

CAPINFO

Capinfo Company Limited

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



Third Quarterly 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.

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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 RMB155.1 million for the nine months ended 30th September, 2005, representing an approximately 1.8% slight decrease over the same period of the previous year;
- Attained a net profit of approximately RMB4.7 million for the nine months ended 30th September, 2005;
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2005.

Management Discussion and Analysis

Financial Review

The board of Directors (the "Board") of Capinfo Company Limited (the "Company") announces that, for the nine months ended 30th September, 2005, the Company and its subsidiaries (collectively the "Group") recorded an unaudited turnover of approximately RMB155.1 million, representing a slight decrease of approximately 1.8% over the same period of last year, and a gross profit margin of 34%, as compared with 30% for the same period of last year. The Group has attained an unaudited net profit of approximately RMB4.7 million for the period under review as against net loss of approximately RMB10.2 million in the same period of last year.

During the period under review, turnover recognized from projects which had relatively low profit margin was reduced. As a result, the turnover decreased slightly and the gross profit margin increased.

During the period under review, the Group devoted more resources to research and development and, in turn, increased the research and development expenses. On the other hand, the Group exercised more stringent cost control, and which resulted in decrease in selling and administration 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.

The Group's current ratio, defined as total current assets over total current liabilities, slightly decreased from 4.7 to 4.6 while the gearing ratio, defined as total borrowing over net assets, stayed at a relatively low level of less than 2%. Both ratios reflected the sufficiency in financial resources of the Group.

As at 30th September, 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. 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 has been made.

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

1. *Steady development of the Group's business*

In the period under review, the Group continued to provide quality network support to the Beijing e-Government application system. The first five-year service contract of the Beijing Medical Insurance Information System, a system constructed, operated and maintained by the Group, has expired in August 2005, and review of the project is currently being carried out. Application systems such as the Beijing Community Services Information Network System and the Call Center were in stable operation, rendering high standard IT application services to the users. In the period under review, a number of subsidiary systems of the Beijing Medical Insurance Information System were developed and they were in stable operation on-line. The Beijing Community Services Information Network System successfully completed maintenance of its community network operation. An average usable capacity above 99.85% was guaranteed for the network system. In the period under review, the Group's call center business grew rapidly with the number of received calls increased significantly over the corresponding period of the previous year. The on-line payment business developed swiftly seeing a considerable increase in the number of merchants joining Beijing e-Commerce City. New progress was achieved by the Group in making innovation and improvement in payment method. Subsequent to phone payment, the Group launched the terminal self-service payment method, providing the Internet users and clients with a wider choice of method of payment.

2. *Investment*

At the end of August 2005, the Group and Beijing State-owned Assets Management Corporation Limited and 上海市電子商務安全證書管理中心有限公司 (Shanghai e-Commerce Security Certificate Management Center Company Limited) jointly made additional capital contribution to 北京數字證書認證中心有限公司 (Beijing Certificate of Authority Center Company Limited) in the sum of RMB10 million, of which RMB4.974 million was contributed by the Group. After the increase in capital, the Group is interested in RMB14.314 million (47.71%) in the registered capital of Beijing Certificate of Authority Center Company Limited.

3. *Future prospects*

The Group will continue to expand and make innovations, develop and promote software systems with proprietary intellectual property right as well as endeavor to provide quality IT services to the government in informationalization infrastructure by capitalizing on the opportunities arising from informationalization in Beijing.

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 quarterly interim report set out on pages 7 to 19.

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 quarterly interim 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 quarterly interim 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 quarterly interim 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 quarterly interim 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 quarterly interim report for the nine months ended 30th September, 2005.

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

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

11 November, 2005

Condensed Consolidated Income Statement

FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2005

	NOTES	(Unaudited)		(Unaudited)	
		Three months ended		Nine months ended	
		30.9.2005	30.9.2004	30.9.2005	30.9.2004
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	4	53,887	54,343	155,119	157,970
Cost of sales		(33,927)	(38,710)	(103,003)	(110,839)
Gross profit		19,960	15,633	52,116	47,131
Other operating income		4,582	4,087	9,591	8,035
Research and development costs		(6,232)	(5,222)	(14,934)	(10,772)
Marketing and promotional expenses		(2,799)	(4,416)	(6,274)	(13,481)
Administrative expenses		(10,701)	(10,186)	(29,462)	(33,067)
Amortisation of goodwill		-	(52)	-	(156)
Interest on other loan wholly repayable within five years		(63)	(331)	(191)	(481)
Share of losses of associates		(2,029)	(2,028)	(5,633)	(4,380)
Share of losses of a jointly controlled entity		(237)	(365)	(642)	(1,149)
Gain on dilution of interest in an associate		254	-	254	-
Gain on disposal of a subsidiary		-	-	-	250
Profit (loss) before taxation	5	2,735	(2,880)	4,825	(8,070)
Taxation	6	(492)	(1,512)	(1,001)	(2,568)
Profit (loss) for the period		2,243	(4,392)	3,824	(10,638)
Attributable to:					
Equity holders of the parent		2,830	(4,223)	4,707	(10,219)
Minority interests		(587)	(169)	(883)	(419)
		2,243	(4,392)	3,824	(10,638)
Earnings (loss) per share					
- Basic	8	0.10 cents	(0.15 cents)	0.16 cents	(0.35 cents)

