

CAPINFO

Capinfo Company Limited

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

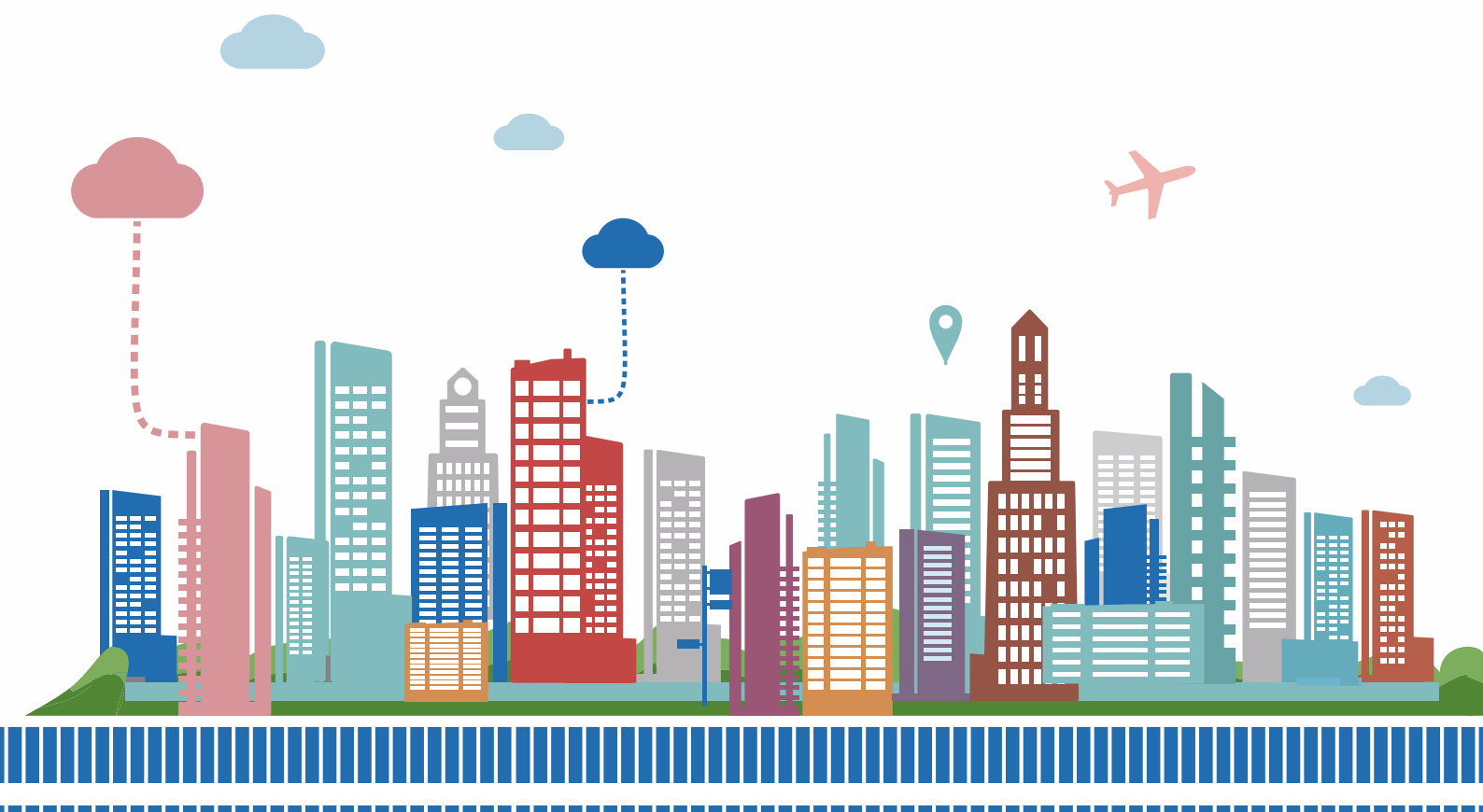
(Stock Code : 1075)



»»» 2016
Annual Report

INNOVATION, DEVELOPMENT AND VISION

In 2016, under the gradually stable and favorable economic situation, the Group focused on consolidating the infrastructure services for smart city, put forward the continuous development of combination of Internet and administrative affairs, smart healthcare and business intelligent information, expanding customer base from the state ministries, enterprises and medical institutions as well as making achievements in respect of the vertical extension of customers and the horizontal development of industry. The Group has formulated the “Thirteenth Five-years” developing plan. Looking forward, with the aim to be the “leading operator of smart city”, we will constantly implement the innovative development strategy with positive, enthusiastic and energetic attitude, strengthen platform and products, innovate business and commercial model, so as to achieve the transformation and upgrading in the “Thirteenth Five-years” period by fulfilling the general goal of “adding value, consolidating basis, innovating and enhancing quality”.



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»»» DEFINITION

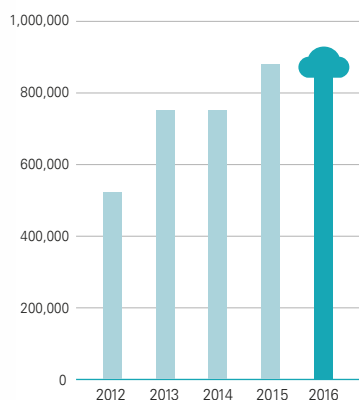
Abbreviation	Full Name
Group	the Company and its subsidiaries
Capinfo/the Company	Capinfo Company Limited
Capinfo Hong Kong	Capinfo (Hong Kong) Co. Ltd.
Capinfo Technology	Capinfo Technology Development Co., Ltd.
Parking Management	Beijing Parking Management Centre Co., Ltd.
Shanghai Hengyue	Shanghai Hengyue Computer Technology Co., Ltd.
Rito Info	Rito Info Technology Co., Ltd.
Capinfo Hangyuan	Beijing Capinfo Hangyuan Technology Co., Ltd.
BJCA	Beijing Certificate Authority Co., Ltd.
BST	Beijing Culture & Sports Technology Co., Ltd.
Capinfo Soft	Capinfo Soft Co., Ltd.
BSAM	Beijing State-owned Assets Management Co., Ltd.
Capnet	Capnet Company Limited
BIDP	Beijing IC Design Park Co., Ltd.
Hong Kong Registrars	Hong Kong Registrars Limited
CSDCC	China Securities Depository and Clearing Corporation Limited
Companies Law	the Companies Law of the People's Republic of China
Articles of Association	the Articles of Association of Capinfo Company Limited
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
Stock Exchange	the Stock Exchange of Hong Kong Limited
IND	the independent non-executive directors
the Year	the year ended 31 December 2016
Reporting Period	the period from 1 January 2016 to 31 December 2016

FINANCIAL HIGHLIGHTS

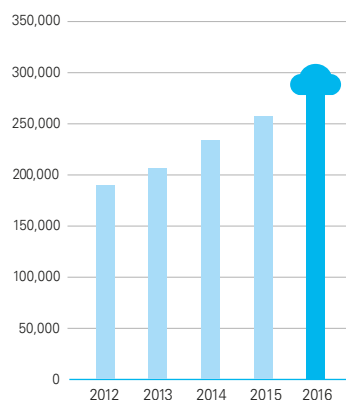
Unit: RMB'000

	2012	2013	2014	2015	2016
During the Reporting Period					
Revenue	526,097	754,830	756,810	879,473	929,651
Gross profit	191,002	208,335	235,065	260,713	308,618
Profit and total comprehensive income for the year attributable to owners of the Company	81,406	81,433	66,993	101,542	109,234
Earnings per share (RMB cents)					
From continuing and discontinued operations					
– Basic	2.81	2.81	2.31	3.50	3.77
Dividends per share (RMB cents)	1.30	1.30	1.06	1.57	1.09
– Interim dividend	–	–	–	–	–
– Final dividend	1.30	1.30	1.06	1.57	1.09
During the year					
Total assets	1,102,735	1,156,977	1,510,376	1,629,237	1,745,091
Net assets	773,115	816,895	846,218	917,042	1,008,320
Current liabilities	329,620	340,082	550,003	674,210	726,877
Financial Ratio					
Net gearing ratio (%)	0.59	0.44	2.68	0.20	0.09
Current ratio (times)	2.47	2.14	1.57	1.51	1.53

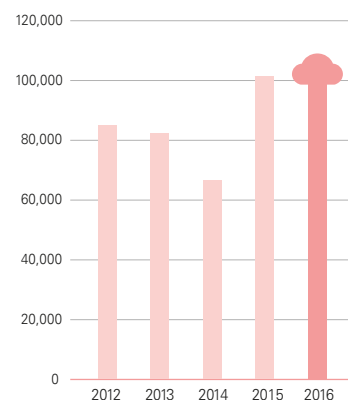
REVENUE



GROSS PROFIT



PROFIT & TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY



»» CORPORATE INFORMATION

Registered Name of the Company

Capinfo Company Limited

Company Website

www.capinfo.com.cn

Stock Exchange for Listing

The Stock Exchange of Hong Kong Limited

H Share Stock Code

1075

Legal Representative

Xu Zhe

Registered Address

No. 11 Xi San Huan Zhong Road, Haidian District,
Beijing 100036 PRC

Substantial Shareholder

Beijing State-owned Assets Management Co., Ltd

Date and Place of Establishment

23 January 1998, Beijing

Date of Initial Listing on GEM

21 December 2001

Date of Transfer of Listing to the Main Board

21 January 2011

Par Value of H Shares in Issue

RMB0.10 per H share

Total Number of Shares in Issue

2,898,086,091 shares

Number of Domestic Shares in Issue

2,123,588,091 shares

Number of H Shares in Issue

774,498,000 shares

Unified Social Credit Code of Business License

911100006336972074

Principal Bankers

Bank of China

Legal Advisor

PRC law advisor

Tian Yuan Law Firm

Address: 10th Floor, China Pacific Insurance Plaza,
28 Fengsheng Lane, Xicheng District,
Beijing 100032 PRC

Hong Kong law advisor

Morrison & Foerster

Address: 33rd Floor, Edinburgh Tower,
The Landmark, 15 Queen's Road Central,
Central, Hong Kong, PRC

Auditors

Domestic auditor

Grant Thornton (special general partnership)

Address: 5th Floor, Scitech Place, 22 Jianguomen
Wai Avenue, Chaoyang District, Beijing
100004 PRC

Overseas auditor

Grant Thornton Hong Kong Limited

Address: Level 12, 28 Hennessy Road, Wanchai,
Hong Kong, PRC

Share Registrar and Transfer Office

China Securities Depository and Clearing Corporation Limited (Domestic Shares)

Address: No. 17 Taipingqiao Street, Xicheng District, Beijing, PRC
Post Code: 100033
Tel.: (8610) 59378888
Fax: (8610) 58598977

Hong Kong Registrars Limited (H Shares)

Address: Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, PRC
Tel.: (852) 28628523
Fax: (852) 28650990

Contacts

Principal Place of Business in the PRC

Address: 12th Floor, Quantum Silver Plaza, No. 23 Zhi Chun Road, Haidian District, Beijing 100191 PRC
Tel.: (8610) 88511155
Fax: (8610) 82358550

Contact Place in Hong Kong

Address: Unit B, 1st Floor, Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong, PRC
Tel.: (852) 28200700
Fax: (852) 28274836

Members of the Board

Executive Director

Ms. Lin Yankun (*Party Secretary, appointed in January 2017*)
Mr. Yu Donghui (*Chief Executive Officer, appointed as executive director in January 2017 to replace Mr. Lu Lei*)

Non-executive Directors

Mr. Xu Zhe (*Chairman, appointed in January 2016 to replace Dr. Wang Xu*)
Dr. Feng Haocheng (*appointed in January 2016*)
Mr. Cao Jun (*appointed in January 2016*)
Mr. Zhou Weihua
Mr. Shan Yuhu
Ms. An Lili

Independent Non-executive Directors

Mr. Gong Zhiqiang
Mr. Cheung, Wai Hung Boswell
Mr. Li He (*appointed in May 2016 to replace Dr. Jiao Jie*)
Mr. Yang Xiaohui (*appointed in November 2016 to replace Ms. Zhou Liye*)

Audit Committee

Mr. Yang Xiaohui (*Chairman, appointed in November 2016 to replace Ms. Zhou Liye*)
Mr. Gong Zhiqiang
Mr. Cheung, Wai Hung Boswell
Mr. Li He (*appointed in May 2016 to replace Dr. Jiao Jie*)

Remuneration and Appraisal Committee

Mr. Gong Zhiqiang (*Chairman*)
Ms. Lin Yankun (*appointed in January 2017*)
Mr. Yang Xiaohui (*appointed in November 2016 to replace Ms. Zhou Liye*)

Nomination Committee

Mr. Xu Zhe (*Chairman, appointed in January 2016 to replace Dr. Wang Xu*)
Mr. Gong Zhiqiang
Mr. Cheung, Wai Hung Boswell

Strategy Committee

Mr. Xu Zhe (*Chairman, appointed in January 2016 to replace Dr. Wang Xu*)
Mr. Yu Donghui (*appointed in January 2017 to replace Mr. Lu Lei*)
Mr. Feng Hao Cheng (*appointed in January 2017, ceased to be a member of Remuneration and Appraisal Committee when his tenure becomes effective*)
Mr. Li He (*appointed in May 2016 to replace Dr. Jiao Jie*)

Board of Supervisors

Mr. Di Guojun (*Chairman*)
Mr. Liang Xianjun
Mr. Lang Jianjun

Authorised Representatives

Mr. Xu Zhe (*appointed in January 2016 to replace Dr. Wang Xu*)
Mr. Yu Donghui (*appointed in January 2017 to replace Mr. Lu Lei*)

Secretary of the Company

Ms. KOO Ching Fan

Secretary of the Board

Mr. Lu Lei (*Vice President*)

»» COMPANY PROFILE

Founded in January 1998, Capinfo Company Limited (“Capinfo” or “the Company”) is a state-owned IT company whose controlling shareholder is BSAM. The Company is committed to developing information technology to drive business and society advance and establishing itself as a reliable partner for its clients with advanced technology and professional services. Capinfo was listed on the Growth Enterprise Market of the Hong Kong Stock Exchange in December 2001, and transferred its listing to the Main Board of the Hong Kong Stock Exchange in January 2011 (stock name: Capinfo; stock code: 1075).

