



CAPINFO

Capinfo Company Limited

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

Interim Report 2006



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

- Recorded a turnover of approximately RMB79 million for the six months ended 30th June, 2006, representing an approximately 22% decrease over the same period of the previous year;
- Attained an unaudited profit attributable to the equity holders of the parent of approximately RMB3.5 million for the six months ended 30th June, 2006;
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The board of Directors (the "Board") of Capinfo Company Limited (the "Company") announces that, for the six months ended 30th June, 2006, the Company and its subsidiaries (collectively the "Group") recorded an unaudited turnover of approximately RMB79 million, representing a decrease of approximately 22% over the same period of last year, and a gross profit margin of 29%, 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 RMB3.5 million for the period under review while the profit attributable to equity holders of the parent was approximately RMB1.9 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 still in progress as at 30th June, 2006. The decrease in gross profit margin was attributable to the decrease in the percentage of projects in relation to e-Government business 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 RMB3.5 million was attained.

The Group's current ratio, defined as total current assets over total current liabilities, was approximately 3.4 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 June, 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 30th June, 2006. Cash and bank deposits of the Group were RMB354 million as at 30th June, 2006 which mainly came from shareholders' contribution and working capital generated from operations.

As at 30th June, 2006, the Group had no assets pledged and had no significant contingent liabilities.

As at 30th June, 2006, the Group had capital commitment of approximately RMB61 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 year under review, the Group's financial position was not exposed to significant fluctuations in exchange rates and any related hedges.

Business Review

1. Consistent Growth of Foundation Business

During the period, the Group further enhanced its service capability and standardized the servicing process in order to establish its corporate image as an IT service provider and increase customer satisfaction. During the period, the Group started the construction and modification of the primary network platform as to increase the sharing of platform resources and its coverage and extended services based on the platform will gradually demonstrate more advantages.

During the period, the medical insurance system recorded smooth and stable operation, and the system has upgraded its software versions. Examination and testing showed the medical insurance system was able to undertake workload from simultaneous account allotments and submission of monthly reports from 19 counties and districts at the same time, simultaneously handle an identical function application from 500 windows while the application software could complete accurate processing on the corresponding business and consumption of system resources remained basically reasonable.

The e-community service network system recorded stable performance with an average system utilization rate of approximately 99.97%. The district and street application modes of the e-community system were piloted in the Xicheng District in Beijing. Initial results have been obtained as at the end of July and the modes could be deployed in the majority of roads and streets in Shijingshan, Haidian and Daxing Districts in the second half of the year, providing new development opportunities for community services.

2. *Investment and Business Development*

During the period, after the successful transfer of the relevant online payment business and online payment assets by the Group to PayEase (Beijing) Technology Ltd (a wholly owned subsidiary of PayEase Corp.), Capinfo (Hong Kong) Company Limited, a wholly-owned subsidiary of the Group, has acquired approximately 27% of the shareholding of PayEase Corp. in order to further strengthen cooperation between the two parties.

During the period, the Group invested in the construction project of an office property, 数字北京大厦(Digital Beijing Building), with prime location within the Olympic Village to be completed soon in Beijing. Upon completion of the project, the Group will own part of the property interest of this office building. As the Organizing Committee of the 2008 Beijing Olympic Games and various renowned Chinese enterprises will move into this office building, the Group is of the view that participating in this project will help promote the Group's image and status in the process of informatisation of Beijing.

During the period, the Group continued to promote the service modes and products of its community service in Wuhan and a community project for the Dongguan of Guangdong Province was officially signed in May and currently in the course of implementation.

During the period, the Group established a wholly owned subsidiary, Capinfo System Integration Company Ltd. (首都信息系统集成有限公司) to develop its business.

3. *Research and Development*

During the period, three types of the CapGate series of products developed by the Group have received certificates of national information security product models awarded by the China Information Technology Security Certification Center. Five software products of the Group were granted registration certificate for copyrights of computer software from the National Copyright Bureau.

During the period, the Group launched the marketing campaign of its Cityguide – Beijing business effectively, further improved the ‘leasing mode’ business model and established the Cityguide – Beijing service system featuring ‘terminal multi-languages software + information content service + call center enquiry service’.

4. *Employees*

As at 30th June 2006, the Group had 607 employees as against 495 as at 30th June 2005. Remuneration was determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employees. Discretionary bonuses based on individual performance were paid to employees as recognition of their contribution. Other benefits included retirement benefits and share options.

