



CAPINFO

Capinfo Company Limited

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 8157)

First Quarterly Report 2006

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Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which these companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers.

Accordingly, prospective investors should note that they need to have access to the GEM website at “www.hkgem.com” in order to obtain up-to-date information on GEM-listed issuers.

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

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

HIGHLIGHTS

- Recorded a turnover of approximately RMB25 million for the three months ended 31st March, 2006, representing a decrease of approximately 43% over the same period of the previous year;
- Attained an unaudited profit attributable to the equity holders of the parent of approximately RMB1.3 million for the three months ended 31st March, 2006 as against loss attributable to the equity holders of the parent of approximately RMB1.3 million for the same period of last year;
- The Directors do not recommend the payment of an interim dividend for the three months ended 31st March, 2006.

Management Discussion and Analysis

Financial Review

The board of Directors (the "Board") of Capinfo Company Limited (the "Company") announces that, for the three months ended 31st March, 2006, the Company and its subsidiaries (collectively the "Group") recorded an unaudited turnover of approximately RMB25 million, representing a decrease of approximately 43% over the same period of last year, and a gross profit margin of 14%, as compared with 32% for the same period of last year. The Group has attained an unaudited profit attributable to equity holders of the parent of approximately RMB1.3 million for the period under review as against loss attributable to equity holders of the parent of approximately RMB1.3 million for the same period of last year.

The decrease in turnover for the period under review was mainly attributable to the completion of a major contract in relation to e-Government business in 2005 and the negotiation of the renewal of the contract was in progress as at 31st March, 2006. The decrease in gross profit margin was attributable to the decrease in the percentage of projects with relatively higher gross profit margin carried out in the period under review.

During the period under review, there was a gain on disposal of the online payment business of approximately RMB18 million which compensated the impact from the decrease in both the turnover and gross profit margin during the period and an unaudited profit attributable to equity holders of the parent of approximately RMB1.3 million was attained.

The Group's current ratio, defined as total current assets over total current liabilities, increased from 4.0 to 4.3 while the gearing ratio, defined as total borrowing over total equity, stayed at a relatively low level of less than 2%. Both ratios reflected the sufficiency in financial resources of the Group.

As at 31st March, 2006, the Group had unsecured borrowings of RMB10 million and out of which, RMB7 million will mature within 1 year and RMB3 million will mature within 2–5 years from 31st March, 2006. Cash and bank deposits of the Group were RMB361 million as at 31st March, 2006 which mainly came from shareholders' contribution and working capital generated from operations.

As at 31st March, 2006, the Group had no assets pledged and had no significant contingent liabilities.

As at 31st March, 2006, the Group had capital commitment of approximately RMB155 million.

In 2004, a claim of RMB28,000,000 was raised by 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). The directors are of the opinion that the contractor failed to perform its obligations under the contract and an appeal was lodged by the Company on 23rd December, 2004. Provision for the claim has been made at the directors' best estimate based on evidence available up to the report date.

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. Stable Development of Foundation Business

During the period, the Group continued to implement the existing development strategies. While ensuring stable operation of its e-Government Private Network, community service network system and medical insurance information system, the Group has actively explored new business areas.

During the period, the Group has undertaken the project of "Development and Integration of Online Government Purchasing Platform Software of Beijing City (北京市網上政府採購平台軟件開發服務與集成服務項目)". This online government purchasing platform of Beijing City when completed, will further standardize government purchasing procedures of Beijing City, simplify purchasing process, enhance purchasing efficiency, reduce purchasing cost and strengthen supervision and management to purchasing process. During the period, the Crisis Commanding System undertaken by the Group was selected as one of the projects named in the "e-Government Application Model of Beijing City (北京市電子政務應用典型案例選編)".

2. *Research and Development*

During the period, we have completed analyzing demand for the project of Key Technologies and Core Platforms for the Olympics Integrated Information Service (奧運綜合信息服務關鍵技術及核心平台). Basically the design work of the project has been completed and the project has entered the phrase of programming. The Group has taken further steps in developing the "City Guide-Beijing" business marketing project. This project, which comprised of terminals leasing, a multi-languages call center, a website and wireless service, is expected to realize sales revenue. The products and technical support system of Cityguide – Beijing were subject to improvement according to our business need in order to support our business development, which would include a website system, a database system for the call center, an information resources database system and terminal softwares.

3. *Future Prospects*

Leveraged on its strengths in branding, the Group has made more efforts on exploring the market. The Group has been introducing more innovative services and exploring new business areas actively. All these efforts have consolidated our existing strengths and helped us to find new business opportunities in a view to stimulate our continuous growth.



INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF CAPINFO COMPANY LIMITED

Introduction

We have been instructed by the Company to review the quarterly financial report set out on pages 6 to 15.

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. The quarterly 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 quarterly 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 "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 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 quarterly 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 quarterly financial report for the three months ended 31st March, 2006.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

13th May, 2006

Interim Results

The Board of Directors (the "Board") of the Company hereby announces that the unaudited consolidated results of the Group for the three months ended 31st March, 2006, together with the comparative figures for the corresponding period of 2005, as follows:

Condensed Consolidated Income Statement

For the three months ended 31st March, 2006

| | NOTES | (Unaudited) | |
|---|-------|--------------------|--------------|
| | | Three months ended | |
| | | 31.3.2006 | 31.3.2005 |
| | | RMB'000 | RMB'000 |
| Turnover | 4 | 25,312 | 44,671 |
| Cost of sales | | (21,835) | (30,313) |
| Gross profit | | 3,477 | 14,358 |
| Gain on disposal of a business | 5 | 18,278 | – |
| Other income | | 2,455 | 3,460 |
| Research and development costs | | (4,947) | (5,265) |
| Marketing and promotional expenses | | (2,915) | (1,680) |
| Administrative expenses | | (9,570) | (8,381) |
| Interest on other loan wholly repayable within five years | | (43) | (64) |
| Share of losses of associates | | (3,388) | (2,696) |
| Share of loss of a jointly controlled entity | | (208) | (189) |
| Profit (loss) before taxation | 6 | 3,139 | (457) |
| Taxation | 7 | (2,224) | (977) |
| Profit (loss) for the period | | 915 | (1,434) |
| Attributable to: | | | |
| Equity holders of the parent | | 1,305 | (1,259) |
| Minority interests | | (390) | (175) |
| | | 915 | (1,434) |
| Earnings (loss) per share – Basic | 9 | 0.05 cents | (0.04 cents) |

Condensed Consolidated Balance Sheet

At 31st March, 2006

| | NOTES | 31.3.2006 RMB'000 (Unaudited) | 31.12.2005 RMB'000 (Audited) |
|--|-------|-------------------------------------|------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 133,648 | 141,446 |
| Interests in associates | | 29,544 | 32,932 |
| Interest in a jointly controlled entity | | 943 | 1,151 |
| Available-for-sale investments | | 1,850 | 1,350 |
| Deposits paid on acquisition of property, plant and equipment | | 12,787 | 10,340 |
| | | 178,772 | 187,219 |
| Current assets | | | |
| Inventories | | 15,142 | 17,005 |
| Amounts due from customers for contract work | | 48,541 | 27,579 |
| Trade and other receivables | | 65,431 | 46,713 |
| Amounts due from associates and a jointly controlled entity | 13 | 982 | 1,182 |
| Bank balances and cash | | 360,633 | 396,562 |
| | | 490,729 | 489,041 |
| Property, plant and equipment held for sale | | – | 1,265 |
| | | 490,729 | 490,306 |
| Current liabilities | | | |
| Trade and other payables | | 88,303 | 96,922 |
| Customers' deposits for contract work | | 11,563 | 13,247 |
| Taxation payable | | 5,961 | 4,597 |
| Current portion of other loan | | 7,000 | 7,000 |
| | | 112,827 | 121,766 |
| Net current assets | | 377,902 | 368,540 |
| Total assets less current liabilities | | 556,674 | 555,759 |
| Capital and reserves | | | |
| Share capital | 11 | 289,809 | 289,809 |
| Reserves | | 259,577 | 258,272 |
| Equity attributable to equity holders of the parent | | 549,386 | 548,081 |
| Minority interests | | 4,288 | 4,678 |
| Total equity | | 553,674 | 552,759 |
| Non-current liabilities | | | |
| Other loan | | 3,000 | 3,000 |
| | | 556,674 | 555,759 |

The quarterly financial report on pages 6 to 15 was approved and authorised for issue by the Board of Directors on 13th May, 2006 and is signed on its behalf by:

DR. CHEN XINXIANG
CHAIRMAN

MS. ZHANG YAN
VICE CHIEF EXECUTIVE

Condensed Consolidated Statement of Changes in Equity

For the three months ended 31st March, 2006

| | Attributable to equity holders of the parent | | | | | | | Total equity |
|--|--|------------------------|---------------------------|------------------------|-----------------------------|------------------------|------------------------|------------------------|
| | Share capital | Share premium | Statutory surplus reserve | Statutory welfare fund | Accumulated (losses) profit | Total | Minority 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, 2005 | 289,809 | 254,079 | 1,378 | 689 | (2,206) | 543,749 | 1,282 | 545,031 |
| Capital contribution by minority shareholder of a subsidiary | - | - | - | - | - | - | 800 | 800 |
| Loss for the period (total recognised expense for the period) | - | - | - | - | (1,259) | (1,259) | (175) | (1,434) |
| At 31st March, 2005 | 289,809 | 254,079 | 1,378 | 689 | (3,465) | 542,490 | 1,907 | 544,397 |
| At 1st January, 2006 | 289,809 | 254,079 | 1,625 | 812 | 1,756 | 548,081 | 4,678 | 552,759 |
| Profit (loss) for the period (total recognised income for the period) | - | - | - | - | 1,305 | 1,305 | (390) | 915 |
| At 31st March, 2006 | 289,809 | 254,079 | 1,625 | 812 | 3,061 | 549,386 | 4,288 | 553,674 |

Condensed Consolidated Cash Flow Statement

For the three months ended 31st March, 2006

| | (Unaudited) | |
|--|--------------------|----------------|
| | Three months ended | |
| | 31.3.2006 | 31.3.2005 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Net cash used in operating activities | (50,803) | (31,374) |
| Net cash from (used in) investing activities | | |
| Cash paid for purchase of property, plant and equipment | (6,033) | (18,416) |
| Proceeds from disposal of a business | 20,110 | - |
| (Decrease) increase in bank deposits for investing purpose | (236) | 53,000 |
| Other investing cash flows | 840 | 225 |
| | 14,681 | 34,809 |
| Net cash (used in) from financing activities | (43) | 736 |
| (Decrease) increase in cash and cash equivalents | (36,165) | 4,171 |
| Cash and cash equivalents at beginning of the period | 333,007 | 232,703 |
| Cash and cash equivalents at end of the period | 296,842 | 236,874 |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | 360,633 | 236,874 |
| Less: Bank deposits for investing purpose | (63,791) | - |
| | 296,842 | 236,874 |

Notes to the Quarterly Financial Report

For the three months ended 31st March, 2006

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 and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the installation of network systems, network design, consultancy and related technical services, and sales of computers, related accessories and equipment.

The Company's ultimate holding company is Beijing State-Owned Assets Management Corporation Limited ("BSAM"), 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 ("HKICPA").

3. ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values as explained in the accounting policies set out in the Group's annual financial statements for the year ended 31st December, 2005.

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, 2005. In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods are prepared and presented. Accordingly, no prior year adjustment has been required.

3. ACCOUNTING POLICIES (CONTINUED)

At the date of authorisation of these financial statements, the following HKFRSs, HKASs and Interpretations were issued by the HKICPA but not yet effective:

| | |
|--------------------|---|
| HKAS 1 (Amendment) | Capital Disclosures ¹ |
| HKFRS 7 | Financial Instruments: Disclosures ¹ |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i> ² |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 ³ |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivative ⁴ |

¹ Effective for annual periods beginning on or after 1st January, 2007

² Effective for annual periods beginning on or after 1st March, 2006

³ Effective for annual periods beginning on or after 1st May, 2006

⁴ Effective for annual periods beginning on or after 1st June, 2006

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 31.3.2006 | | Three months ended 31.3.2005 | |
|---|---------------------------------|--------------------|---------------------------------|--------------------|
| | Turnover RMB'000 | Results RMB'000 | Turnover RMB'000 | Results RMB'000 |
| e-Government technology services | 23,425 | (453) | 40,115 | 8,531 |
| e-Commerce technology services | 1,887 | (7,415) | 4,556 | (3,017) |
| | 25,312 | (7,868) | 44,671 | 5,514 |
| Gain on disposal of a business | | 18,278 | | - |
| Other income | | 2,455 | | 3,460 |
| Unallocated administrative expenses | | (6,087) | | (6,482) |
| Interest on other loan wholly repayable within five years | | (43) | | (64) |
| Share of losses of associates engaged in other businesses | | (3,388) | | (2,696) |
| Share of loss of a jointly controlled entity engaged in other businesses | | (208) | | (189) |
| Profit (loss) before taxation | | 3,139 | | (457) |
| Taxation | | (2,224) | | (977) |
| Profit (loss) for the period | | 915 | | (1,434) |

5. GAIN ON DISPOSAL OF A BUSINESS

On 30th December, 2005, the Company entered into an asset transfer agreement with third parties pursuant to which the Company agreed to sell its business and all assets in relation to the Group's provision of online payment services to the third parties for cash consideration of US\$2,500,000. The relevant computer equipment, network equipment, office equipment, furniture and fixtures in relation to the Group's division of online payment services of RMB1,265,000 was carried as property, plant and equipment held for sale as at 31st December, 2005. The transfer of business was completed on 18th January, 2006 and a gain of RMB18,278,000 was recognised by the Group for the current period.