As a famous smart city service provider in China, Capinfo has, through its professional IT service capability and high level of social responsibility, contracted the construction, operation and maintenance of various national key information technology application projects and livelihood projects. Since its establishment, the Company has made significant contribution to the anti-SARS Campaign, Beijing Olympics, National Day Parade and other major events. In respect of the people’s livelihood related services such as social security card system, medical insurance information system, housing provident fund system, air quality monitoring system and community service information system, the Company kept pace with the times and created a new image of state-owned enterprise that upholds the philosophy of “taking customers as the first priority and the economic benefit as the basis”. As of 31 December 2016, the Company had 1,508 employees and had established three branches and one representative office. Business covering areas including government, medical care, transportation, finance and many other areas, Capinfo has established its presence in nearly 100 cities across the country.



During the past over-decade years, Capinfo had made great breakthrough and progress by continuous improvement of management, enhancement of technology innovation and training of high calibre personnel, and had made great contribution to the information development of national economic infrastructure and important livelihood areas. During the 13th five-year plan period, the Company will base in Beijing and seize the opportunities nationwide arising from the integration of Beijing, Tianjin and Hebei as well as the construction of Beijing sub-center and Beijing Winter

Olympics. By adapting to the development trends of cloud computing, Internet of Things, big data, mobile internet and other technologies, the Company will further its efforts in such business segments as internet plus government affairs, smart medical and health service and smart enterprise innovation. With "growing into a leading smart city service provider" as its goal, the Company will commit to achieve its mission of realizing "innovative plant service, smarter city and easier life".



CORPORATE MISSION

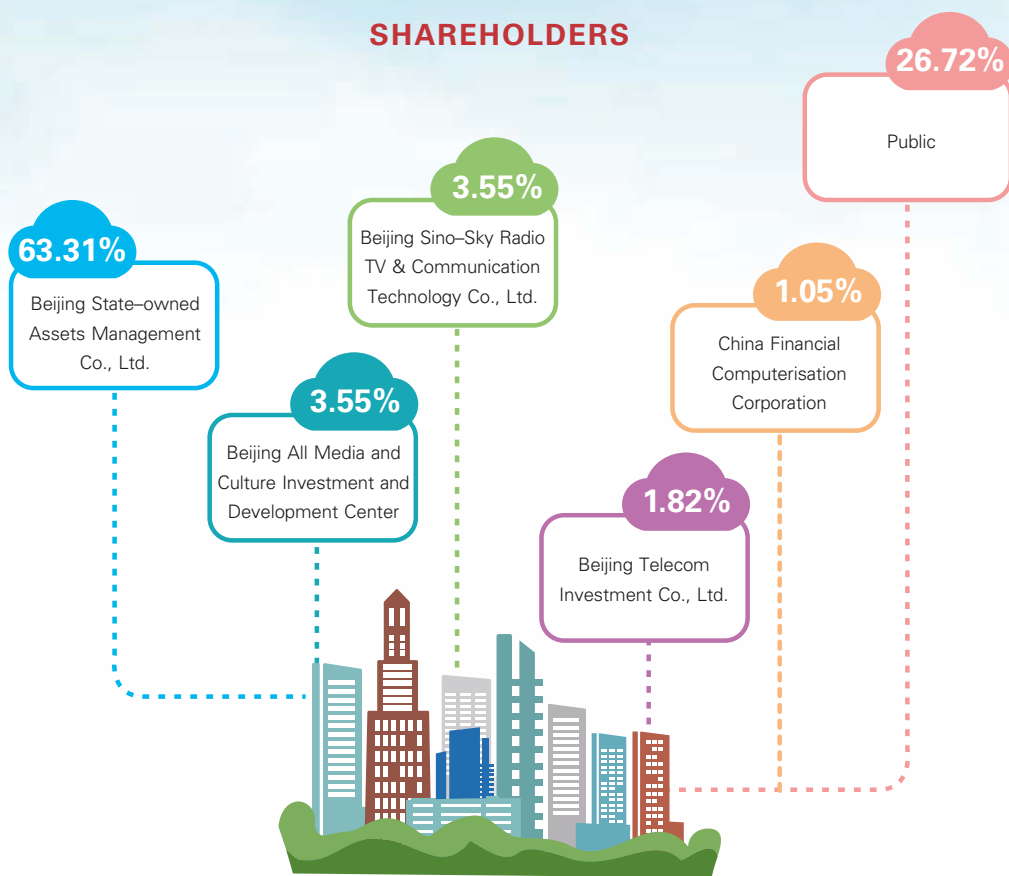
To be creative in IT service
To build a smarter city
To make a better life

CORPORATE VISION

A leading smart city service operating provider

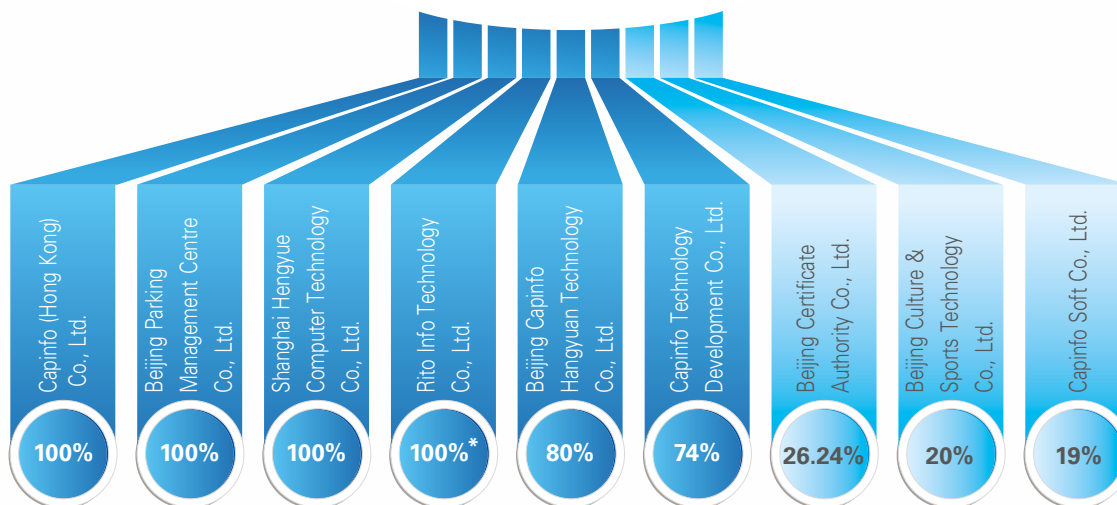
»»» SHAREHOLDING STRUCTURE

SHAREHOLDERS



CAPINFO

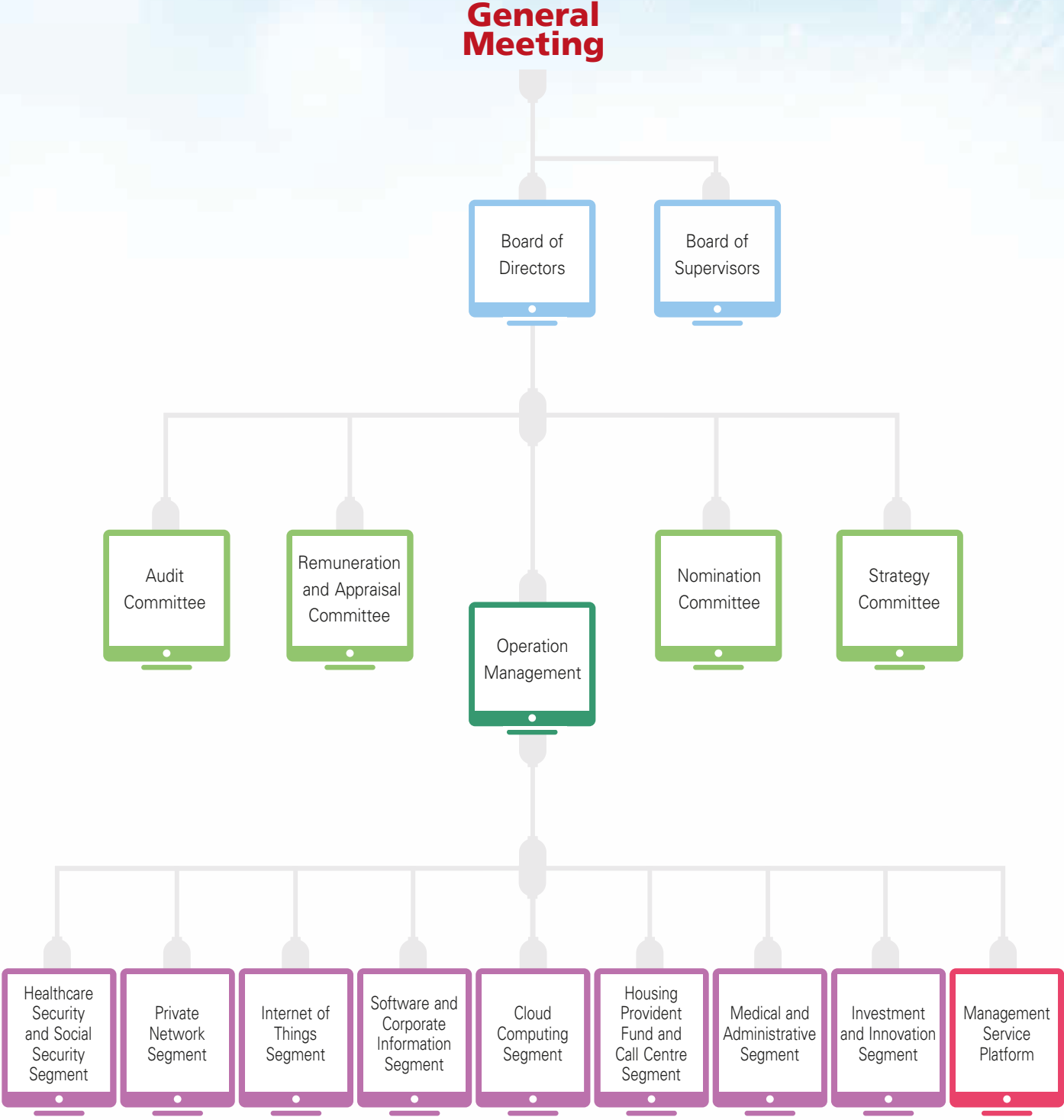
Capinfo Company Limited



MAJOR COMPANIES INVESTED BY CAPINFO

Note*: The Company's shareholding in Rito Info Technology Co., Ltd. shall be 83% according to business registration.

CORPORATE STRUCTURE



EVENT HIGHLIGHTS



January

The Company successfully protected the national training of CPF statistics system of the Ministry of Housing and Urban-Rural Development.

March

The call center of the Company was awarded the Beijing "March 8th" Red Flag Groups honor.

May

The Company became a supplier of Beijing owner-occupied housing integrated service platform (phase I)-cloud platform leasing service.

July



The Company, together with Beijing Aiyuhua Hospital for Children and Women, held the Activity of 51 Workers' Health - Care of Next Generation of Capinfo (51勞動者健康之關愛首信下一代活動).

September



The Company attended the meeting of National Provident Fund business of municipality and part of the urban housing system construction and did technical exchange.

November



The Company completed relevant work to provide technical support for Beijing personal public credit information inquiry services.

The Company won a bid for network upgrade project of air quality monitor in Beijing Municipal Environmental Monitoring Center.

February

Beijing Assets and Equity Exchange cloud platform planned and established by the Company was officially launched.

April



Internet service of the Supreme People's Court was involved in the Capinfo Cloud Platform.

June

The integration solution of Beijing medical insurance network and Municipal-Government extranet prepared by the Company was passed by Experts.

August

The non-operating asset management and operation system for real estate group established by the Company was put into trial operation.

October



The Company held the graduation show and ceremony for the youth training camp of 2016.

December



HONORS AND QUALIFICATIONS <<<

- The Company was awarded the title as the R&D and application institution of ITSS
- The results about the Innovation and Practice in Overall Enhancement of Software Project Quantization Management (《全面提升軟件項目量化管理的創新與實踐》), which was reported by the Company, won the first prize of the 30th Beijing enterprise modernization innovation achievement
- The Beijing Municipal Engineering Laboratory for Smart Internet Technology of Elderly Care Services (智慧健康養老產業互聯網技術北京市工程實驗室) was recognized as 2015 municipal engineering laboratory by the Municipal Development and Reform Committee

»» CHAIRMAN'S STATEMENT



Dear shareholders,

On behalf of the Board of Directors, I hereby present to you the 2016 annual report of Capinfo Company Limited. In 2016, China's economic growth slowed down and the Group proactively made the five-year development strategy and planning under the "new normal state", and firmly implemented innovation, development, transformation and upgrading. Operating results of the Group sustained growth. During the Reporting Period, the Group recorded a revenue of RMB929.7 million, representing an increase of 5.71% as compared with the corresponding period of last year. Profit attributable to owners of the Company amounted to RMB109.2 million, representing an increase of 7.58% as compared with the corresponding period of last year.

2016 is the first year of the "13th Five-Year" Plan of the Group. Facing increasingly fierce market competition, in-depth changes in government procurement, changing customer demand, and other severe challenges, the management and all staff members worked together to overcome difficulties and push forward for the stable development of the Group's businesses and good start of the "13th Five-Year" Plan Period. During the Reporting Period, the Group focused on consolidating the new generation of smart infrastructure platform, such as integrated network platform, trusted cloud platform and big data innovation service platform. Three major business segments including Internet + government affairs, smart health care and enterprise smart innovation have been initially formed. In the field of business, the Group made researches on the mature productization services and industry solutions to promote the productization, platformization, and nationalization, laying a solid foundation for making the Group a "leading smart city operator".