5. *Future Prospects*

The Group will put further efforts in developing the market for new businesses in addition to continuing to strengthen its business infrastructure. In light of the enormous business opportunities of the 2008 Olympic Games, the Group will actively participate in related projects of the Olympic Games, taking advantage of its leading position in the areas of e-government and e-commerce as to promote the brand image of the Group and foster its performance growth.



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 8 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 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 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, 2006.

Without modifying our review conclusion, we draw to your attention that the condensed consolidated income statements for each of the three-months ended 30th June, 2006 and 2005 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

DELOITTE TOUCHETOHMATSU

Certified Public Accountants

Hong Kong, 11th August, 2006

INTERIM RESULTS

The Board of Directors (the "Board") of the Company are pleased to announce that the unaudited consolidated results of the Group for the six months ended 30th June, 2006, together with the comparative figures for the corresponding period of 2005, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2006

	Notes	(Unaudited)		(Unaudited)	
		Three months ended 30.6.2006	30.6.2005	Six months ended 30.6.2006	30.6.2005
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	4	53,655	56,561	78,967	101,232
Cost of sales		(34,310)	(38,763)	(56,145)	(69,076)
Gross profit		19,345	17,798	22,822	32,156
Gain on disposal of a business	5	-	-	18,278	-
Other income		2,475	1,549	4,930	5,009
Research and development costs		(5,947)	(3,437)	(10,894)	(8,702)
Marketing and promotional expenses		(2,106)	(1,795)	(5,021)	(3,475)
Administrative expenses		(10,254)	(10,380)	(19,824)	(18,761)
Interest on other loan wholly repayable within five years		(84)	(64)	(127)	(128)
Share of losses of associates		(876)	(908)	(4,264)	(3,604)
Share of losses of a jointly controlled entity		(314)	(216)	(522)	(405)
Profit before taxation	6	2,239	2,547	5,378	2,090
Taxation	7	(1,034)	468	(3,258)	(509)
Profit for the period		1,205	3,015	2,120	1,581
Attributable to:					
Equity holders of the parent		2,204	3,136	3,509	1,877
Minority interests		(999)	(121)	(1,389)	(296)
		1,205	3,015	2,120	1,581
Earnings per share					
- Basic	9	0.08 cents	0.11 cents	0.12 cents	0.06 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2006

	Notes	30.6.2006 RMB'000 (Unaudited)	31.12.2005 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	178,836	141,446
Interests in associates		27,374	32,932
Interests in a jointly controlled entity		629	1,151
Available-for-sale investments		1,850	1,350
Deposits paid on acquisition of property, plant and equipment		6,754	10,340
		215,443	187,219
Current assets			
Inventories		13,031	17,005
Amounts due from customers for contract work		53,557	27,579
Trade and other receivables	11	65,457	46,713
Amounts due from associates and a jointly controlled entity		1,182	1,182
Bank deposits		66,364	63,555
Cash and cash equivalents		287,691	333,007
		487,282	489,041
Property, plant and equipment held for sale		–	1,265
		487,282	490,306
Current liabilities			
Trade and other payables	12	124,495	96,922
Customers' deposits for contract work		9,984	13,247
Taxation payable		3,367	4,597
Other loan – due within one year		7,000	7,000
		144,846	121,766
Net current assets		342,436	368,540
Total assets less current liabilities		557,879	555,759
Capital and reserves			
Share capital	13	289,809	289,809
Reserves		261,781	258,272
Equity attributable to equity holders of the parent		551,590	548,081
Minority interests		3,289	4,678
Total equity		554,879	552,759
Non-current liabilities			
Other loan – due after one year		3,000	3,000
		557,879	555,759

The interim financial report on pages 8 to 19 was approved and authorised for issue by the Board of Directors on 11th August, 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 six months ended 30th June, 2006

	Attributable to equity holders of the parent							
	Share capital	Share premium	Statutory		Statutory Accumulated		Minority interests	Total equity
			surplus reserve	welfare fund	profits (losses)	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, 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 (total recognised income (expense) 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
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 (expense) for the period)	-	-	-	-	3,509	3,509	(1,389)	2,120
At 30th June, 2006	289,809	254,079	1,625	812	5,265	551,590	3,289	554,879

