ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

Business combinations

In the current period, the Group has applied HKFRS 3, Business Combinations, which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions before 1st January, 2005 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually/in the financial year in which the acquisition takes place. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. This change in accounting policy has resulted in an increase in the profit of approximately RMB52,000 for the six months ended 30th June, 2005. Comparative figures for 2004 have not been restated.

Share-based payments

In the current period, the Group has applied HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group will apply HKFRS 2 to share options granted on or after 1st January, 2005. The relevant transitional provisions require HKFRS 2 to be retrospectively applied to share options that were granted after 7th November, 2002 and had not yet vested on 1st January, 2005. The Group did not have any such share options.

Financial instruments

In the current period, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of debt or equity securities previously accounted for under the alternative treatment of SSAP 24.

Until 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "trading securities," "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss," "available-for-sale financial assets," "loans and receivables," or "held-to-maturity financial assets." "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method."

The adoption of HKAS 39 has had no material effect for the prior and current accounting periods. The Group's investments in securities, which represents investments in unlisted equity securities, are measured at cost less impairment since fair value of such investments cannot be reliably measured.

4. 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	
	30.6.2005	30.6.2004	30.6.2005	30.6.2004
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
e-Government technology services	42,599	46,133	82,714	95,338
e-Commerce technology services	13,962	3,473	18,518	8,289
	56,561	49,606	101,232	103,627
Results				
e-Government technology services	14,407	10,982	22,938	20,701
e-Commerce technology services	(2,315)	(7,045)	(5,332)	(12,262)
	12,092	3,937	17,606	8,439
Other operating income	1,549	1,692	5,009	3,948
Central marketing and promotional expenses	–	(756)	–	(1,465)
Central administrative expenses	(9,906)	(3,704)	(16,388)	(12,972)
Profit (loss) from operations	3,735	1,169	6,227	(2,050)
Amortisation of goodwill	–	(104)	–	(104)
Interest on other loan wholly repayable within five years	(64)	(86)	(128)	(150)
Share of losses of associates engaged in other businesses	(908)	(796)	(3,604)	(2,352)
Share of losses of a jointly controlled entity engaged in other business	(216)	(264)	(405)	(784)
Gain on disposal of a subsidiary	–	–	–	250
Profit (loss) before taxation	2,547	(81)	2,090	(5,190)
Taxation	468	(1,056)	(509)	(1,056)
Profit (loss) for the period	3,015	(1,137)	1,581	(6,246)

5. PROFIT (LOSS) FROM OPERATIONS

	Three months ended		Six months ended	
	30.6.2005	30.6.2004	30.6.2005	30.6.2004
	RMB'000	RMB'000	RMB'000	RMB'000
Profit (loss) from operations has been arrived at after charging (crediting):				
Depreciation	18,780	18,489	36,654	37,449
Less: Depreciation included in research and development costs	(191)	(255)	(393)	(380)
Depreciation capitalised in contract work	(5,250)	(5,286)	(10,620)	(10,801)
	13,339	12,948	25,641	26,268
Cost of goods sold	101	692	1,948	998
Government grants	(702)	(1,257)	(3,221)	(3,350)
Interest income from bank	(708)	(408)	(1,154)	(560)

6. TAXATION

	Three months ended		Six months ended	
	30.6.2005	30.6.2004	30.6.2005	30.6.2004
	RMB'000	RMB'000	RMB'000	RMB'000
The (credit) charge comprises:				
PRC income tax				
Current	1,126	1,056	2,103	1,056
Overprovision in previous year	(1,594)	-	(1,594)	-
	(468)	1,056	509	1,056

The Company is recognised as a new-technology enterprise according to PRC tax regulations and subject to the income tax rate of 15%. It is also entitled to exemption from PRC income tax for the first three years of its operations and entitled to a 50% tax relief for the following three years commencing 2001. Year 2004 is the first year that the Company should fully pay the income tax using the rate of 15% pursuant to the relevant rules and regulations in the PRC. PRC income tax is calculated at 15% (2004: 15%) of the estimated assessable profit for the six months ended 30th June, 2005.

On the other hand, pursuant to an announcement made by the State Administration of Taxation dated 22nd July, 2005, certain entities including the Company are granted a reduction of income tax rate to 10% for Year 2004 as an incentive and support to their software development activities in China. As a result, overprovision of income tax of approximately RMB1,594,000 for the year ended 31st December, 2004 is reversed in the current period.