During the Reporting Period, the Group optimized a series of operation and management mechanisms, revised and launched numerous rules and regulations, clarified the innovation management process, summarized and improved management level to further enhance the overall operation efficiency and further strengthen the internal control management capacity of the Group. In the meantime, the Group carried out in-depth study and analysis of the status and characteristics of human resources, reformed the remuneration and performance-based system, planned the top-level design for talent development, and endeavored to build a high-quality and high-level talent team adapting to market competition and satisfying the development needs to push forward the Group's development in the "13th Five-Year" Plan Period.

In 2016, the Group has formulated the development blueprint for the "13th Five-Year" Plan. During the "13th Five-Year" Plan period, the Group will position itself as a "leading smart city operator", strengthen the basic support of "platformization + productization" integrated network platform, trusted cloud platform and big data innovation service platform through the dual-wheel drive of endogenous development and extension development, develop Internet + government affairs, smart health care and enterprise smart innovation, and determine the overall goal of four elements including "adding value, consolidating basis, innovating and enhancing quality".

In 2017, the Group will optimize and strengthen its core business and maintain the government affairs network construction and operation and maintenance status; the Group will make layout and planning of innovation business to promote its business to develop towards new customers, new areas, and new model; it will constantly optimize the institutional mechanism, organizational structure, and talent team structure and strengthen the construction of technical capacity system; it will effectively utilize the capital market to form the extension development driving force through capital operation. The Group will make a positive progress and constant efforts to achieve innovation, development, transformation and upgrading during the "13th Five-Year" Plan period and endeavor to make the Group a leading smart city service provider.

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to the shareholders who give long-term support for the development of the Company, our dedicated staff who made contribution to our growth and people from various sectors who pay continuous attention to the development of the Company.

By order of the Board of Directors

Mr. Xu Zhe
Chairman

Beijing, the PRC
24 March 2017

»» MANAGEMENT DISCUSSION AND ANALYSIS

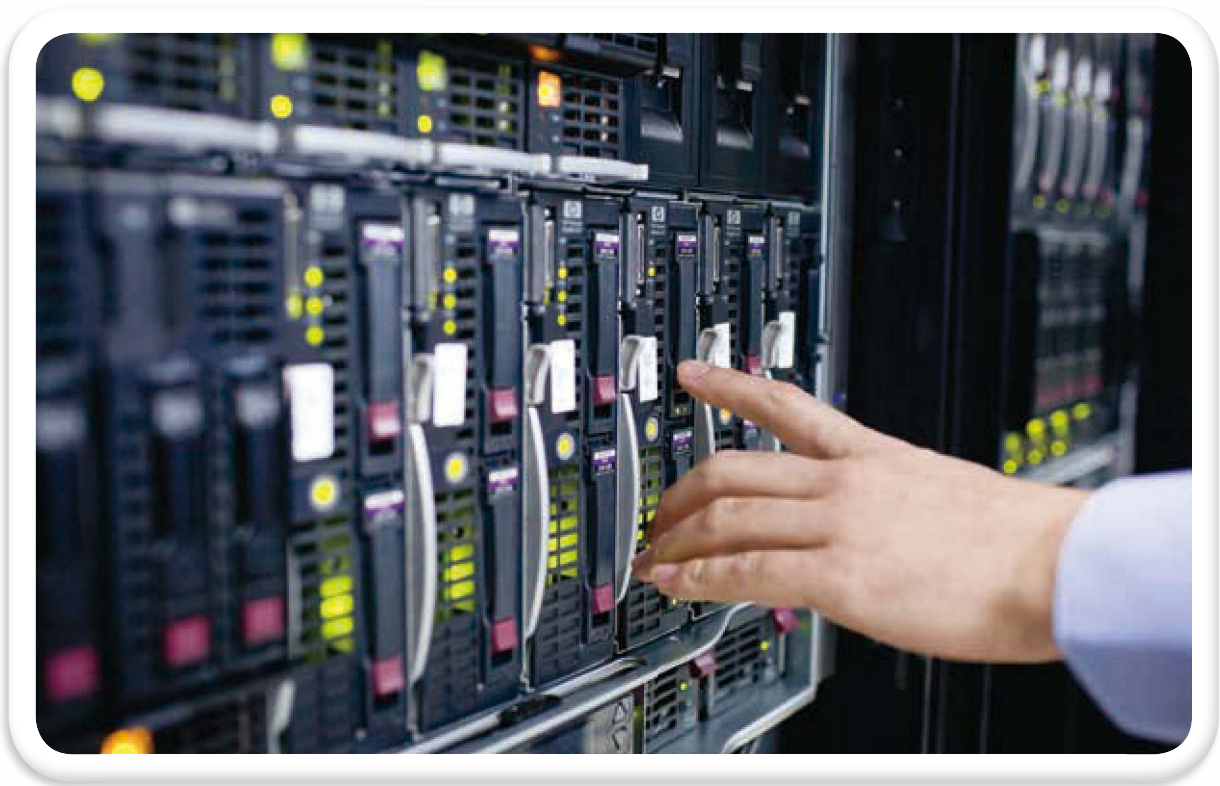


BUSINESS REVIEW

In 2016, China vigorously implemented the strategy of “Prosper Country via Internet”, enhanced the influence of internet information technology on country management and society governance. It focused on advancing E-government, establishing new smart cities, took data concentration and sharing as the approach, established the integrated national big-data center, advanced fusion of technologies, businesses and data and realized synergetic management and service of cross levels, regions, systems, functions and businesses. The Group seized this important strategic opportunity, proactively adapted to the new and common status of economic development, took its advantages to adjust development pattern and business structure, focused on smart infrastructure service, “Internet+ Government” service, smart medical and health care, informatization of smart enterprises, put emphasis on cultivating new momentum of innovative development; the Group also optimized operation and management mechanism, formulated top-level design for talent development, strengthened working study of investment and fund-raising, promoted its continuous healthy and rapid development via dual-wheel driven endogenous development and external development. During the Reporting Period, the Group recorded revenue of RMB929.65 million, representing an increase of 5.71% as compared with the corresponding period of last year; and profit attributable to owners of the Company of RMB109.23 million, representing an increase of 7.58% as compared with the corresponding period of last year.

Management Discussion and Analysis

During the Reporting Period, the Group maintained growth in overall revenue and profit. The overall scale of revenue of core businesses kept flat with the same period of last year, but the completion schedule of some projects were expedited, thus their income confirmation ratio was improved a little bit; the seed businesses also maintained the growing momentum which was not so high in the growth speed nevertheless. The operation improving strategy of quality and efficiency, strict control over cost and expense achieved excellent effects; there was a reduction in cost and administrative expense of main businesses; the gross profit margin was increased, and the profit growth was higher than the revenue growth.



Management Discussion and Analysis

Smart Infrastructure Service

During the Reporting Period, the Group strictly guaranteed the steady operation of E-governance website, Internet of Things data website and other important systems. The adoption of BOT mode for establishing municipal-level E-governance Internet has connected over 1,000 bureaus, offices, enterprises and state institutions, units and over 8,000 households in the whole city. The coverage rate of Internet of Things data website was increased, 331 stations were built and it undertook over 60 applications including public vehicle security systems, communication system of humanitarian aid vehicles of Beijing Red Cross, Internet of Things monitoring system of key locations in Beijing Firefighting Bureau, flood control and drought relief monitoring system of Beijing Water Conservancy Bureau, supervision system of armed police's dynamic servicing. Capinfo Cloud Platform has provided access service for over 30 governmental, enterprise and public institutions including Supreme People's Court, Beijing Construction Committee, the Third Intermediate People's Court of Beijing, Industrial and Commercial Bureau of Beijing. The traditional customized systems underwent technical structure modification and formed the "cloud service" mode covering everything.

Regarding establishment of technical structure, the basic development platform CAPINFO EA V1.0 has been completed and piloted firstly in the "points-based household registration of Beijing". R&D of big-data platforms was improved continuously, and has started to explore related applications in the elderly care service industry and successfully applied to the Development and Reform Committee of Beijing for "the Innovative Capacity Construction Project of Beijing Engineering Laboratory for internet technology of smart health and elderly care industry". The Group's infrastructure platform of new generation has been established preliminarily, which further improved the core competitiveness.

"Internet + Government Affair" Service

During the Reporting Period, the Group continuously provided reliable service for "Beijing-China Website Clusters" (www.beijing.gov.cn) and maintained a leading position in the government informatization field. The credit information service business has got comprehensive development progress, obtained many projects successively including construction project for Beijing big credit platform, second-phase project of personal credit platform, "Credit Beijing" (<http://www.creditbj.gov.cn>) operation and maintenance. Meanwhile, the establishment of public credit information database has provided full support for credit information sharing of cross functions, fields, departments and regions. The human resource and talent system undertook over 70 kinds of examinations of Beijing area and even the whole country, such as, civil service examination, professional technological qualification examination and occupational qualification examination, over 1.2 million examinees served annually. The successful bid of the security monitoring project for neighborhoods in Yanqing, which was the first district-county level all-digital safe city monitoring system with high definition, has provided potent safeguard for all sorts of disaster relief, emergency handling and coordination.

During the Reporting Period, the Group gradually became the service provider for informatization projects of national ministries and commissions including the State Intellectual Property Office, the Central Organization Ministry, and the United Front Work Department, which demonstrated the breakthrough in customer promotion. In the housing construction field, the Group has become the core software provider for the housing pension systems in Beijing, Shanghai, Chongqing, Guangzhou, and Nanning and gradually expanded nationwide.

Smart Medical and Health Service

During the Reporting Period, the Group put a lot of efforts in exploring the blue sea of smart medical and health field. The medical insurance and social security system has gradually provided medical settlement and service security for holders all over the city. Over 18 million social security cards have been issued and the technical system of medical insurance “card financial settlement with account closed” has been put into operation. The business of “Beijing hospital medical card” has expanded to 34 hospitals and over 8 million cards were issued in total. The renovation of platform for Beijing medical insurance settlement system, thereby facilitating medical insurance settlement in cross-province and long-distance cases.

Regarding innovative and value-added service, “hospital medical insurance high-usable group system” and “safe operation and full trusteeship service”, two medical insurance value-added services, had signed contracts with 52 customers and achieved a service contract renewal rate of 99%. The self-developed “hospital financial settlement platform” has entered commercial use stage and realized timely compensation for commercial insurances within the cooperation with Chaoyang Hospital and Ping An Insurance, thus cultivating the new business growth sources.

Enterprise Smart Innovation

During the Reporting Period, the Group proactively made layout for enterprise smart innovation field, and constantly improved the technical service capabilities and service levels to create the characteristic brand of Capinfo. A strategic cooperation framework agreement was signed with BSAM, which create conditions for the expansion of state-owned enterprises cloud services market. The obtention of the asset management information system project of Beijing Foreign Trade & Economic Holding Group Co., Ltd. and the non-recurring asset operation and management system project of Beijing Real Estate Group has created opportunities for entering into the enterprise asset information management field. The agreements signed for the online banking system development with First Automobile Finance Co. Ltd., “wealth marketing service platform” with Beijing International Trust Co. Ltd., financial core business system transformation project with Dalian Port have successfully expanded the new business, new industries, and new customers.

During the Reporting Period, the Group initiated and received three patent applications from the State Intellectual Property Office with two patents being newly authorized. As of 31 December 2016, the Group was authorized six patents. During the Reporting Period, the Group registered 224 software copyright items in total.

Management Discussion and Analysis

The Group Management and Control

During the Reporting Period, the Group optimized a series of operation and management mechanisms to enhance the overall operational efficiency and strengthen internal control management. With regard to investment and mergers and acquisitions (“M&A”), the Group widely looked for M&A targets, completed survey of numerous information technology enterprises and analysis and research on some of the industries, and discussed specific cooperation intentions with the relevant parties.

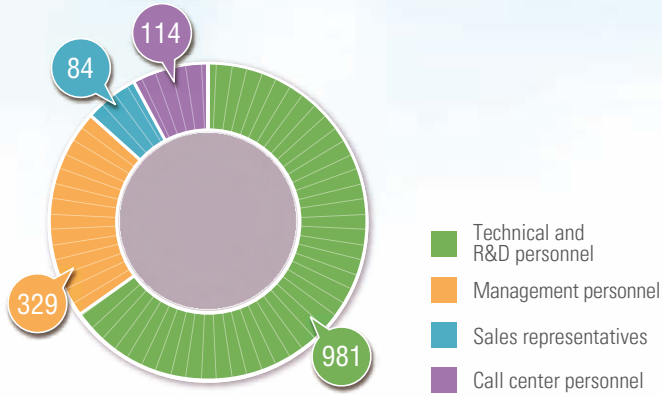
Human Resources

As of 31 December 2016, the Group had 1,508 employees (2015: 1,518 employees), including 981 technology and research and development employees (2015: 896 employees), 329 function management personnel at all levels (2015: 329 employees), 114 call center representatives (2015: 176 employees), 84 sales staff (2015: 117 employees). Expense of the Group’s employees was approximately RMB274.6 million (2015: RMB281.6 million).

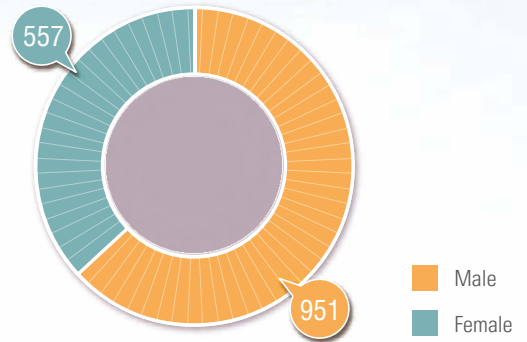
During the Reporting Period, the Group formulated the human resources planning report for the “13th Five-Year Plan” period. The Group deepened the reform of salary management and performance appraisal system program and strengthened the research on incentive mechanism. It improved the recruitment process and channels, carried out youth training camp activity, and offered project training and daily training to strengthen the construction of talent team through multiple initiatives.