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2006

	(Unaudited)	
	Six months ended	
	30.6.2006	30.6.2005
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (used in) from operating activities	(9,406)	20,335
Net cash (used in) from investing activities:		
Cash paid for purchase of property, plant and equipment	(56,356)	(30,077)
Proceeds from disposal of a business	20,110	–
Dividends received from an associate	1,294	–
(Increase) decrease in bank deposits for investing purpose	(2,809)	53,000
Acquisition of a subsidiary	–	4,413
Other investing cash flows	1,978	714
	(35,783)	28,050
Net cash (used in) from financing activities:		
Capital contribution from minority shareholders of a subsidiary	–	800
Other financing activities	(127)	(128)
	(127)	672
(Decrease) increase in cash and cash equivalents	(45,316)	49,057
Cash and cash equivalents at beginning of the period	333,007	232,703
Cash and cash equivalents at end of the period	287,691	281,760

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 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 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. PRINCIPAL 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, 2005.

In the current interim period, the Group has applied, for the first time, a number of new or revised 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 1 December 2005 or 1 January 2006. 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 year adjustment has been required.

The Group has not early applied the following new Standards, Amendments or Interpretations that 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

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

- 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 Standards, Amendments and Interpretations in future periods will have no material impact on the results and 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		Six months ended	
	30.6.2006	30.6.2005	30.6.2006	30.6.2005
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
e-Government technology services	48,711	42,599	72,136	82,714
e-Commerce technology services	4,944	13,962	6,831	18,518
	53,655	56,561	78,967	101,232
Results				
e-Government technology services	13,447	14,407	12,994	22,938
e-Commerce technology services	(3,897)	(2,315)	(11,312)	(5,332)
	9,550	12,092	1,682	17,606
Gain on disposal of a business engaged in				
e-Commerce technology service	-	-	18,278	-
Other income	2,475	1,549	4,930	5,009
Unallocated administrative expenses	(8,512)	(9,906)	(14,599)	(16,388)
Interest on other loan wholly repayable				
within five years	(84)	(64)	(127)	(128)
Share of losses of associates				
engaged in other businesses	(876)	(908)	(4,264)	(3,604)
Share of losses of a jointly controlled				
entity engaged in other business	(314)	(216)	(522)	(405)
Profit before taxation	2,239	2,547	5,378	2,090
Taxation	(1,034)	468	(3,258)	(509)
Profit for the period	1,205	3,015	2,120	1,581

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 BEFORE TAXATION

	Three months ended		Six months ended	
	30.6.2006	30.6.2005	30.6.2006	30.6.2005
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation has been arrived at after charging (crediting):				
Depreciation	11,476	18,780	22,860	36,654
Less: Depreciation included in research and development costs	(729)	(191)	(1,016)	(393)
Depreciation capitalised in contract work	(825)	(5,250)	(1,559)	(10,620)
	9,922	13,339	20,285	25,641
Cost of goods sold	951	101	1,394	1,948
Write down of inventories	278	2,243	1,753	2,512
Allowance for doubtful debts	(19)	1,254	1,930	1,535
Impairment of goodwill of an associate	1,059	–	1,059	–
Government grants	(1,019)	(702)	(2,237)	(3,221)
Interest income from bank deposits	(707)	(41)	(1,278)	(487)
Realised gain on investments held for trading	(631)	(667)	(1,200)	(667)

During the period, the Group has fully written off the goodwill of an associate of approximately RMB1,059,000 as the associate still suffers losses in its operation and its future expansion plan is uncertain.

7. TAXATION

	Three months ended		Six months ended	
	30.6.2006	30.6.2005	30.6.2006	30.6.2005
	RMB'000	RMB'000	RMB'000	RMB'000

The charge (credit) comprises:

PRC income tax				
Current	1,034	1,126	3,258	2,103
Overprovision in previous year	-	(1,594)	-	(1,594)
	1,034	(468)	3,258	509

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 six months ended 30th June, 2006.

At 30th June, 2006, the subsidiaries have unused tax losses of approximately RMB21,299,000 (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 2011.

8. DIVIDENDS

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

9. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to equity holders of the parent is based on the following data:

	Three months ended		Six months ended	
	30.6.2006	30.6.2005	30.6.2006	30.6.2005
Profit for the period attributable to equity holders of the parent	RMB2,204,000	RMB3,136,000	RMB3,509,000	RMB1,877,000
Number of ordinary shares for the purposes of basic earnings per share	2,898,086,091	2,898,086,091	2,898,086,091	2,898,086,091

No diluted earnings 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 both periods.