The (credit) charge for the period can be reconciled to the profit (loss) per the income statement as follows:

	Three months ended		Six months ended	
	30.6.2005	30.6.2004	30.6.2005	30.6.2004
	RMB'000	RMB'000	RMB'000	RMB'000
Profit (loss) before tax	2,547	(81)	2,090	(5,190)
Tax at domestic income tax rate of 15% (2004: 15%)	382	(12)	314	(778)
Tax effect of net expenses that are not deductible in determining taxable profit	315	686	665	989
Tax effect of tax losses of a subsidiary not recognised	260	223	523	375
Tax effect of associates and a jointly controlled entity not recognised	169	159	601	470
Overprovision in previous year	(1,594)	–	(1,594)	–
Tax (credit) expense for the period	(468)	1,056	509	1,056

7. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend.

8. EARNINGS (LOSS) PER SHARE

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

	Three months ended		Six months ended	
	30.6.2005	30.6.2004	30.6.2005	30.6.2004
Profit (loss) for the period attributable to equity holders of the parent	RMB3,136,000	RMB (988,000)	RMB1,877,000	RMB(5,996,000)
Number of ordinary shares for the purposes of basic earnings (loss) per share	2,898,086,091	2,898,086,091	2,898,086,091	2,898,086,091

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

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB27,716,000 (2004: RMB8,179,000) on acquisition of property, plant and equipment.

10. GOODWILL

	30.6.2005
	<i>RMB'000</i>
At 1st January, 2005	–
Arising on acquisition of a subsidiary	1,522
Transfer from interests in associates	1,966
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At 30th June, 2005	3,488
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During the period, the Company acquired additional equity interest in an associate and upon the completion of the acquisitions, the associate became a subsidiary of the Company (see note 15).

11. TRADE AND OTHER RECEIVABLES

	30.6.2005	31.12.2004
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables from		
– a fellow subsidiary	1,484	1,021
– others	78,159	72,736
	<hr/>	<hr/>
	79,643	73,757
Other receivables, deposits and prepayments	32,739	31,016
	<hr/>	<hr/>
	112,382	104,773
	<hr/> <hr/>	<hr/> <hr/>

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 balance sheet date:

Age	30.6.2005	31.12.2004
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 60 days	41,830	25,045
61 to 90 days	913	5,235
91 to 180 days	5,799	27,214
Over 180 days	31,101	16,263
	<hr/>	<hr/>
	79,643	73,757
	<hr/> <hr/>	<hr/> <hr/>

12. TRADE AND OTHER PAYABLES

	30.6.2005	31.12.2004
	RMB'000	<i>RMB'000</i>
Trade payables	3,979	4,840
Other payables	51,727	39,792
Customer deposits	18,725	16,643
	74,431	61,275

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

Age	30.6.2005	31.12.2004
	RMB'000	<i>RMB'000</i>
0 to 60 days	318	1,820
61 to 90 days	–	23
91 to 180 days	667	621
Over 180 days	2,994	2,376
	3,979	4,840

13. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid
	Domestic shares	H shares	<i>RMB'000</i>
Ordinary shares of RMB0.10 each			
At 1st January, 2005 and 30th June, 2005	2,123,588,091	774,498,000	289,809

14. CAPITAL COMMITMENT

	30.6.2005	31.12.2004
	RMB'000	<i>RMB'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of		
– property, plant and equipment	77,467	68,611
– investment	56,000	56,000
	133,467	124,611

In addition to the capital expenditure disclosed above, the Company also entered into an agreement with a supplier on 21st June, 2005 (the "Agreement"). Details of the Agreement are disclosed as below:

- (a) The Company agreed to acquire 23% equity interest in that supplier at a consideration of approximately RMB7,450,000, of which RMB2,000,000 will be satisfied in cash while the remaining RMB5,450,000 was previously paid in 2000 as deposits for trading goods. The aforesaid investment is subject to further negotiation between the parties.
- (b) The Company also agreed to grant an entrust loan of RMB6,000,000 to that supplier. The entrust loan will be unsecured, bear interest at prevailing bank interest rate and be guaranteed by an investor of that supplier. Pursuant to the Agreement, the entrust loan will be repayable in two years after the entrust loan agreement being signed, and the Company will also be granted an option to convert the entrust loan to additional capital injection to the supplier upon expiry of that entrust loan agreement.
- (c) The supplier agreed to withdraw its claim of approximately RMB14,000,000 against the Group for the cost and loss arising from the suspension of a material supplier contract.

The supplier withdrew its claims against the Company on 22nd June, 2005. The investment agreement or entrust loan agreement has not yet been signed between the parties up to the balance sheet date.