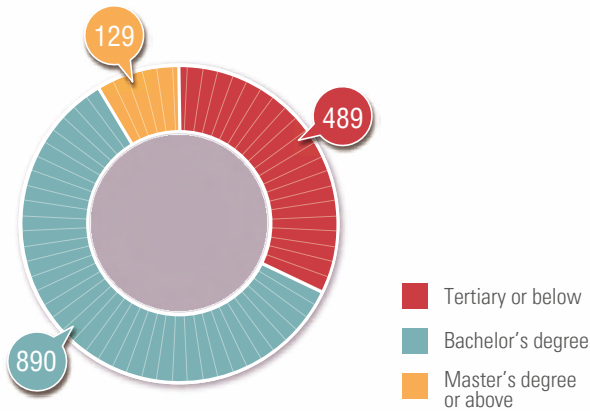
Statistical distribution chart of employees by functions



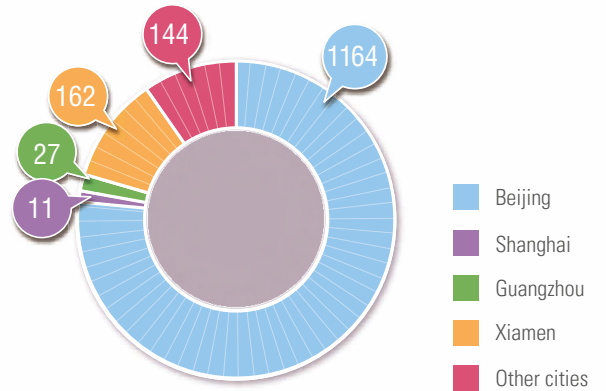
Statistical distribution chart by sex



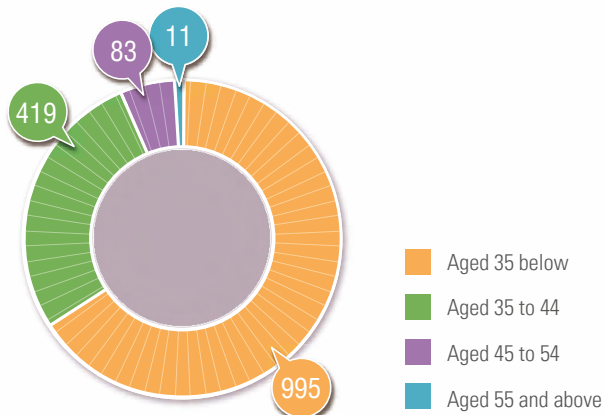
Statistical distribution chart by education



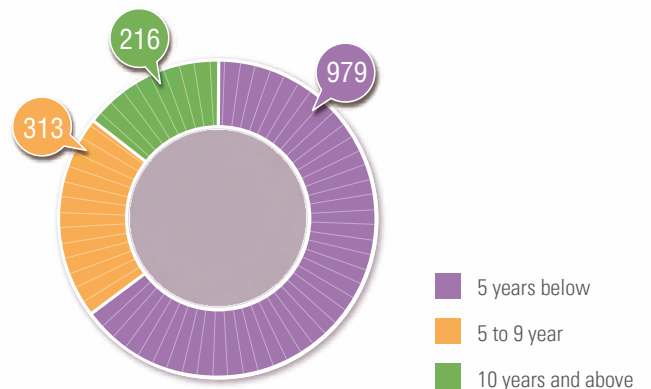
Statistical distribution chart by geographical areas



Statistical distribution chart by age



Statistical distribution chart by service years



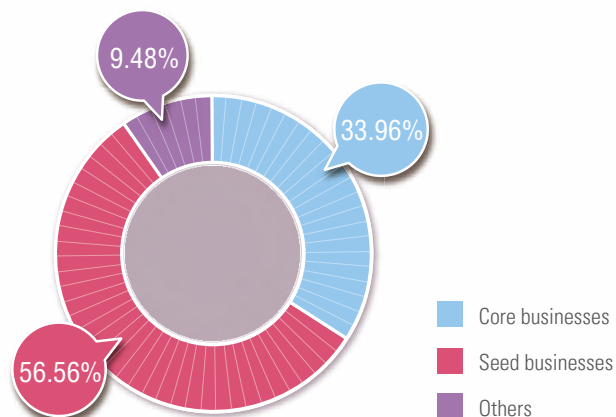
FINANCIAL REVIEW

For the year ended 31 December 2016, the Group recorded revenue of RMB929.65 million, representing an increase of 5.71% as compared with the same period of last year. The Group recorded a gross profit of RMB308.62 million, representing an increase of 18.37% as compared with the same period of last year, and profit attributable to owners of the Company of RMB109.23 million, representing an increase of 7.58% as compared with the same period of last year.

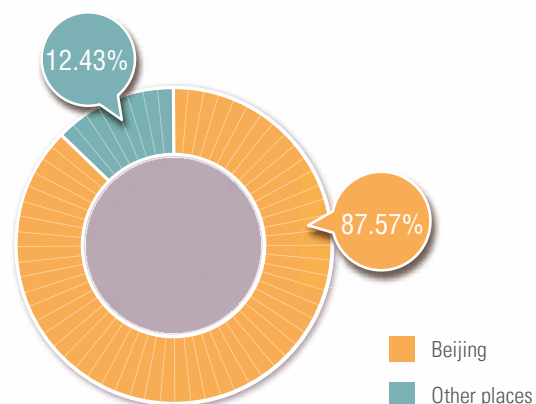
For the year ended 31 December 2016, the core business of the Group accumulated revenue of RMB315.68 million, representing an increase of 8.54% as compared with the corresponding period of last year, accounting for 33.96% (2015: 33.07%) of the total revenue of the Group; costs of core business was RMB233.04 million, representing a decrease of 4.04% as compared with the corresponding period of last year, accounting for 37.52% (2015: 39.25%) of the total costs of the Group. The core businesses of the Group mainly include government projects for smart city businesses constructed on the basis of the E-Governance network and the Internet of Things platform, the smart livelihood businesses such as the Beijing Medical Insurance Information System and the Beijing Social Security Card System as well as the Beijing-China website clusters and community service information system. In addition, the seed business which was a derivative from the core businesses for market expansion recorded revenue of RMB525.82 million, representing an increase of 3.51% over the corresponding period of last year, accounting for 56.56% (2015: 57.76%) of the total revenue of the Group. As of 31 December 2016, revenue of other businesses of the Group amounted to RMB88.15 million, representing an increase of 9.31% over the corresponding period of last year, accounting for 9.48% of the total revenue of the Group (2015: 9.17%); costs of other businesses was RMB41.74 million, representing an increase of 17.11% over the corresponding period of last year, accounting for 6.72% of the total costs of the Group (2015: 5.76%), mainly derived from contribution from Rito Info.

Other income of the Group amounted to RMB24.18 million, representing a decrease of 22.94% over the corresponding period of last year, mainly due to income from project research and development and property rent, where income from project research and development was RMB4.11 million, representing a decrease of 70.98% over the corresponding period of last year. Digital Beijing Building's rental income was RMB13.41 million, representing an increase of 14.60% over the corresponding period of last year.

Composition of income



Geographical distribution of source of income

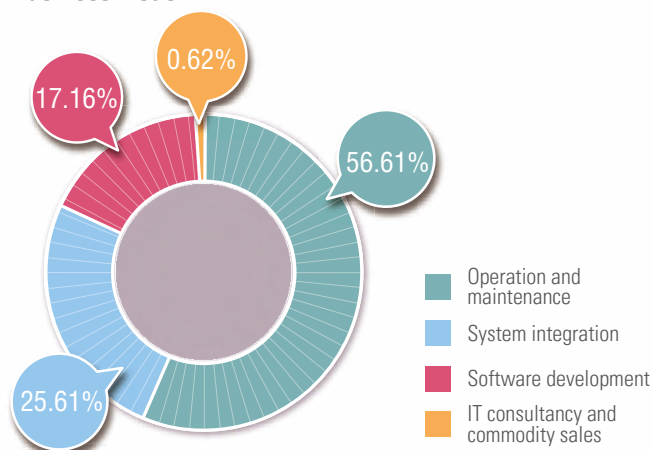


Management Discussion and Analysis

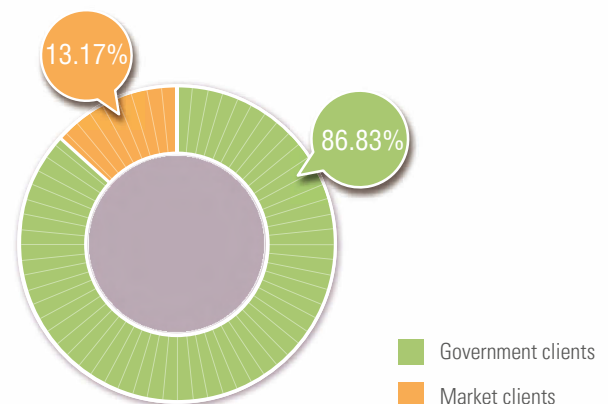
With regard to other gains and losses, the losses of the Group amounted to RMB2.62 million, representing a decrease of gains by RMB51.49 million over the corresponding period of last year, mainly due to one-off gains of RMB56.86 million on the deemed disposal of equity interest in PayEase Corp. ("PayEase") in the last year. During the Reporting Period, the loss of fair value changes of 2,771,484 shares of C-2 preferred stock of Mozido Inc. due to disposal of the equity interest in PayEase in the last year was RMB3.09 million, representing a decrease of gains by RMB8.69 million over the same period last year. Impairment losses amounted to RMB30.96 million, representing an increase of impairment loss by RMB21.54 million over the corresponding period of last year; the loss of changes in fair value of contingent consideration payable amounted to RMB9.17 million, representing an increase of loss of RMB2.64 million over the corresponding period of last year. As BJCA was officially listed on the GEM of the Shenzhen Stock Exchange through initial public offering this year, the percentage of shares of BJCA held by the Group was diluted from the original 34.98% to 26.24%. The dilution has been treated as deemed disposal of partial interest in an associate and the one-off gain of RMB37.59 million was recognized.

In respect of the Group's business model, the main businesses included operation and maintenance, system integration, software development, IT consultancy and sales of goods. Of which, revenue from operation and maintenance amounted to RMB526.32 million, representing an increase of 6.41% as compared with the corresponding period of last year and accounting for 56.61% (2015: 56.24%) of the total revenue of the Group; revenue from system integration amounted to RMB238.06 million, representing an increase of 23.00% as compared with the corresponding period of last year and accounting for 25.61% (2015: 22.01%) of the total revenue of the Group; revenue from software development amounted to RMB159.49 million, representing a decrease of 7.98% as compared with the corresponding period of last year and accounting for 17.16% (2015: 19.71%) of the total revenue of the Group; revenue from IT consultancy and sales of goods totaled RMB5.79 million, representing a decrease of 67.83% as compared with the corresponding period of last year and accounting for 0.62% (2015: 2.04%) of the total revenue of the Group. In addition, in respect of industries which our clients are engaged in, government clients of the Group accounted for the largest share, with 86.83% (2015: 76.49%) of revenue from the government clients. In respect of regions of business distribution, the revenue of the Group was still derived mainly from Beijing currently, which accounted for 87.57% (2015: 76.91%) of the total revenue.

Business model



Customer distribution



Management Discussion and Analysis

Capital Expenditure, Liquidity and Financial Resources

As of 31 December 2016, the Group had total assets of RMB1,745.09 million, representing an increase of 7.11% as compared with the corresponding period of last year. Equity attributable to owners of the parent company amounted to RMB976.74 million, representing an increase of 6.53% as compared with the corresponding period of last year. The Group's current ratio, defined as total current assets over total current liabilities, was 1.53 times, maintaining stable as compared with the corresponding period of last year; while the net gearing ratio, defined as total borrowings over net assets, stayed at a relatively low level of less than 3%. For the year ended 31 December 2016, the Group had no pledged assets.

The Group's unsecured loan from government of RMB0.90 million was applied for construction of E-commercial platform from Beijing Finance Bureau in 2002, bearing an average annualized interest rate of 1.8%. Bank deposits, bank balance and cash of the Group amounted to RMB571.20 million, representing a decrease of 1.43% over the corresponding period of last year. The fund was mainly used for investment in large projects of the Group and the payment of partial consideration in connection with acquisition of Rito Info amounted to RMB88.64 million.

The failure of Rito Info to meet 100% of the sum of the 2014 and 2015 Guaranteed Profit was mainly due to the slowdown in tender process of key customers, which adversely impacted the Rito Info's revenue for the two years ended 31 December 2015. The actual profit of the 2014 and 2015 was approximately RMB53,537,000, representing 89.14% of Guaranteed Profit in 2014 and 2015. Pursuant to the Share Transfer Agreement, the Phase II Consideration is adjusted from RMB97,600,000 to RMB88,640,000.

Equity Investments

In 2016, the Group's share of results of associates was RMB20.98 million, representing an increase of 28.91% over the corresponding period of last year, which was mainly due to the contribution from BJCA. On 23 December 2016, BJCA was officially listed on the GEM of the Shenzhen Stock Exchange through initial public offering.

