

**CAPINFO COMPANY LTD :
COME ONE AND ALL !
LEND THE PRC GOVERNMENT INTEREST-FREE MONEY**

The main problem in investing in an entity, controlled by a sovereign government, is that the requirements of the State may well, and, most often do, supersede the requirements of the entity.

As such, a government, worth its salt, would not think twice to subordinate the needs of enterprise in the interests of government.

This is the largest problem, facing investors who look at Capinfo Company Ltd (Code: 8157, The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd) with a view to investing in it.

Capinfo brought out its Prospectus on December 17, 2001 when it Placed 710,134,912, 0.10 renminbi Par Value Shares at a Premium of about 48 cents (Hongkong) per share (equal to about 0.51 renminbi).

The Company describes itself as being '*an Internet technology and network solutions provider with its principal place of business located in the Beijing Municipality of the PRC (the People's Republic of China) ...*'. (Page One of the Prospectus)

Capinfo is owned as to 63.02 percent by Beijing State-owned Assets Management Corporation Ltd, a company that is wholly owned by the Beijing Municipal Government, 1.80 percent by Post and Telecom Data Network Integration Development Centre, which, in turn, is wholly owned by China Telecom Corporation, another PRC Government entity, 3.62 percent by Beijing Sino-Sky Radio, TV and Communication Technology Company Ltd, another PRC-Government entity, 1.86 percent by Beijing Telecommunications Investments Company Ltd, which is 80 percent owned by China Telecom Group Beijing Corporation, 3.62 percent by Beijing Gehua Cable TV Network Company Ltd, the shares of which are listed on The Shanghai Stock Exchange and is, also, a PRC, State-controlled organisation, and 1.08 percent by China Financial Data Network Company Ltd, another PRC Government entity. (Pages 170 and 171).

Totally, therefore, this Company is owned as to 75 percent by entities of the Government of the PRC.

Capinfo was established in January 1998 in order to develop basic information network and infrastructure for and on behalf of the Beijing Municipal Government. (Page 87)

The Company could hardly fail in its endeavours with backer of such a pedigree, all of whom were organs of the PRC State.

The following table is taken from Page 206 of the Prospectus and indicates how an idea may be translated into cold cash – when one has a government treasury at hand ... and when independent third-party vendors of equipment seek to curry favours from a government entity:

	Financial Year ended December 31		Seven Months to July 31
	1999	2000	2001
All Figures are Denominated in Renminbi '000			
(unless otherwise stated)			
Turnover	14,702	49,854	56,306
Cost of Sales	(12,266)	(37,804)	(42,330)

Gross Profit	2,436	12,050	13,976
Gross Profit Margin	16.57 percent	24.17 percent	24.82 percent
Government Grants*	4,470	3,202	Nil
Income from Non-Reciprocal Transfers of Assets**	5,375	Nil	Nil
Other Revenue	1,454	2,711	1,506
Distribution Costs	(1,483)	(3,781)	(3,777)
Administrative Expenses	(2,175)	(9,316)	(10,804)
Research and Development Costs	(5,893)	(9,920)	(11,514)
Profit/(Loss) from Operations	4,184	(5,054)	(10,613)
Interest on Bank Borrowings wholly Repayable within 5 Years	(188)	(973)	(386)
Share of Losses of an Associate	Nil	(126)	(771)
Profit/(Loss) before Minority Interests	3,996	(6,153)	(11,770)
Minority Interests	Nil	Nil	1,262
Net Profit/(Loss) for the Year/Period	3,996	(6,153)	(10,508)

* The PRC Government's grants were obtained for research and development projects.

** This amount represents the fair value of computer and network equipment contributed to Capinfo by independent outside (the PRC Government) vendors for usage by the Company, free of charge.

Page 181 of the Prospectus indicates that the Company owed its bankers about 5.50 million renminbi, all of which was secured by Capinfo's investments in PRC Treasury Bonds, which had a carrying value, as at October 31, 2001, of about 18 million renminbi.

The Accountants' Report, located at Page 212 of the Prospectus, indicated that ... [CLICK TO ORDER FULL ARTICLE](#)

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