15. ACQUISITION OF A SUBSIDIARY

During the period, the Company entered into agreements with four investors of Beijing Co-Create Software Company Limited (北京共創開源軟件有限公司) ("Beijing Co-Create"), a company established in the PRC with limited liability of which 30.81% equity interest was previously owned by the Company. Pursuant to the agreements, the Company acquired an additional equity interest of 25.16% in Beijing Co-Create at a consideration of RMB2,849,000. Upon the completion of these agreements, the Company effectively owns 55.97% equity interest in Beijing Co-Create. These transactions have been accounted for using the purchase method of accounting.

	<i>RMB'000</i>
Net assets acquired	3,075
Goodwill	1,522
	<u>4,597</u>
Total consideration, satisfied by:	
Cash	2,849
Interest in an associate	1,748
	<u>4,597</u>
Net cash inflow arising on acquisition:	
Cash consideration paid	(2,849)
Cash and cash equivalents acquired	7,262
	<u>4,413</u>

The goodwill arising on the acquisition of Beijing Co-Create is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Beijing Co-Create contributed approximately RMB855,000 and RMB119,000 to the Group's revenue and profit before tax, respectively, for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2005, total group revenue for the period would have been approximately RMB101,824,000, and profit for the period would have been approximately RMB1,325,000. The proforma information is for illustrative purpose only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

16. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transactions	Three months ended		Six months ended	
		30.6.2005 RMB'000	30.6.2004 RMB'000	30.6.2005 RMB'000	30.6.2004 RMB'000
CNC Beijing Communication Corporation	Dedicated circuit leasing services paid	1,864	1,816	3,967	3,763
	Telephone related services paid	54	87	149	182
Capnet Company Limited	Comprehensive services income received	2,031	841	3,475	1,617
Beijing IC Design Park Co., Ltd.	Property rentals paid	1,053	995	2,048	1,990

Amount due from a fellow subsidiary as at 30th June, 2005 was approximately RMB1,484,000 (31.12.2004: RMB1,021,000). The amount is included in trade and other receivables.

Note: CNC Beijing Communication Corporation 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.

17. CONTINGENT LIABILITIES

As at 30th June, 2005, there was a claim of approximately RMB28,000,000 from a contractor against the Group for the suspension of a contract of RMB8,400,000 regarding development and maintenance of intellectual properties of an e-Government information system. The remaining consideration payable by the Company for such service under the contract amounted to RMB6,300,000. On 9th December, 2004, a judgement was handed down by First Intermediate Court of Beijing of the PRC, and the judge found in favour of the contractor and the Company was ordered to pay damages of approximately RMB14,280,000. An appeal was lodged by the Company on 23rd December, 2004. Based on the advice of the Group's legal consultant, the directors are of the opinion that except for the remaining consideration mentioned above, other amount claimed is irrelevant to the contract. In addition, the directors are of the opinion that the contractor failed to perform its obligations under the contract and therefore the Group has strong grounds to defend against the claim. No provision for the claim has been made.

Dividend

The Board does not recommend the payment of interim dividend for the six months ended 30th June, 2005 (2004: Nil).

Interests Discloseable under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (The “SFO”)

a. Directors and Chief Executive of the Company

Save as disclosed below, as at 30th June, 2005, none of the Directors and chief executive of the Company and their respective associates 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, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors of the Company as referred to in Rule 5.46 to 5.68 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (“GEM Listing Rules”).

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

Name	Number of H Shares subject to options outstanding at 30th June, 2005			Percentage in the issued H share capital
	Granted under Pre-IPO Share Option Plan	Granted under Share Option Scheme	Total	
<i>Directors</i>				
Dr. Chen Xinxiang	1,309,750	2,700,000	4,009,750	0.51%
Dr. Wang Xu	1,297,350	1,466,000	2,763,350	0.36%
Ms. Zhang Yan	1,308,200	1,466,000	2,774,200	0.36%
Dr. Wu Bo	1,261,700	1,466,000	2,727,700	0.35%
Mr. Qi Qigong	1,244,650	1,466,000	2,710,650	0.35%
Mr. Pan Jiaren	1,241,550	1,466,000	2,707,550	0.35%
Mr. Wong Ying Ho, Kennedy	1,241,550	1,466,000	2,707,550	0.35%
Mr. Ng Kin Fai, Francis	1,244,550	1,466,000	2,710,650	0.35%
	10,149,400	12,962,000	23,111,400	2.98%