Income Tax

In view of key software enterprises filing in 2016 national planning has not started yet, enterprise income tax of the Company for 2016 was imposed at a rate of 15%. This year, the income tax expense of the Group was RMB10.65 million, representing an increase of RMB10.29 million as compared with the same period of last year, mainly due to an increase in operating profit for the year and adjustment of income tax rate of the Company from 10% in the previous years to 15% in the last year, resulting in an increase in deferred tax credit in the last year.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

CHAIRMAN	Xu Zhe		Lin Yankun (Party Secretary)		
					
NON-EXECUTIVE DIRECTORS	Feng Haocheng	Cao Jun		EXECUTIVE DIRECTOR	
					
	Zhou Weihua		Shan Yuhu		Yu Donghui (Chief Executive Officer)
					
INDEPENDENT NON-EXECUTIVE DIRECTORS	Gong Zhiqiang		Cheung, Wai Hung Boswell	Li He	Yang Xiaohui
					

CHAIRMAN

Mr. Xu Zhe, aged 47, was appointed as Non-executive Director since January 2016 and was elected as the Chairman. He is also the chairman of the Strategy Committee and the Nomination Committee, responsible for the leadership of the Board to ensure the effective operation of the Board for the interest of the Company as a whole. Mr. Xu was appointed as non-executive director of the Company during the period from July 2003 to June 2009. He was chairman of the Company during the period from May 2011 to June 2014 and had a deep understanding about the business and operations of the Company. Mr. Xu is currently the vice-president and director of BSAM, and chairman of BJCA and Beijing Ke Qiao Investment Co., Ltd. (北京科橋投資股份有限公司). He once served at Beijing International Trust Corporation Limited. He has substantial experience in corporate management and capital operation. Mr. Xu graduated from Guanghua School of Management of Peking University with a master's degree in business administration in 2005.

EXECUTIVE DIRECTOR

Ms. Lin Yankun (Party Secretary), aged 42, was appointed as executive director, member of Remuneration and Appraisal Committee in January 2017. In November 2016, she joined the Company as Party Secretary. Prior to joining the Company, Ms. Lin served as the minister of disciplinary inspection supervision in BSAM. Ms. Lin also held various positions in Beijing Municipal Committee Office, including deputy director of the research department and the Secretary Of The League Committee. Ms. Lin has a wealth of business management experience. Ms. Lin graduated from Peking University in 2006 with a master's degree in civil and commercial law.

Mr. Yu Donghui (Chief Executive Officer), aged 44, was appointed as executive director and member of the Strategy Committee in January 2017. In November 2016, he was promoted to Chief Executive Officer of the Company. He also served as Chairman of Capinfo Technology, a subsidiary, and executive director of the Parking Management, responsible for the overall operation and management, the implementation of the policies and operation objectives established by the Board of Directors. Mr. Yu graduated from Tsinghua University in 1999 with a master degree in materials processing engineering and joined the Company in the same year. He previously served as general manager of the network technology service center, business director and vice president of the Company with extensive experience in enterprise and technique management.

NON-EXECUTIVE DIRECTORS

Dr. Feng Haocheng, aged 31, was appointed as non-executive Director since January 2016. Dr. Feng is also a member of the Strategy Committee. He currently serves as assistant to the general manager of Beijing Industrial Development Investment Management Co., Ltd. (北京工業發展投資管理有限公司). Dr. Feng worked for the technology and modern manufacturing industry investment division of BSAM and China Aerospace Investment Holdings Ltd.. Dr. Feng graduated from Beihang University and majored in freight vehicle design with a doctorate degree in 2012.

Mr. Cao Jun, aged 46, was appointed as non-executive Director since January 2016, and served as non-executive Director during January 2009 to December 2011. Mr. Cao is currently the deputy director of the business management department of Beijing Radio and Television. He worked for the Beijing City Business School, Beijing Municipal Bureau of Media Network, Beijing BAMC Entertainment Group, Beijing Media Network and “Support Tibet Command in Beijing” (北京援藏指揮部). Mr. Cao graduated from University of Political Science & Law in 1992 with a bachelor degree in laws.

Mr. Zhou Weihua, aged 55, a professional senior engineer, was appointed as non-executive Director since June 2015. He is currently the chairman and general manager of Beijing Sino-Sky Radio TV & Communication Technology Co. Ltd., the sponsor shareholder of the Company and had served as the director and deputy chief engineer of the Research Department in Aerial Design of the Radio, Film & TV Design and Research Institute and engaged in development, design and management of antenna of radio and television communications for many years. He graduated from Peking University Guanghua School of Management in July 2005 where he received a management master’s degree.

Mr. Shan Yuhu, aged 55, senior accountant, was appointed as non-executive Director since June 2015. He is currently the general manager and director of Beijing Telecom Investment Co., Ltd., the sponsor shareholder of the Company and had served as the head of Financial Department of the Beijing Telegraph Bureau (北京電報局財務科), head of the Financial Department of the Beijing Long Distance Telephone Bureau (北京長途電話局財務處), the chief accountant of Beijing Suburban Telecommunication Bureau (北京市郊區電信局) and deputy general manager of the Financial Department of China Unicom, Beijing branch.

Ms. An Lili, aged 57, was appointed as non-executive Director since June 2015. She is currently the director of China Financial Computerisation Corporation and has been a teacher of the Faculty of Trading at Renmin University of China, the head and deputy inspector of the Statistics and Analysis Department of The People’s Bank of China (中國人民銀行調查統計司). Ms. An graduated from the Chinese Academy of Social Sciences with a master degree in money and banking in 1998.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Gong Zhiqiang, aged 45, was appointed as independent non-executive Director since June 2009 and is also the chairman of the Remuneration and Appraisal Committee of the Company and a member of the Audit Committee and Nomination Committee. Mr. Gong is currently a managing partner of Beijing S&P Law Firm and independent director of Beijing Municipal Road and Bridge Group Co., Ltd. (北京市政路橋集團有限公司). Mr. Gong previously worked in the Intermediate People's Court of Handan Municipality, Hebei Province and Beijing Hylands Law Firm. He has extensive experience in control of corporate legal risks. Mr. Gong graduated from Hebei University with a master degree in laws in 1995.

Mr. Cheung, Wai Hung Boswell, aged 47, a non-practicing member of the HKICPA and a Chartered Marketer of the Chartered Institute of Marketing in the United Kingdom. Mr. Cheung was appointed as the independent non-executive director in June 2015, and is a member of the Audit Committee and Nomination Committee. Mr. Cheung is currently the Chief Financial Officer of Far East Consortium International Limited (a company listed on the Hong Kong Stock Exchange) and an audit committee member of Agora Hospitality Group Co., Ltd. (a company listed on the Tokyo Stock Exchange). Mr. Cheung once served as the chief operating officer and company secretary of Integrated Waste Solutions Group Holdings Limited (formally known as Fook Woo Group Holdings Limited) (a company listed on the Hong Kong Stock Exchange), senior advisor of China Pacific Insurance (Group) Co., Ltd. (a company listed on the Hong Kong Stock Exchange), an executive director and a non-executive director of Dejin Resources Group Company Limited (formally named as Bright International Group Limited, a company listed on the Hong Kong Stock Exchange), and also held audit posts in Deloitte Touche Tohmatsu and Ernst & Young. Mr. Cheung graduated from the University of Leicester, UK with an MBA degree in 1995, and obtained a master's degree in professional accounting from the Southern Cross University, Australia in 2007.

Mr. Li He, aged 44, was appointed as independent non-executive director, members of the Audit Committee and the Strategy Committee of the Company in May 2016. Mr. Li is currently the deputy general manager of Synopsys, Inc. (China region). He was once an officer of CAD centre in Beijing Institute of Control Engineering. Mr. Li graduated from Tsinghua University and obtained a bachelor's degree in Precision Instrument and Mechanism in 1996, and graduated from China Academy of Space Technology and obtained a master's degree in Computer Application in 1999.

Mr. Yang Xiaohui, aged 49, is a senior accountant, certified public accountant, certified tax agent, and certified public valuer (non-practicing member), appointed as an independent non-executive director, Chairman of the Audit Committee and members of the Remuneration And Appraisal Committee in November 2016. He is now the partner of the Ruihua Certified Public Accountants and holds concurrent position as independent non-executive director of Beijing Jingcheng Machinery Electric Company Limited, a company listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange. He was a teacher of North China University of Technology, department manager of Zhonghengxin Certified Public Accountants, partner of RSM China Certified Public Accountants. He has extensive experience in auditing and financial management.

Profiles of Directors, Supervisors and Senior Management



THE CHAIRMAN OF THE BOARD OF SUPERVISORS

Mr. Di Guojun, aged 55, was appointed as supervisor representing Shareholders since June 2012 and was elected as Chairman to the Board of Supervisors. Mr. Di is currently the chief financial controller and general manager of the Operation Planning and Finance Department of BSAM. Mr. Di was the manager of the Financial Department of China Merchants International Travel Corporation, manager of the Financial Department and assistant to general manager of China Merchants International Tourism Administration Corporation, and general manager of the Finance and Audit Department of BSAM. Mr. Di graduated from Northwest University in 1986 where he received a bachelor degree in tourism economics.

SUPERVISORS

Mr. Liang Xianjun, aged 40, was appointed as Supervisor representing Shareholders since June 2014. Mr. Liang is currently the general manager of the audit division of BSAM. Mr. Liang previously served as the accountant of Beijing Automotive Research Institute, the financial executive of the capital of finance division of China Oceanwide Holdings Co., Ltd. (中國泛海建設控股股份有限公司) and deputy general manager of Beijing Artists Management Corp., Ltd. He has gained extensive experience in financial management. Mr. Liang graduated from the Accounting Department of Beijing Jiaotong University in 2001 and obtained bachelor degree.

Mr. Lang Jianjun, aged 47, acted as supervisor elected by staff representatives in June 2015 and is currently the manager of the medical insurance business department of the network technology service center of the Company. Prior to joining the Company, Mr. Lang had served for Electronic Technology Intelligence Institution of the Ministry of Information Industry (信息產業部電子科技情報所). Mr. Lang graduated from Xian University with a master degree in Computer Organisation and Architecture in 1995.

SENIOR MANAGEMENT

Ms. Wu Weidong, aged 48, joined the Company in March 2013 and served as vice president of the Company during the period since July 2014 to November 2016. She is currently the deputy secretary of the Party Committee, the secretary of discipline commission and chairman of the labour union, mainly responsible for relevant administration work of the Party, the discipline commission and labour union. Before joining the Company, Ms. Wu has been worked as cadre of the policy law office of Beijing Municipal Bureau of Personnel, minister of the Committee of Party Office and the general manager of the human resource department of Beijing Science and Technology Park Construction (Group) Co. Ltd.. She has gained extensive experiences in corporate management. Ms. Wu obtained a bachelor degree from Renmin University of China in society in 1991.

Mr. Gong Chengliang, aged 45, joined the Company in April 1999, is currently the vice-president, technical director and deputy chief engineer of the Company and also the chairman of Rito Info, being a wholly owned subsidiary of the Company, mainly responsible for the software and corporate information sector, cloud computing sector of the Company and in charge of the work of technical committee of the Company, and has extensive experience in technology and project management. Mr. Gong graduated from the Department of Precision Instruments and Mechanology of Tsinghua University with a master degree in 1999 and joined the Company in the same year. He previously held various positions in the Company including general manager of the technical support center.

Mr. Lu Lei, aged 37, joined the Company in June 2014 and is currently vice president, the secretary of the Board and general counsel. He is responsible for equity investment and management, capital management, information disclosure, maintaining investor's relationship, legal affairs and other related works. Before joining the Company, he worked as planning manager of Beida Jade Bird Huayu International Information Technology Training Centre, project manager of Beijing Dayue Consulting Co., Ltd. and senior project manager of technology and modern manufacturing industry investment division of BSAM. Mr. Lu was appointed as non-executive Director since June 2012 to June 2015 and also executive Director since June 2015 to January 2017. Mr. Lu received a bachelor degree in mathematics and applied mathematics from Fudan University in 2003, and master degree of the Business School of Nankai University in 2016.

Dr. Wu Bo, aged 60, joined the Company in August 2000, and was the Vice-President of the Company since November 2010 to November 2016, mainly responsible for the general management of Capinfo Institute. Prior to joining the Company, he worked as a scholar in the Physics Postdoctoral Scholar Circulation Station of Tsinghua University, and subsequently served as head of international department of Jitong Communication Co. Ltd., sales manager of the CLI Company of the United States of America, the Chairman of Beijing Taigu'er Mechanical and Electrical Technology Co., Ltd and the general manager of Beijing Credit Management Company Limited. Dr. Wu participated in the Doctor Student Training Program co-organized by the Bonn University in Germany and the Dalian University of Science and Technology in 1991 and received a doctorate degree.

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Group is an information technologies and services supplier. Its businesses mainly include system integration, software development, IT planning and consultancy, IT operation and maintenance, etc. Leveraging on its comprehensive experience and abundant information resources, the Group participated in the construction, operation and maintenance of large-scale information application projects in Beijing and other regions across the country, and has established a widespread and exclusive IT service network over many years.

BUSINESS REVIEW

A discussion on the business development and prospect of the Group during the Year are provided in the "Chairman's Statement" on pages 12 to 13 and "Management Discussion and Analysis" on pages 14 to 22 of this annual report respectively. A description of the major risks factors and uncertainties that the Group may be facing and the financial risk management objectives and policies are provided in note 4 and in note 32 to the consolidated financial statements. An analysis of the Group's performance during the Year using financial key performance indicators is provided on page 3 of "Financial Highlights" of this annual report. In addition, compliance with relevant laws and regulations which have a significant impact on the Group and the relationships with its stakeholders are contained on pages 47 to 76 of "Corporate Governance Report" and pages 77 to 88 of "Investors Relations" of this annual report respectively. The Group acts in a manner responsible for the environment, trying to comply with laws and regulations concerning environmental protection, and take effective measures to achieve efficient use of resources, energy conservation and waste reduction. Further details will be disclosed in the Environmental, Social and Governance Report of 2016 of the Company.

RESULTS AND DIVIDEND APPROPRIATION

The results of the Group for the year ended 31 December 2016 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 94 of this annual report.