6. PROFIT (LOSS) BEFORE TAXATION

| | Three months ended | |
|--|---------------------------|-----------|
| | 31.3.2006 | 31.3.2005 |
| | RMB'000 | RMB'000 |
| Profit (loss) before taxation has been arrived at after charging (crediting): | | |
| Depreciation | 11,384 | 17,874 |
| Less: Depreciation included in research and development costs | (287) | (202) |
| Depreciation capitalised in contract work | (734) | (5,370) |
| | 10,363 | 12,302 |
| Cost of goods sold | 443 | 1,847 |
| Write down of inventories | 1,475 | 269 |
| Allowance for doubtful debts | 1,949 | 281 |
| Government grants | (1,218) | (2,519) |
| Interest income from bank deposits | (571) | (446) |
| Realised gain on investments held for trading | (569) | - |

7. TAXATION

| | Three months ended | |
|------------------------|---------------------------|-----------|
| | 31.3.2006 | 31.3.2005 |
| | RMB'000 | RMB'000 |
| The charge comprises: | | |
| Current PRC income tax | 2,224 | 977 |

7. TAXATION (CONTINUED)

The Company is recognised as a new-technology enterprise according to PRC tax regulations and subject to the income tax calculated at 15% (2005: 15%) of the estimated assessable profit for the three months ended 31st March, 2006.

At 31st March, 2006, the subsidiaries have unused tax losses of approximately RMB16,000,000 (31.12.2005: RMB16,000,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses will expire before 2010.

8. DIVIDENDS

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

9. EARNINGS (LOSS) PER SHARE

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

| | Three months ended | |
|---|---------------------------|---------------|
| | 31.3.2006 | 31.3.2005 |
| | RMB'000 | RMB'000 |
| Profit (loss) for the period attributable to equity holders of the parent | 1,305 | (1,259) |
| Number of ordinary shares for the purposes of basic earnings (loss) per share | 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 share options was higher than the average market price of the Company's shares for both periods.

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group purchased property, plant and equipment of RMB3,586,000 (2005: RMB18,416,000).

11. SHARE CAPITAL

| | Number of shares | | Registered, issued and fully paid |
|---|-------------------------|-----------------|--|
| | Domestic shares | H shares | |
| | | | RMB'000 |
| Ordinary shares of RMB0.10 each | | | |
| At 1st January, 2006 and 31st March, 2006 | 2,123,588,091 | 774,498,000 | 289,809 |

12. CAPITAL COMMITMENT

| | 31.3.2006 | 31.12.2005 |
|--|------------------|------------|
| | RMB'000 | RMB'000 |
| Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of | | |
| – property, plant and equipment | 68,403 | 70,013 |
| – investments | 56,800 | 57,300 |
| – formation of a new joint venture | 30,000 | 30,000 |
| | 155,203 | 157,313 |

13. RELATED PARTY DISCLOSURES

(i) Transactions and balances with holding company and fellow subsidiaries

| Name of related party | Nature of transactions | Three months ended | |
|---------------------------------------|--|----------------------------|-------------|
| | | 31.3.2006 | 31.3.2005 |
| | | RMB'000 | RMB'000 |
| CNC Beijing Communication Corporation | Dedicated circuit leasing services paid Telephone related services paid | 3,238 357 | 2,013 95 |
| Capnet Company Limited | Comprehensive services income received | 608 | 1,444 |
| Beijing IC Design Park Co., Ltd. | Property rentals paid | 2,491 | 995 |

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.

Amounts due from fellow subsidiaries as at 31st March, 2006 were approximately RMB2,307,000 (31.12.2005: RMB1,370,000). The amounts are included in trade and other receivables and are unsecured, non-interest bearing and are repayable on demand.

Amount due to a fellow subsidiary as at 31st March, 2006 was approximately RMB667,000 (31.12.2005: RMB526,000). The amount is included in trade and other payables and is unsecured, non-interest bearing and is repayable on demand.