Condensed Consolidated Balance Sheet

AT 30TH SEPTEMBER, 2005

	NOTES	30.9.2005 RMB'000 (Unaudited)	31.12.2004 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	147,189	165,029
Goodwill	10	3,488	–
Interests in associates		22,251	26,370
Interests in a jointly controlled entity		1,315	1,957
Available-for-sale investments		16,350	16,350
Deposits made on acquisition of property, plant and equipment		2,614	658
		193,207	210,364
Current assets			
Inventories		21,623	19,766
Amounts due from customers for contract work		35,241	17,973
Trade and other receivables		147,313	104,773
Amounts due from associates		1,182	4,670
Bank balances and cash		257,890	285,703
		463,249	432,885
Current liabilities			
Trade and other payables		77,597	61,275
Customers' deposits for contract work		15,331	22,012
Taxation payable		1,375	4,931
Current portion of other loan		7,000	4,000
		101,303	92,218
Net current assets		361,946	340,667
Total assets less current liabilities		555,153	551,031
Capital and reserves			
Share capital	11	289,809	289,809
Reserves		258,647	253,940
Equity attributable to equity holders of the parent		548,456	543,749
Minority interests		3,697	1,282
Total equity		552,153	545,031
Non-current liabilities			
Other loan		3,000	6,000
		555,153	551,031

Condensed Consolidated Statement of Changes in Equity

FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2005

	Attributable to equity holders of the parent							Total equity
	Share capital	Share premium	Statutory surplus reserve	Statutory welfare fund	Accumulated profits (losses)	Minority interests	Total	
	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)
Loss for the period	-	-	-	-	(10,219)	(10,219)	(419)	(10,638)
At 30th September, 2004	289,809	254,079	550	275	(9,377)	535,336	1,461	536,797
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
Profit (loss) for the period	-	-	-	-	4,707	4,707	(883)	3,824
At 30th September, 2005	289,809	254,079	1,378	689	2,501	548,456	3,697	552,153

Condensed Consolidated Cash Flow Statement

FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2005

	(Unaudited)	
	Nine months ended	
	30.9.2005	30.9.2004
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash from (used in) operating activities	6,030	(18,590)
Net cash used in investing activities:		
Cash paid for purchase of property, plant and equipment	(36,152)	(12,656)
Capital contribution to an associate	(4,974)	(7,340)
Acquisition of a subsidiary	4,413	–
Disposal of a subsidiary	–	(2,693)
Other investing cash flows	2,261	–
	(34,452)	(22,689)
Net cash from (used in) financing activities:		
Capital contribution from minority shareholders of a subsidiary	800	–
Other financing activities	(191)	(481)
	609	(481)
Decrease in cash and cash equivalents	(27,813)	(41,760)
Cash and cash equivalents at 1st January	285,703	259,572
Cash and cash equivalents at 30th September, being bank balances and cash	257,890	217,812

Notes to the Condensed Financial Statements

FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 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 ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations 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 and revised standards and interpretations 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. The impact of these changes in accounting policies is discussed in details later in this note.

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 RMB78,000 for the nine months ended 30th September, 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 at 1st January, 2005 and no share options have been granted since then.

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 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. There are no material impacts from the implementation of HKAS 32, and the principal effects resulting from the implementation of 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.

At the date of authorisation of these financial statements, the following HKFRS, HKAS and Interpretations were in issue but not yet effective:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS (IFRIC) 4	Determining whether an Arrangement contains a Lease
HKFRS (IFRIC) 5	Right to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HKFRS (IFRIC) 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The directors anticipate that the adoption of these HKFRS, HKAS and Interpretations in future periods will have no material impact on the financial statements of the Group.