The Directors do not recommend the payment of any interim dividend (2015: Nil).

The Directors recommend the payment of a final dividend of RMB1.09 cents (2015: RMB1.57 cents) per share totalling RMB31.6 million in respect of the year ended 31 December 2016 (2015: RMB45.5 million).

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 30 to the consolidated financial statements on page 149 of this annual report.

FINANCIAL HIGHLIGHTS

A summary of the results and the assets and liabilities of the Group for the year ended 31 December 2016 and the past four financial years is set out in "Financial Highlights" on page 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment acquired by the Group during the Reporting Period are set out in note 14 to the consolidated financial statements on page 135 of this annual report.

INVESTMENT PROPERTY

The investment property owned by the Group is situated at No. 12 Beichen West Road, Chaoyang District, Beijing, which is the office property on the fifth and sixth floor of Block A of Digital Beijing Building, with a gross floor area of approximately 5,386 sqm. The property is currently leased out. Pursuant to the committed tenancy agreement, for the period from 20 December 2015 to 19 April 2017, the leased area is 5,386 sqm, and it will be 2,693 sqm from 20 April 2017 to 19 April 2020. Details of the movements of the investment property of the Group during the Reporting Period are set out in note 15 to the consolidated financial statements on page 136 of this annual report.

SHARE OPTIONS

Up to the date of this report, no share option scheme is implemented by the Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company and its parent company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into during the year or subsisted at the end of the year.

MEMBERS OF THE BOARD

The following persons are Directors during the year and up to the date of this report:

Executive Directors

Ms. Lin Yankun (*Party Secretary, appointed in January 2017*)

Mr. Yu Donghui (*chief executive officer, appointed in January 2017*)

Mr. Lu Lei (*Vice President and secretary of the Board, resigned as executive director in January 2017*)

Dr. Wang Xu (*resigned in January 2016*)

Non-executive Directors

Mr. Xu Zhe (*appointed as Chairman in January 2016*)

Dr. Feng Haocheng (*appointed in January 2016*)

Mr. Cao Jun (*appointed in January 2016*)

Mr. Zhou Weihua

Mr. Shan Yuhu

Ms. An Lili

Mr. Wu Shengjiao (*resigned in January 2016*)

Mr. Shi Hongyin (*resigned in January 2016*)

Independent Non-executive Directors

Mr. Gong Zhiqiang

Mr. Cheung, Wai Hung Boswell

Mr. Li He (*appointed in May 2016*)

Mr. Yang Xiaohui (*appointed in November 2016*)

Dr. Jiao Jie (*resigned in March 2016*)

Ms. Zhou Liye (*resigned in November 2016*)

The Company has received from each of independent non-executive directors of their annual confirmation in relation to their independence in accordance with Rule 3.13 of the Listing Rules, and considered that each of them is independent.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As of 31 December 2016, none of the Directors, supervisors and chief executive of the Company had any interest and short position in shares, underlying shares or debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Cap. 571 of the Laws of Hong Kong)) 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 as referred in Appendix 10 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed, no transactions, arrangements or contracts of significance to which the Company and its parent company, its subsidiaries, or fellow subsidiaries was a party or were parties and in which a Director or supervisor or any entities connected with him/her had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, the Group did not purchase, sell or redeem any of the Company's listed securities.

INTEREST OF SUBSTANTIAL SHAREHOLDERS

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 Directors or chief executive of the Company) as recorded in the register required to be kept under section 336 of the SFO as at 31 December 2016:

Name of controlling shareholder	Number of shares	Nature of interests	Approximate percentage to the issued share capital
Beijing State-owned Assets Management Co., Ltd.	1,834,541,756 domestic shares	Beneficial owner	63.31%

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, the aggregate purchases attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total purchases. The aggregate revenue attributable to the Group's five largest customers accounted for approximately 42.42% of the Group's total revenue, among which, the largest customer attributed approximately 18.77% of the Group's total revenue.

None of the Directors, their close associates or any shareholders (who to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in any of the Group's five largest suppliers or five largest customers.

COMPETING INTERESTS

None of the Directors or the management shareholders (as defined in the 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.

MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Group was not involved in any material litigation or arbitration. Besides, to the best knowledge of the management of the Company, the Group had no material litigation or claim which was pending or threatened by or against the Group.

PERMITTED INDEMNITY PROVISION

The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against Directors of the Company.

CONNECTED TRANSACTIONS

The Company formulated Management System of Information Disclosure and Management System of Inside Information and Insiders, to regulate and enhance management over connected transactions. Led by the Board Secretary and the Company Secretary, the Board's office of the Company is responsible for daily reporting and reviewing of connected transactions. Continuing connected transactions occurred during the Reporting Period is set out as follows:

I. Continuing connected transactions exempted from independent shareholders' approval

Unit: RMB million

No.	Description of transactions	Counterparty	Type	Annual Cap	Transaction amount for the year
1	Provision of network system operation and relevant operation and maintenance services	Capnet Company Limited	Income	11.3	10.7
2	Purchase of hardware	Capnet Company Limited	Expenses	18.9	15.4
3	Purchase of network security system and services	Beijing Certificate Authority Co., Ltd.	Expenses	7.6	5.7
4	Lease of office premises	Beijing IC Design Park Co., Ltd.	Expenses	11.5	11.5

(I) Continuing connected transaction for provision of the network system operation and relevant maintenance services

1. Continuing Connected Transactions between Capinfo Technology and Capnet

With the approval at the fifth meeting of the sixth session of the Board of the Company, Capinfo Technology renewed the network system services agreement with Capnet on 30 December 2015, pursuant to which, Capinfo Technology provided Capnet with the network system operation and maintenance and services. The term of the agreement was extended to 31 December 2018. The Board of Directors approved that the annual caps for each year of 2016 to 2018 was RMB6.3 million. The transaction was exempt from the independent shareholders' approval. The Company had complied with the reporting and announcement requirements under the Listing Rules and the relevant announcement of which was posted on the websites of the Stock Exchange and the Company.

Connected relationship: Capinfo Technology is a subsidiary of the Company with 74% of shares, and Capnet holds 26% of shares of Capinfo Technology. Capnet is a subsidiary of BSAM with 95% of shares, and BSAM is the controlling shareholder of the Company.

Transaction background: Capnet is principally engaged in the operation of value-added telecommunication business by providing internet and related value-added services to its clients, including domain name register, virtual space, web design and emails etc. In order to ensure to provide stable, safe and efficient services to its clients, Capnet engaged Capinfo Technology to build relevant network system and provide maintenance services for it.

Voting: None of the Directors (including the Independent Non-executive Directors) had any material interests in the above transaction. Moreover, the Directors were of the view that the transaction was carried out in the ordinary course of business of the Company on normal commercial terms, and the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole. On the Board resolution date, the directors who are employees of BSAM, a related party had abstained from voting on the resolution.

2. Continuing Connected Transactions between the Company and Capnet

With the approval at the fifth meeting of the sixth session of the Board of the Company, the Company renewed a network system service agreement with Capnet on 30 December 2015, to provide internet equipment leasing and system maintenance service to Capnet, with an agreed term expire on 31 December 2018, the annual transaction caps approved by the Board for the year 2016 to 2018 was RMB5.0 million. The transaction was exempt from the approval of independent shareholders, the Company has complied with the reporting and announcement requirements under the Listing Rules, and the announcement was published on the websites of the Stock Exchange and the Company.

Connected relationship: Capnet is a subsidiary with 95% of equity interests controlled by BSAM, the controlling shareholder of the Company.

Transaction background: Capnet is principally engaged in the operation of value-added telecommunication business by providing internet and related value-added services to its clients, including domain name register, virtual space, web design and emails etc. In order to ensure the stability of the system, Capnet leased our internet equipment and engaged the Company to provide maintenance services for it.

Voting: None of the Directors (including the Independent Non-executive Directors) had any material interest in the above transaction. Moreover, the Directors were of the view that the transaction was carried out in the ordinary course of business of the Company on normal commercial terms, and the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole. On the Board resolution date, the Directors who are employees of BSAM, a related party had abstained from voting on the resolution.

3. Consolidation

According to relevant regulations under the Listing Rules, transactions between the Company and Capinfo Technology and Capnet shall be calculated on a consolidation basis. As approved at the fifth meeting of the sixth session of the Board held by the Company, the annual transaction caps for 2016 to 2018 after consolidation both should be RMB11.3 million.

(II) Continuing connected transaction for hardware purchase

With the approval at the fifth meeting of the sixth session of the Board of the Company, Capinfo Technology and Capnet renewed the procurement framework agreement on 30 December 2015, pursuant to which, Capinfo Technology will purchase hardware product and relevant service from Capnet based on its business needs for the period up to 31 December 2018. As approved by the Board of Directors, the annual caps from 2016 to 2018 was RMB18.9 million, RMB8.0 million and RMB8.0 million in light of the boosted demand for hardware purchase due to the business growth of Capinfo Technology. The transaction was exempt from the independent shareholders' approval. The Company had complied with the reporting and announcement requirements under the Listing Rules and the relevant announcement of which was posted on the websites of the Stock Exchange and the Company.

Connected relationship: Capinfo Technology is a subsidiary of which 74% shares owned by the Company and 26% shares owned by Capnet. Capnet is a subsidiary of BSAM, the controlling shareholder of the Company, with its 95% of equity interests owned by BSAM.

Transaction background: Capnet is principally engaged in the operation of value-added telecommunication service and the sale of computer products, with concessions granted by some well-known equipment manufacturers. Capinfo Technology provides comprehensive IT planning, consultancy, construction, operation and maintenance services, etc. Capinfo Technology purchases hardware equipment from Capnet for some projects with reference to the prices of similar products and services available in the market.

Directors' Report

Voting: None of the Directors (including the Independent Non-executive Directors) had any material interest in the above transaction. Moreover, the Directors were of the view that the transaction was carried out in the ordinary course of business of the Company on normal commercial terms, and the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole. On the Board resolution date, the Directors who are employees of BSAM, a related party had abstained from voting on the resolution.

(III) Continuing connected transaction for purchase of the network security system and services

As approved at the 23rd meeting of the fifth session of the Board of the Company, the Company and BJCA extended the term of the existing network services agreement on 27 March 2014 to re-engage BJCA to assist in developing network security system and products and to provide related technical services with a term expire on 31 December 2016. The Board of Directors approved that each annual caps for the year from 2014 to 2016 was RMB6.3 million, RMB6.9 million and RMB7.6 million. The transaction was exempt from the independent shareholders' approval. The Company had complied with the reporting and announcement requirements under the Listing Rules and the relevant announcement of which was posted on the websites of the Stock Exchange and the Company.

Connected relationship: The Company and its controlling shareholder BSAM held approximately 26.24% and 26.24% interests in BJCA, respectively.

Transaction background: BJCA is principally engaged in the electronic certification business and technology development and related services in respect of information security, having obtained an outstanding business scale in the industry. Currently, along with the upgrading of information security and the higher demand of the clients for system security, the Company engaged BJCA to assist in developing network security system and products and to provide related technical services to ensure our network systems run safely and stably.

Voting: None of the Directors (including the Independent Non-executive Directors) had any material interest in the above transaction. Moreover, the Directors were of the view that the transaction was carried out in the ordinary course of business of the Company on normal commercial terms, and the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole. On the Board resolution date, the Directors who are employees of BSAM, a related party had abstained from voting on the resolution.

(IV) Continuing connected transaction for the office lease

With the approval at the 37th meeting of the fifth session of the Board of the Company, the Company and BIDP renewed two lease agreements on 22 April 2015, with a term expire on 31 March 2018 and an aggregate floor area of approximately 4,230 square meters for room 106, 709-714, 1201-1214 and 1501-1508 leased at an annual rent of approximately RMB9.3 million. The other agreement is to lease approximately 983 square meters for room 1009-1014 at an annual rent of approximately RMB2.2 million for a term until 31 March 2016.

With the approval at the eighth meeting of the sixth session of the Board, the Company and BIDP entered into the office lease agreement on 31 March 2016 to lease 983 square meters for room 1009-1014 at an annual rent and air-conditioners charge of approximately RMB2.2 million for a term until 31 March 2018.

Pursuant to which, the Company leases a floor area of approximately 5,213 square meters for daily office use in BIDP. The Board eventually approved the annual caps of office lease transactions of RMB11.5 million, RMB11.5 million and RMB2.9 million for the year 2016, 2017 and the first quarter of 2018, respectively. The above transactions were exempt from the independent shareholders' approval. The Company had complied with the reporting and announcement requirements under the Listing Rules and the relevant announcement of which was posted on the websites of the Stock Exchange and the Company.

Connected relationship: BIDP is a wholly-owned subsidiary of the Company's controlling shareholder, BSAM.

Transaction background: BIDP is the National IC Design Beijing Industrial Base recognized by the Ministry of Science and Technology of China, providing comprehensive services to IC enterprises including professional technical service, training, financial support and office lease. BIDP is located in a centre of technology companies in Haidian District, Beijing with convenient transportation, high quality of building and reasonable rent level.

Voting: None of the Directors (including the Independent Non-executive Directors) had any material interest in the above transactions. Moreover, the Directors were of the view that the transaction was carried out in the ordinary course of business of the Company on normal commercial terms, and the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole. On the above respective board resolution dates, the Directors who are employees of BSAM, a related party had abstained from voting on the resolution.