13. RELATED PARTY DISCLOSURES (CONTINUED)

(ii) Transactions with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under BSAM which is controlled by the PRC government. Apart from the transactions with BSAM and fellow subsidiaries and other related parties disclosed above, the Group also provided e-Government technology services of approximately RMB23,425,000 (2005: RMB40,115,000) to other state-controlled entities and the PRC government for the current period. The directors consider they are independent third parties so far as the Group's business transactions with them are concerned.

In addition, the Group has entered into various transactions, including utilities services and surcharges/taxes charged by the PRC government, and deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities, in its ordinary course of business. In view of the nature of those transactions, the directors are of the opinion that separate disclosure would not be meaningful.

(iii) Amounts due from associates and a jointly controlled entity

The amounts due from associates and a jointly controlled entity are unsecured, non-interest bearing and are repayable on demand.

(iv) Compensation of key management personnel

The short term benefits paid or payable by the Group to directors of the Company and other members of key management during the three months ended 31st March, 2006 was approximately RMB716,000 (2005: RMB685,000).

14. LITIGATION

In 2004, a claim of RMB28,000,000 was raised by 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). The directors are of the opinion that the contractor failed to perform its obligations under the contract and an appeal was lodged by the Company on 23rd December, 2004. Provision for the claim has been made at the directors' best estimate based on evidence available up to the report date. The information required by HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

Dividend

The Board does not recommend the payment of an interim dividend for the three months ended 31st March, 2006 (2005: 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 31st March, 2006, 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 or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) (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 of the GEM Listing Rules.

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

| Name | Number of H Shares subject to options outstanding at 31st March, 2006 | | | Percentage of total 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 | 1,244,650 | 1,466,000 | 2,710,650 | 0.35% |
| Mr. Wong Ying Ho, Kennedy | 1,241,550 | 1,466,000 | 2,707,550 | 0.35% |
| Mr. Ng Kin Fai, Francis | 1,241,550 | 1,466,000 | 2,707,550 | 0.35% |
| | 10,149,400 | 12,962,000 | 23,111,400 | 2.98% |

All of the above-mentioned share options (the "Pre-IPO Options") granted under the pre-IPO share option plan of the Company (the "Pre-IPO Share Option Plan") were granted on 6th December, 2001 at RMB1 per grant with an exercise price of HK\$0.48 per H Share. All these share options 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 ("Share Options") granted under the share option scheme of the Company ("Share Option Scheme") were granted on 17th August, 2004 at RMB1 per grant with an exercise price of HK\$0.41 per H Share. These share options 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 (other than Directors or chief executive of the Company)

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) as recorded in the register required to be kept under section 336 of the SFO as at 31st March, 2006:

| Name of shareholder | Number of shares | Nature of interests | Percentage of total 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 were interested in 10% or more of the equity interests of any other members of the Group as at 31st March, 2006:

| Name | Equity interests held in members of the Group (other than the Company) | Nature of interests | Approximate percentage |
|---|---|----------------------------|-------------------------------|
| Business Incubator of Chongqing Hi-tech Industrial Development Zone | Chongqing Hongxin Software Company Limited | Beneficial owner | 10% |
| Dongguan City Shilongzhen Industrial Company (東莞市石龍鎮工業總公司) | Dongguan City Longxin Information Development Company Limited (東莞市龍信信息發展有限公司) | Beneficial owner | 40% |

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.

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 three months ended 31st March, 2006.

Audit Committee

An audit committee was established with written terms of reference in compliance with the requirements of the GEM Listing Rules. The audit committee comprises three independent non-executive directors, namely Mr. Wong Ying Ho, Kennedy, Mr. Ng Kin Fai, Francis and Mr. Liu Dongdong. Mr. Wong Ying Ho, Kennedy is the Chairman of the audit committee. During the period, 1 audit committee meeting was held. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The Group's unaudited results for the three months ended 31st March 2006 have been reviewed by the audit committee, which was of the view that the preparation of the financial statements were in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements.

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

Beijing, The People's Republic of China, 13th May, 2006

As of the date hereof, the executive directors of the Company are Dr. Chen Xinxiang, Dr. Wang Xu, Ms. Zhang Yan, Dr. Wu Bo; the non-executive directors of the Company are Mr. Li Minji, Mr. Xing Dehai, Mr. Xu Zhe, Mr. Bai Liming, Mr. Qi Qigong, Mr. Pan Jiaren, Mr. Ye Yongdong, Ms. Tan Guoan, Mr. Xia Peng; and the independent non-executive directors of the Company are Mr. Wong Ying Ho, Kennedy, Mr. Ng Kin Fai, Francis and Mr. Liu Dongdong.

** For identification purposes only*