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB56,356,000 (2005: RMB27,716,000) on acquisition of property, plant and equipment.

11. TRADE AND OTHER RECEIVABLES

	30.6.2006	31.12.2005
	RMB'000	<i>RMB'000</i>
Trade receivables	32,550	20,104
Other receivables, deposits and prepayments	32,907	26,609
	65,457	46,713

Payment terms with customers are mainly on credit. Invoices are normally payable within 60 days of issuance, except for certain well established customers that the Group offers longer payment credit terms. The following is an aged analysis of trade receivables at the balance sheet date:

Age	30.6.2006	31.12.2005
	RMB'000	<i>RMB'000</i>
0 to 60 days	25,410	6,162
61 to 90 days	842	-
91 to 180 days	1,114	3,486
Over 180 days	5,184	10,456
	32,550	20,104

12. TRADE AND OTHER PAYABLES

	30.6.2006	31.12.2005
	RMB'000	RMB'000
Trade payables	8,863	9,120
Other payables	62,882	79,565
Customer deposits	52,750	8,237
	124,495	96,922

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

Age	30.6.2006	31.12.2005
	RMB'000	RMB'000
0 to 60 days	537	1,918
61 to 90 days	-	-
91 to 180 days	447	4,717
Over 180 days	7,879	2,485
	8,863	9,120

13. 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 30th June, 2006	2,123,588,091	774,498,000	289,809

14. CAPITAL COMMITMENT

	30.6.2006	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	30,014	70,013
– investments	800	57,300
– formation of a new joint venture	30,000	30,000
	60,814	157,313

15. RELATED PARTY DISCLOSURES

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

Name of related party	Nature of transactions	Three months ended		Six months ended	
		30.6.2006	30.6.2005	30.6.2006	30.6.2005
		RMB'000	RMB'000	RMB'000	RMB'000
CNC Beijing Communication Corporation	Dedicated circuit leasing services paid	2,728	1,864	5,966	3,967
	Telephone related services paid	430	54	787	149
Capnet Company Limited	Comprehensive services income received	4,552	2,031	5,160	3,475
Beijing IC Design Park Co., Ltd.	Property rentals paid	331	1,053	2,822	2,048

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 30th June, 2006 were approximately RMB6,011,000 (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 30th June, 2006 was nil (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.

15. RELATED PARTY DISCLOSURES (CONTINUED)

(b) 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 RMB72,136,000 (2005: RMB82,714,000) 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.

Other loan of RMB10,000,000 is borrowed from the PRC government, unsecured and bears interest at annual interest rate of 2.55%.

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.

(c) 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.

(d) 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 six months ended 30th June, 2006 was approximately RMB1,367,000 (2005: RMB1,371,000).

16. 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 interim dividend for the six months ended 30th June, 2006 (2005: Nil).

INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE (CAP571 OF THE LAWS OF HONG KONG) (THE "SFO")

a. *Directors and Chief Executive of the Company*

Save as disclosed below, as at 30th June, 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 and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (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 scheme

Name	Number of H Shares under options outstanding at 30th June, 2006			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	1,244,650	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 30th June, 2006:

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%

c. Interests in other members of the Group

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 30th June, 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, 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, the Pre-IPO Options had been granted in prior years at 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. These options were to recognise the past and present contributions of the grantees to the Group. A summary of the Pre-IPO Options granted is as follows:

	At 1st January, 2006	Lapsed during the period	At 30th June, 2006
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	19,979,655	(1,998,880)	17,980,775
	<u>45,691,055</u>	<u>(1,998,880)</u>	<u>43,692,175</u>

(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 ten years from the date of grant subject to restrictions imposed by the relevant PRC laws and regulations.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the number of shares to be issued by the Scheme and other option scheme and the number of issued H Shares of the Company from time to time and no employee shall be granted an option which, if all the options granted to the employee (including both exercised and outstanding options) in any 12 months period up 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 were as follows:

	At 1st January, 2006	Lapsed during the period	At 30th June, 2006
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	20,729,000	(1,377,000)	19,352,000
	61,821,000	(1,377,000)	60,444,000

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 six months ended 30th June, 2006.

AUDIT COMMITTEE

The Company has established an audit committee 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 under review, 2 audit committee meetings were 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 six months ended 30th June, 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.

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, 11th August, 2006

* *For identification purposes only*