INDEPENDENT AUDITOR'S CONCLUSION ON THE CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL

The auditor of the Company has carried out procedures on the continuing connected transactions for the year. The independent auditor is of the conclusion that these transactions:

- nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors.
- for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that transactions were not, in all material respects, in accordance with the pricing policies of the Group.
- nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material aspects, in accordance with the relevant agreements governing such transactions.
- with respect to the aggregate amount of each of the disclosed continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

II. Connected transactions exempted from independent shareholders' approval

Unit: RMB million

No.	Description of transactions	Counterparty	Type	Contract amount	Transaction amount for the year
1	System & hardware; network equipment; and integrated system	Yingzhi Recovery Investment Management Limited (英智康復投資管理有限公司), Beijing Shijing Xintian Property Limited (北京石景新天置業有限公司)	Income	6.8	-
2	Disposal of 26% equity interests in a subsidiary	Capnet Company Limited	Income	29.3	29.3

(I) Connected Transaction in Relation to System & Hardware, Network Equipment, and Integrated System

With the approval at the 3rd meeting of the sixth session of the Board of the Company, the Company entered into the Integrated System Contract with Yingzhi Recovery Investment Management Limited ("Yingzhi") on 8 April 2016 at the contract amount of RMB5.8 million. Within 12 months before the execution of such contract, the Company entered into a System & Hardware Contract with Yingzhi and Beijing Shijing Xintian Property Limited ("Shijing") at the contract amount of RMB930,000, pursuant to which the rights and obligations of Shijing under the contract were assigned to Yingzhi; and entered into a Network Equipment Contract with Yingzhi at the contract amount of approximately RMB68,000. According to relevant regulations under the Listing Rules, the transactions above shall be calculated on a consolidation basis. The transaction was exempt from the independent shareholders' approval. The Company had complied with the reporting and announcement requirements under the Listing Rules and the relevant announcement of which was posted on the websites of the Stock Exchange and the Company.

Connected relationship: Yingzhi is beneficially owned as to 48.39% by BSAM, and Shijing is beneficially owned as to 100% by BSAM.

Transaction background: Both Yingzhi and Shijing are companies established in the PRC with limited liability. The relevant projects are awarded after bidding or arm's length negotiation with reference to the prevailing market price for similar products and services and the estimated cost to be incurred for the provision of the corresponding services.

Voting: None of the Directors (including the Independent Non-executive Directors) had any material interest in the above transaction. Moreover, the Directors were of the view that the transaction was carried out in the ordinary course of business of the Company on normal commercial terms, and the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole. On the board resolution date, the directors who are employees of BSAM, a related party had abstained from voting on the resolution.

(II) Connected Transaction for Disposal of 26% Equity Interests in a Subsidiary

With the approval at the 7th meeting of the sixth session of the Board of the Company, the Company entered into an Equity Transfer Agreement with Capnet as at 3 May 2016, pursuant to which the Company had conditionally agreed to dispose and Capnet had conditionally agreed to acquire 26% equity interests in Capinfo Technology at the consideration of RMB29.3 million. The transaction was exempt from the independent shareholders' approval. The Company had complied with the reporting and announcement requirements under the Listing Rules and the relevant announcement of which was posted on the websites of the Stock Exchange and the Company.

Directors' Report

Connected relationship: Capnet is a subsidiary with 95% of equity interests controlled by BSAM, the controlling shareholder of the Company.

Transaction background: In order to strengthen the competitive strength in the area of smart city construction and operation and to facilitate the Group's business expansion, the Company has integrated its Internet of Things, E-Government IT service, security and video monitoring and related businesses and its expertise into Capinfo Technology in 2015 and established a competitive incentive mechanism for it. The introduction of Capnet as a new shareholder of Capinfo Technology can enhance the reputation of Capinfo Technology in E-Government IT service and hence facilitate the growth of Capinfo Technology's main business.

Voting: None of the Directors (including the Independent Non-executive Directors) had any material interest in the above transaction. Moreover, the Directors were of the view that the transaction was carried out in the ordinary course of business of the Company on normal commercial terms, and the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole. On the board resolution date, the directors who are employees of BSAM, a related party had abstained from voting on the resolution.

CORPORATE GOVERNANCE

The corporate governance policies and practices of the Company are set out in "Corporate Governance Report" on pages 47 to 76 of this annual report.

By Order of the Board

Mr. Xu Zhe

Chairman

Beijing, the PRC

24 March 2017

INDEPENDENT NON-EXECUTIVE DIRECTORS' REPORT <<<

THE BOARD OF THE COMPANY

As the independent non-executive directors of the Company (hereinafter referred to as "INEDs"), we continued to update ourselves on the basic knowledge related to the operation of listed companies, familiarize ourselves with relevant laws and regulations, and make concerted efforts to safeguard the interests of the Company and shareholders as a whole. In 2016, we had been closely monitoring the production and operation of the Company and matters related to compliance, and actively participating in the business decision-making process. We also gave fair and objective independent opinions on the Company's long-term development plan through shareholders' general meetings as well as meetings of the Board and its professional committees.

Our performance of duties in 2016 is reported as follows, which will also be reported to shareholders at the Annual General Meeting of the Company.

I. BASIC INFORMATION OF INEDS

Currently, the Company has four INEDs, and is compliant with the requirements on the minimum number of INEDs under the Listing Rules. Given the professional background on financial, legal and information technologies as well as related experience of these INEDs, it is believed that they have relevant experience and qualifications as required for the performance of their duties.

II. PERFORMANCE OF DUTIES DURING THE YEAR

(i) Attendance of meetings of the Board and shareholders' general meetings

During the Reporting Period, we actively attended shareholders' general meetings and meetings of the Board, and had not raised any objection to the resolutions proposed on such meetings. At the shareholders' general meetings, we listened carefully to the questions raised by the participating shareholders on the issues of concern and questions on the operation of the Company, and carried out corresponding research on such issues as a focus in our performance of duties. On the meetings of the Board, we carefully considered each proposal and participated actively in the discussion and make independent judgments. Professional advice was provided on major decision-making of the Company with a view to safeguarding the legitimate interests of the Company and shareholders as a whole.

(ii) Operation of the professional committees under the Board

The composition of the Board of the Company is scientific and reasonable, the responsibilities are clearly defined and the system is sound and robust. The procedures, rules and policies under the Procedural Rules of the Board and detailed working rules of respective professional committees have been strictly observed.

The Board has four professional committees, namely the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Strategy Committee. These committees are authorized to hold meetings on regular or irregular basis in accordance with respective Detailed Working Rules. The proposals on major matters were discussed or studied before being brought to the attention of the Board to ensure the quality of its deliberations. Such arrangements not only ensure the quality of deliberation on resolutions by the Board of the Company, but also enhance communication and exchange between the Company and INEDs and relevant intermediary agencies, while at the same time improving the efficiency of the operation of the Board. As such, they are beneficial to promoting the compliant operation of the Company.

III. MAJOR CONCERNS IN THE PERFORMANCE OF DUTIES BY INEDS

(i) Connected transactions and disclosure of information

The Company has been dedicated to performing obligation of auditing and disclosure for connected transactions in accordance with relevant laws and regulations and relevant provisions of the Listing Rules, as well as the Company's "Management Regulations for Disclosure of Information" and the "Management Regulations for Insider Information and Insiders". During the Reporting Period, the Company carried out connected transactions in accordance with applicable laws and regulations. When the related transaction was involved, the connected directors or the connected shareholders had abstained from voting at relevant meetings. We also gave independent statements and opinions, which would fundamentally eliminate the occurrence of illegal connected transactions. We uphold the principle of truthful, accurate, complete, timely and fair information disclosure, strengthen the management of information disclosure. We remain vigilant against insider trading and are committed to protect the interests of the shareholders of the Company.

(ii) External guarantees and appropriation of capital

During the Reporting Period, the Company did not involve in any guarantee, nor there be any appropriation of capital of the Company by controlling shareholders.

(iii) Nomination and remuneration of directors

During the Reporting Period, the members of the Nomination Committee reviewed the qualifications and experience of Mr. Li He, Mr. Yang Xiaohui, Mr. Yu Donghui and Ms. Lin Yankun and recommended to appoint them as directors of the Company. The recommendation has been reported to the meeting of the Board and shareholders' general meetings for approval. The procedure for nomination of candidates of directors was compliant with relevant requirements of applicable laws and regulations and the Articles of Association of the Company.

Based on the performance of the Company and with reference to relevant standards of remuneration for senior executives in the industry and specific performance of the Company's senior management, the members of Remuneration and Appraisal Committee made confirmation on the overall implementation of the Company's remuneration policies in 2015, and approved the bonus distribution proposal for senior management of the year 2015 and the basic annual salary proposal for senior management of the year 2016.

(iv) Appointment of auditor

During the Reporting Period, the Company's Audit Committee approved the re-appointment of Grant Thornton Hong Kong Limited as the independent auditor of the Company and submitted the approval to the meeting of the Board and shareholders' general meetings for deliberation. The procedure for the re-appointment of the auditor of the Company was compliant with relevant requirements of applicable laws and regulations and the Articles of Association of the Company.

(v) Cash dividends and other returns to investors

The Company has continuously distributed cash dividends since 2008 with an accumulated amount of RMB366.3 million (including tax). The Company puts great emphasis on generating investment return for its shareholder, and will adhere to long-term and stable dividend policy.

(vi) Performance of commitments made by the Company and its shareholders

BSAM, the controlling shareholder of the Company, made a non-competitive commitment in December 2001 when the Company went public, according to which, BSAM would not engage in any business competing, directly or indirectly, with the Company's existing business, and would not conduct any business which competes, either directly or indirectly, with the Company's business. Since then, the controlling shareholder has been fulfilling its commitments in an active manner, and no breach of commitment had been identified.

In terms of compliant operation and corporate governance, during the year 2016, the Company had complied with applicable requirements of relevant laws, regulations and other normative documents promulgated by national governmental authorities. The INEDs did not raise any objection to the proposals put forward to the meetings of the Board and the meetings of their specialized committees. Entering into a new year, we expect the Company to accelerate the pace of market expansion, promote the implementation of program for the reform of state-owned enterprises, and reward the shareholders with satisfactory returns.

Independent Non-executive Directors

Beijing, the PRC
24 March 2017

»» SUPERVISORS' REPORT

In 2016, with an aim to substantially safeguard the interests of the Company and all shareholders, the Board of Supervisors duly and honestly performed its duties, according to the Companies Law of the People's Republic of China, relevant regulations and the requirements under the Articles of Association, to oversee the long-term corporate development planning, significant development projects, the Company's production and operation, financial conditions and the performance of duties of the Director and senior management for promoting the standardized operation and sound development of the Company. Details of our duty performance in the last year are set out as below:

I. MEETINGS OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Supervisory Committee signed meeting documents two times in the form of circulation, to take an effective supervision over the Board and the compliance of operation management of the Company. The Supervisory Committee reviewed the Report on the Continuing Connected Transaction for 2015, Supervisors Report for 2015, 2015 and 2016 Interim Independent Auditor's Report and Financial and Operation Analysis Report, and confirmed the information contained therein.

II. OPERATION OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Supervisors' Report of 2015 proposed was approved at the AGM. Meanwhile, the Supervisors of the Company attended all board Meetings, and made no objection to each report and contents proposed on the Meeting for consideration.

III. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS

The Board of Supervisors made the following opinions on the supervision of the Year:

(I) Lawful Operation of the Company

The Board of Supervisors exercised supervision in routine work over the legal compliance and legality of the Company's operation and management. It had also exercised supervision over the work performance of the Company's Directors and management. During the Reporting Period, the Company conducted business according to the law and made continuous efforts to improve its internal control system; the decision-making procedures are in compliance with the relevant provisions of the laws, regulations and the Articles of Association.

(II) Authenticity of Financial Statements

During the Reporting Period, the Board of Supervisors carefully examined the 2015 and 2016 Interim Independent Auditor's Report and Financial and Operation Analysis Report, and supervised and inspected the Company's implementation of relevant financial policies and legislation as well as details on the Company's assets, financial income and expenditure. It is of the opinion of the Board of Supervisors that the financial reports of the Company gives a true and fair presentation of the financial position and operating results of the Company, the preparation procedure for the reports and decision-making and approval procedures are in compliance with the requirements of the laws and regulations, the Listing Rules and the Company's internal management system.

(III) Acquisition and Sale of Assets

During the Reporting Period, subject to the approval of the Board of the Company, the Transfer Agreement of Equity Interest was entered between the Company and Capnet, pursuant to which the Company conditionally agreed to disposal 26% equity interest in Capinfo Technology, a wholly-owned subsidiary of the Company with a consideration of approximately RMB29.3 million. The Supervisor committee is not aware of any insider dealing activities during the disposal of assets. No act violating the shareholders' interests or resulting in any loss of assets of the Company was identified.

In 2014, the Company acquired 100% of shares in Rito Info. During the Reporting Period, the Company completed the second phase of the acquisition and paid RMB88.6 million. The Supervisor Committee believed that the acquisition of Rito Info was in compliance with the state policies and the Company's strategic direction and that the acquisition procedures were of observance to the relevant laws and regulations, Listing Rules and respective requirements under the Company's internal management system without any awareness of violation.

(IV) Implementation of Resolutions Passed at the General Meetings

During the Reporting Period, the Board of Supervisors conducted supervision and inspection over the implementation of resolutions passed at the general meetings by the Board and the management. The Board of Supervisors is of the opinion that the Directors and the management of the Company have diligently discharged their duties in accordance with the resolutions approved by the general meetings. None of the Directors and management of the Company were found to have violated any laws or regulations or the Articles of Association nor taken any act which were detrimental to the interests of the Company and shareholders in discharging their duties.

(V) Information Disclosure and Connected Transaction

The Company fulfilled its information disclosure obligations in strict compliance with the laws, regulations and the requirements of the Listing Rules, duly implemented the Information Disclosure Management System and the Management System of Inside Information and Insiders of the Company, disclosed information in a timely and fair manner, and ensured that information disclosed was true, accurate and complete.

During the Reporting Period, the procedures for entering into connected transactions by the Company were in compliance with the laws, regulations and requirements of the Listing Rules, and the prices were determined pursuant to commercial market rules. The approval, voting, disclosure and implementation of connected transactions complied with the relevant provisions of the laws, regulations and the Listing Rules. The Board of Supervisors did not find any act that was detrimental to the interests of the shareholders or the Company.