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		Nine months ended	
	30.9.2005	30.9.2004	30.9.2005	30.9.2004
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
e-Government technology services	45,314	52,433	128,028	147,771
e-Commerce technology services	8,573	1,910	27,091	10,199
	53,887	54,343	155,119	157,970
Results				
e-Government technology services	11,600	7,909	34,538	28,610
e-Commerce technology services	(3,995)	(7,793)	(9,327)	(21,520)
	7,605	116	25,211	7,090
Other operating income	4,582	4,087	9,591	8,035
Central administrative expenses	(7,377)	(4,307)	(23,765)	(17,279)
Amortisation of goodwill	-	(52)	-	(156)
Interest on other loan wholly repayable within five years	(63)	(331)	(191)	(481)
Share of losses of associates engaged in other businesses	(2,029)	(2,028)	(5,633)	(4,380)
Share of losses of a jointly controlled entity engaged in other business	(237)	(365)	(642)	(1,149)
Gain on dilution of interest in an associate	254	-	254	-
Gain on disposal of a subsidiary	-	-	-	250
	2,735	(2,880)	4,825	(8,070)
Taxation	(492)	(1,512)	(1,001)	(2,568)
	2,243	(4,392)	3,824	(10,638)

5. PROFIT (LOSS) BEFORE TAXATION

	Three months ended		Nine months ended	
	30.9.2005	30.9.2004	30.9.2005	30.9.2004
	RMB'000	RMB'000	RMB'000	RMB'000
Profit (loss) before taxation has been arrived at after charging (crediting):				
Depreciation	16,323	17,953	52,977	55,402
Less: Depreciation included in research and development costs	(157)	(152)	(550)	(532)
Depreciation capitalised in contract work	(5,472)	(8,590)	(16,092)	(19,391)
	10,694	9,211	36,335	35,479
Cost of goods sold	213	431	2,161	1,429
Government grants	(2,657)	(3,630)	(5,878)	(6,980)
Dividend income from available-for-sale investments	(375)	-	(375)	-
Interest income	(34)	(298)	(1,188)	(858)
Income from investment funds	(1,268)	-	(1,268)	-

6. TAXATION

	Three months ended		Nine months ended	
	30.9.2005	30.9.2004	30.9.2005	30.9.2004
	RMB'000	RMB'000	RMB'000	RMB'000
The (credit) charge comprises:				
PRC income tax				
Current	492	1,512	2,595	2,568
Overprovision in previous year	-	-	(1,594)	-
	492	1,512	1,001	2,568

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 nine months ended 30th September, 2005.

In addition, 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, an overprovision of income tax of approximately RMB1,594,000 for the year ended 31st December, 2004 is recognised in the current period.

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		Nine months ended	
	30.9.2005	30.9.2004	30.9.2005	30.9.2004
Profit (loss) for the period attributable to equity holders of the parent	RMB2,830,000	RMB(4,223,000)	RMB4,707,000	RMB(10,219,000)
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 RMB34,196,000 (2004: RMB13,182,000) on acquisition of property, plant and equipment.

10. GOODWILL

	30.9.2005
	RMB'000
At 1st January, 2005	-
Arising on acquisition of a subsidiary	1,522
Transfer from interests in associates	1,966
	3,488
At 30th September, 2005	3,488

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 13).

11. 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 September, 2005	2,123,588,091	774,498,000	289,809

12. CAPITAL COMMITMENT

	30.9.2005	31.12.2004
	<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	75,900	68,611
– investment	56,000	56,000
	131,900	124,611

In addition to the capital expenditure disclosed above, the Company also entered into agreements with a supplier on 23rd September, 2005 (the "Agreement"). Details of the Agreement are as below:

- (a) The Company agreed to acquire 23% equity interest in that supplier from two of its investors (Party A and Party B) at a consideration of approximately RMB7,450,000, of which RMB2,000,000 will be satisfied in cash while the remaining balance will be satisfied by waive of trade deposits of RMB5,450,000 previously paid by the Company to that supplier in 2000 and 2001.
- (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 a party as agreed by the Company, Party A and Party B collectively. Pursuant to the Agreement, the entrust loan will be repayable in two years after the entrust loan agreement being signed.

The entrust loan agreement has not yet been signed between the parties and transfer of the 23% equity interest has not yet been completed as at the balance sheet date.

13. ACQUISITION OF A SUBSIDIARY

On 14th March, 2005 and 18th March, 2005, 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.