All of the above-mentioned share options granted under the pre-IPO share option plan (“Pre-IPO Share Option Plan”) which has adopted by the Company at the extraordinary general meeting held on 6th December, 2001 were granted on 6th December, 2001 at RMB1 per grant with an exercise price of HK\$0.48 per H Share. The share options granted to the Directors

pursuant to the Pre-IPO Share Option Plan are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule subject to restrictions imposed by the relevant PRC laws and regulations:

Proportion of share options

granted and held by each of the

directors which become exercisable

Exercise period

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

All of the above-mentioned share options granted under the share option scheme ("Share Option Scheme") which was approved by a resolution of the shareholders of the Company dated 6th December, 2001 were granted on 17th August, 2004 at RMB1 per grant with an exercise price of HK\$0.41 per H Share. The share options granted to the Directors pursuant to the Share Option Scheme are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule subject to restrictions imposed by the relevant PRC laws and regulations:

Proportion of share options

granted and held by each of the

directors which become exercisable

Exercise period

25%	18th August, 2005 to 17th August, 2014
25%	18th August, 2006 to 17th August, 2014
25%	18th August, 2007 to 17th August, 2014
25%	18th August, 2008 to 17th August, 2014

b. Substantial shareholders of the Company and other persons

Save as disclosed below, the Directors are not aware of any other interests and short positions in shares and underlying shares of the Company of any person (other than a Director or chief executive of the Company) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept under section 336 of the SFO as at 30th June 2005.

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

So far as is known to any Director or chief executive of the Company, the following companies/ persons had an interest or short position in the shares or underlying shares of other members of the Group which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or were interested in 10% or more of the nominal value of any class of share capital carrying right to vote in all circumstances at general meetings of any other members of the Group as at 30th June, 2005:

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

Purchase, Sale or Redemption of the Company's Listed Securities

During the period under review, 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 Pre-IPO Share Option Plan, share options had been granted an exercise price of HK\$0.48 per H Share, which is the placing price upon the listing of the Company's H Shares, exercisable within a period of ten years from the date of grant subject to restrictions imposed by the relevant PRC laws and regulations (if any). These options were to recognise the past and present contributions of the grantees to the Group. A summary of these share options granted is as follows:

	At 1st January, 2005	Lapsed during the period	At 30th June, 2005
Directors of the Company	10,149,400	–	10,149,400
Supervisors of the Company	3,795,950	–	3,795,950
Senior management of the Company	4,836,620	–	4,836,620
Senior advisors of the Company	2,619,500	–	2,619,500
Advisors of the Company	4,309,930	–	4,309,930
Other employees of the Company and its subsidiaries	23,040,750	(380,835)	22,659,915
	48,752,150	(380,835)	48,371,315

(b) Share Option Scheme

Pursuant to the Share Option 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 issued upon exercise of all outstanding options granted and yet to be granted under the Share Option Scheme and any other schemes shall not exceed 30% of the number of issued H Shares of the Company from time to time. The total number of H Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the number of the issued H Shares of the Company as at the date of approval of the Share Option Scheme unless further shareholders' approval has been obtained pursuant to the conditions set out in the Share Option Scheme. No person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued H Shares of the Company.

A summary of the share options granted by the Company under the Share Option Scheme during the period is as follows:

	At 1st January, 2005	Lapsed during the period	30th June, At 2005
Directors of the Company	12,962,000	–	12,962,000
Supervisors of the Company	4,398,000	–	4,398,000
Senior management of the Company	9,166,000	–	9,166,000
Senior advisors of the Company	11,264,000	–	11,264,000
Advisors of the Company	3,302,000	–	3,302,000
Other employees of the Company and its subsidiaries	23,822,000	(1,160,000)	22,662,000
	<u>64,914,000</u>	<u>(1,160,000)</u>	<u>63,754,000</u>

Competing Interests

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

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiries of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors throughout the six months ended 30th June, 2005.

Audit Committee

An audit committee was established on 6th December, 2001 with written terms of reference in compliance with the requirements of the GEM Listing Rules. The three independent non-executive directors, Mr. Wong Ying Ho, Kennedy, Mr. Ng Kin Fai, Francis and Mr. Liu Dongdong, 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. The audit committee has discussed with the management in respect of accounting principles and practices adopted by the Group, the internal control and financial reporting matters, including review on the unaudited results for the six months ended 30th June, 2005.

Code on Corporate Governance Practices

Throughout the period under review, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

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

Beijing, The People's Republic of China, 10th August, 2005

* For identification purposes only