The carrying amount and the fair value of net assets acquired in the transaction, and the goodwill arising, are as follows:

	<i>RMB'000</i>
<hr/>	
Net assets acquired:	
Property, plant and equipment	941
Amounts due from customers for contract works	10,670
Trade and receivables	1,608
Bank balances and cash	7,262
Trade and other payable	(14,908)
	<hr/>
	5,573
Minority interests	(2,498)
Goodwill	1,522
	<hr/>
	4,597
	<hr/> <hr/>
	<i>RMB'000</i>
Total consideration, satisfied by:	
Cash	2,849
Interest in an associate	1,748
	<hr/>
	4,597
	<hr/> <hr/>
Net cash inflow arising on acquisition:	
Cash consideration paid	(2,849)
Cash and cash equivalents acquired	7,262
	<hr/>
	4,413
	<hr/> <hr/>

The directors are in the opinion that the carrying amount of the net assets acquired approximates their fair value.

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 RMB1,108,000 and loss of RMB690,000 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 RMB155,711,000, and profit for the period would have been approximately RMB3,517,000. 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.

14. 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		Nine months ended	
		30.9.2005 RMB'000	30.9.2004 RMB'000	30.9.2005 RMB'000	30.9.2004 RMB'000
CNC Beijing Communication Corporation	Dedicated circuit leasing services paid	1,353	2,793	5,320	6,556
	Telephone related services paid	132	85	281	267
Capnet Company Limited	Comprehensive services income received	2,051	12	5,526	1,629
Beijing IC Design Park Co., Ltd.	Property rentals paid	1,039	996	3,087	2,986

Amount due from a fellow subsidiary as at 30th September, 2005 was approximately RMB49,000 (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.

15. CONTINGENT LIABILITIES

As at 30th September, 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 (inclusive of the remaining consideration of RMB6,300,000). An appeal was lodged by the Company on 23rd December, 2004. 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 nine months ended 30th September, 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 September, 2005, none of the Directors, 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 Securities and Futures Ordinance (the "SFO"), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or 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 Rules 5.46 to 5.67 of the 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 September, 2005			Percentage to 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 Wai, Francis	1,241,550	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 of the Company ("Pre-IPO Share Option Plan") were granted on 6th December, 2001 at RMB1 per grant with exercise price at HK\$0.48 per H Share to recognise the past and present contribution of the grantees to the Group. The share options granted to the Directors of the Company 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 plan of the Company ("Share Option Scheme") were granted on 17th August, 2004 at RMB1 per grant with exercise price at HK\$0.41 per H Share to recognise the past and present contribution of the grantees to the Group. The share options granted to the Directors of the Company 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.

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 (other than a Director or chief executive of the Company) 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 SFO, or were directly or indirectly 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 September, 2005:

Name	Equity interests held in members of the Group (except for the Company)	Nature of interests	Approximate percentage
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, 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

Pursuant to the Pre-IPO Share Option Plan adopted by the Company at the extraordinary general meeting held on 6th December, 2001, the Company has granted options to subscribe a total of 70,474,920 H Shares in the Company with a payment of RMB1 upon each grant of options and with an exercise price of HK\$0.48 per H Share to recognise the past and present contributions of the grantee to the Group. Such options granted are exercisable within a period of ten years from the date of grant and apportioned in accordance with the following schedule and subject to certain restrictions as imposed by the relevant PRC laws and regulations. A summary of these share options granted is as follows:

	At 1st January, 2005	Lapsed during the period	At 30th September, 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	(2,295,705)	20,745,045
	48,752,150	(2,295,705)	46,456,445

(b) Share Option Scheme

Pursuant to the Share Option Scheme approved by a resolution of the shareholders of the Company dated 6th December, 2001, the Company may grant options to the directors or employees of the Company or its subsidiaries, in recognition of their contributions to the Group, to subscribe for H Shares in the Company with a 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 of Hong Kong Limited (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 during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme, the relevant PRC laws and regulations and any conditions of grant as may be stipulated by the board of directors.

The maximum number of shares in respect of which options may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the number of H Shares of the Company in issue from time to time. The total number of H shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the number of H Shares of the Company in issue as at the date of approval of the Scheme unless further shareholders' approval has been obtained pursuant to the conditions set out in the 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.

No option has been granted by the Company under the Share Option Scheme during the period under review. A summary of the share options granted under the Share Option Scheme is as follows:

	At 1st January, 2005	Lapsed during the period	At 30th September, 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	(2,948,000)	20,874,000
	64,914,000	(2,948,000)	61,966,000

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 nine months ended 30th September, 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 nine months ended 30th September, 2005.

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

Beijing, The People's Republic of China, 11th November, 2005

* *For identification purposes only*