SUPERVISORS' REPORT

(VI) Internal Control and Risk Management

During the Reporting Period, the Company focused on strengthening internal control, established and implemented relatively completed and reasonable internal control policy, and the internal control system was roughly completed and effective. As the internal control awareness was increasingly enhanced, no significant case or responsible accident occurs during the Year.

Our risk management operated by closely focusing on strategic transition, regulatory requirements, operating objective and the satisfaction of clients, which effectively promoted the optimization and adjustment of business structure, thus each of our risks were effectively controlled and the assets were in good condition.

In the coming year, under supervising requirements and relevant provisions of the Articles of Association and with internal control compliance supervision and risk prevention as core work, the Board of Supervisors will take the responsibility of maintaining effective operation of the Company's governance and sound development to carefully perform their supervising duty, enhance the supervising strength and raise the quality of supervision, so as to protect the interest of the Company, shareholders and employees.

By Order of the Board of Supervisors

Mr. Di Guojun

Chairman of the Board of Supervisors

Beijing, the PRC

24 March 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

Good corporate governance serves as a foundation for the Company to improve its management. The Company pursues sound corporate governance and believes that good corporate governance is in the interests of the Company, shareholders and stakeholders. The Company considers excellent corporate governance as an important goal. With an aim to continuously improve its corporate governance level, the Company constantly improves its corporate governance practices and procedures, with a standardized and improved corporate governance structure established. It also strictly complies with the state laws and regulations, relevant regulatory requirements and provisions of Listing Rules as well as closely observes trends in regulatory changes in China and abroad. The corporate governance has been enhanced continuously. During the Reporting Period, the Company has adopted the code provisions of the "Corporate Governance Code" as set out in Appendix 14 to the Listing Rules as its own corporate governance code. Up to the date of this report, the Company has complied with all code provisions under the Corporate Governance Code, except that there was no separation of the roles of Chairman and Chief Executive Officer as stipulated in the code provision A.2.1 of the Corporate Governance Code. Currently, Mr. Xu Zhe and Mr. Yu Donghui are the Chairman and the Chief Executive Officer of the Company respectively. Before the appointment of Mr. Yu Donghui as Chief Executive Officer of the Company on 25 November 2016, the daily management of the Company was under the leadership of Mr. Xu Zhe and delegated to vice president of each business sector, through which shared a great extent of the responsibilities of the Chief Executive Officer, and ensured the effective operation and monitoring of the Company.

CORPORATE GOVERNANCE FRAMEWORK

In accordance with the relevant provisions of the laws and regulations including the Companies Law and the Listing Rules as well as the Articles of Association, and with reference to the status of the Company, the Company constantly developed, improved and effectively implemented work systems and related work processes for the Board and its various specialized committees. The Company has established an effective corporate governance system with general meeting as the organ of highest authority, the Board as the decision-making organ, the Board of Supervisors as the supervisory organ and the management as the implementation organ. During the Reporting Period, through the co-ordination and checks and balances among the general meeting, the Board and its specialized committees, the Board of Supervisors and the management together with the effective operations of the internal control systems, the internal management operations of the Company have been further standardised and the level of its corporate governance has been continually enhanced.

REGULATORY DOCUMENTS OF CORPORATE GOVERNANCE

The shareholders' general meetings, the Board and its subordinate specialized committees and the Board of supervisors are functioning independently and efficiently according to the Articles of Association and their respective rules and procedures. At present, the Company's regulatory documents of corporate governance mainly include:

No.	Name of Document
1	Articles of Association
2	Rules of Procedures of General Meeting
3	Rules of Procedures of Meetings of the Board of Supervisors
4	Rules of Procedures of Meetings of the Board of Directors
5	Articles of the Audit Committee
6	Articles of the Remuneration and Appraisal Committee
7	Articles of the Nomination Committee
8	Articles of the Strategy Committee
9	Articles of Independent Non-executive Directors
10	Articles of Secretary of the Board
11	Remuneration System of Directors and Supervisors
12	Code for Securities Transactions
13	Operation Rules for Capital Management
14	Rules of Working Meetings of Chief Executive Officer
15	Management System of Information Disclosure
16	Management System of Inside Information and Insiders
17	Management System of the Internal Audit
18	Procedures for Shareholders to Propose a Person for Election as Director
19	Administrative Measures on Press Release and Promotion
20	Investor Relations Policy

EXCEEDING THE REQUIREMENTS OF CORPORATE GOVERNANCE

No.	Exceeding the Requirements of Code Provisions of Corporate Governance Code of the Listing Rules
1	Up to the date of this report, nine of the twelve members of the Board are external Directors, so there is a strong independent element on the Board, which can effectively exercise independent judgment.
2	Two Independent Non-executive Directors of the Board are Certified Public Accountants.
3	All members of the audit committee are Independent Non-executive Directors with legal or accounting professional qualifications or relevant experience in the industry.
4	The management monitors the operating risks and the effectiveness of the internal control system of the Company on an ongoing basis.
5	The management submits internal control report to audit committee every quarter to confirm that the Company complies with a series of internal control systems, regulations and procedures.
6	The management submits report of internal control results to the Board every quarter so that the Board can assess the effectiveness of internal control and risk management of the Company.
7	The Company has formulated the Code for Securities Transactions on terms no less exacting than that of the Model Code as set out in Appendix 10 of the Listing Rules.
8	The Company adopted fair information disclosure policy which explicitly explains the principles regarding provision of information to the public.
9	In addition to the liability insurance coverage for the Directors, the Company also purchased liability insurance for the supervisors and senior management.
10	The Company sent notice of general meetings to the shareholders at least 45 days before the meeting.

SHAREHOLDERS' RIGHTS AND GENERAL MEETINGS

Shareholders of the Company enjoy various rights entitled by laws, administrative regulations and the Articles of Association. General meeting is the organ of highest authority of the Company. The shareholders exercise their rights through general meetings. The Company formulated the Rules of Procedures of General Meetings to specify its written terms of reference so as to regulate the compliant operation of the general meetings. Full text of which is available at the websites of the Stock Exchange and the Company for the information of shareholders and investors.

The main responsibilities of the general meetings shall include the following:

- to decide on the Company's business policy and investment plans;
- to elect and replace Directors, to elect and replace supervisors acted by shareholder representatives and to decide remuneration of Directors and supervisors;
- to examine and approve the Director's report, reports of the Board of Supervisors, the Company's proposed annual budgets and final accounts, the Company's profit distribution proposals and loss recovery proposals;
- to resolve on proposals of the increase or reduction of the Company's registered capital;
- to resolve on matters such as merger, division, dissolution and liquidation of the Company;
- to resolve on the issuance of the Company's bonds;
- to resolve on the appointment, removal or non-reappointment of the Company's auditor;
- to amend the Articles of Association;
- to resolve on the Company's external guarantees which shall be approved by a general meeting as required under laws, administrative regulations and the Articles of Association;
- to consider transactions which need to be approved by a general meeting as provided in the Listing Rules;
- to consider and approve matters of changing the use of raised fund;
- to consider resolutions proposed by shareholder(s) who represents 3% or above of the voting shares of the Company; and
- to resolve such other matters which, in accordance with laws, administrative regulations and the Articles of Association, shall be resolved by a general meeting.

PROCEDURES FOR CONVENING GENERAL MEETINGS AND SUBMITTING PROPOSALS

The contents of a proposal of the general meeting shall be within the duties and power of the general meeting with definite topics and specific matters for resolution and comply with the relevant provisions of laws, administrative regulations and the Articles of Association. In accordance with the Rules of Procedures of General Meeting of the Company, the following institutions or persons are eligible to submit proposals at general meetings:

- The Board, the Board of Supervisors, and shareholder(s) individually or collectively holding 3% or more of the Company's shares shall have the right to submit proposals to the Company.
- Shareholder(s) individually or collectively holding 3% or more of the Company's share may submit an extempore proposal to the convener in writing 10 days prior to the date of convening the general meeting. Within 5 days after the receipt of the proposal, the convener shall issue supplementary notice of the general meeting in this regard. If this notice is received less than 25 days prior to the date of the general meeting of the Company, the Company shall consider adjourning the general meeting to comply with 14 days notice of resolution as required by the Listing Rules.
- The convener shall not amend the proposals set out in the notice of general meeting or add any new proposals subsequent to the announcement of the notice of the general meeting.
- Where shareholder(s) individually or collectively holding 10% or more of the Company's shares propose to convene an extraordinary general meeting or a class shareholders' meeting, the shareholder(s) shall sign one or more written request(s) in identical form and content requiring the Board to convene an extraordinary general meeting or a class shareholders' meeting and state the subject of the meeting, and at the same time submit proposals to the Board.

General meetings convened during the Reporting Period are set out in the section headed Investors Relations on pages 84 to 85 of this annual report.

BOARD OF DIRECTORS

The Board takes a conscientious and effective approach in leading and supervising the Company. All Directors are responsible for promoting the continuous business development of the Company in good faith and in the best interest of the Company. Members of the Board understand that they are individually and collectively responsible to all shareholders in relation to the management, supervision and operation of the Company.

COMPOSITION OF BOARD OF DIRECTORS

Up to the date of this report, the Company's Board of Directors comprises twelve members, including two Executive Directors, six Non-executive Directors and four Independent Non-executive Directors.

The Company's Board of Directors comprises two women and ten men, including one Director under forty, eight Directors between forty and forty-nine, three Directors at and over fifty. The Company's Directors are professionals in finance, law, commerce and information services and management with extensive experience and expertise in various areas. In terms of the composition of the Board, the Company advocates the diversification principle and tries to achieve a balance among the gender, age and expertise of directors. The name list of the members of the Board has been published on the websites of the Stock Exchange and the Company for the information of the shareholders and the investors.

Up to the date of this report, there is no relationship (including financial, business, family or other material relevant relationship) among members of the Board.

Biographies of the Directors are set out in the section headed Profiles of Directors, Supervisors and Senior Management on pages 23 to 28 of this annual report.

RESPONSIBILITIES OF BOARD OF DIRECTORS

The Company formulated the Rules of Procedures of Meetings of the Board of Directors to specify its written terms of reference so as to regulate the compliant operation of the Board. Full text of the relevant Rules of Procedures is available at the websites of the Stock Exchange and the Company for the information of shareholders and investors.

The main responsibilities of the Board of Directors shall include the following:

- to determine the Company's business plans and investment plans and to decide on the establishment of the company's internal management bodies;
- to decide on the matters such as external investments, acquisition or disposal of assets, pledge of assets, external guarantees, entrusted wealth management and connected transactions of the Company within the authority granted by the general meetings;
- to formulate the Company's annual budgets and final accounts, the Company's profit distribution plans and loss recovery plans and the plan for increase or reduction of the Company's registered capital, and proposals for issue of the corporate bonds;
- to formulate the proposals for merger, division or dissolution of the Company;
- to formulate the Company's basic management system and proposals for any amendment to the Articles of Association;

- to be responsible for convening general meeting and report on its work to the general meetings and to implement the resolution passed at the general meetings;
- to appoint or dismiss the chief executive officer of the Company; to appoint according to the nomination made by the chief executive officer or dismiss other senior management personnel of the Company (including the financial controller), and to determine their remunerations and system of rewards and punishment;
- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the Directors' performance of their responsibilities and the employees' compliance with the Code of Conduct;
- to review the Company's compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report; and
- requirements of laws and regulations or Articles of Association and other matters as authorized on the general meeting.

NOMINATION AND APPOINTMENT OF DIRECTORS

Pursuant to the Procedures for Shareholders to Propose a Person for Election as Director, when and only when there is vacancy in the Board, shareholders individually or collectively holding 3% or above of shares of the Company are entitled to nominate individuals for directorship to the Nomination Committee and be the candidates for directorship in accordance with relevant procedures of the Company. Details of the nomination procedures are available at the websites of the Stock Exchange and the Company for the information of shareholders and investors.

Appointment of Directors shall be approved by ordinary resolutions at general meetings. The general meetings are also entitled to remove any of the Directors before expiry of their tenure, provided that the removal is in compliance with relevant laws and administrative rules and regulations. Each newly appointed Director will provide with reading materials essential for the Directors to discharge their duties effectively, including profile of the Company and the industry and information regarding the relevant laws and regulations and duties of directorship. The management of the Company will also present details to the newly appointed Directors on the latest developments of the Company's business and operation. Meanwhile, the Company will provide Directors with reference materials regularly to ensure their timely understanding of the latest developments of the laws and regulations and the Company's business and operation.

TERM OF APPOINTMENT OF DIRECTORS

The term of each session of the Board of the Company is three years. The term of the sixth session of the Board of Directors will expire on 18 June 2018 and will be re-appointed thereafter subject to re-election and re-appointment and other related provisions as stipulated in the Articles of Association and the Rules of Procedures of the Board of Directors, provided that the appointments may be terminated when both the Director and the Company agree.

SERVICE CONTRACTS OF THE DIRECTORS

The Company has entered into service contracts with each of the members of the sixth session of the Board of Directors. Save as disclosed above, none of the Directors has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' TRAINING

In accordance with the requirements of Rule A.6.5 of Appendix 14 to the Listing Rules, all Directors have participated in various forms of training programmes during their tenure to develop and refresh their knowledge and skills so as to ensure that their contribution into the Board remains informed and relevant. The forms of learning taken by the Directors include on-the-spot trainings organized by various professional organizations in relation to laws and regulations, finance and commerce, internal control of risks and corporate governance as well as reading updated information on regulatory requirements and E-learning.

During the Reporting Period, pursuant to the requirements of Code Provision C.1.2 set out in Appendix 14 to the Listing Rules, the Company provides Directors with "Monthly Report to Directors" every month, which contains the latest developments in the business and finance of the Group. The Company also provides books and materials related to compliance and duty performance for Directors to learn so as to ensure that the Directors are provided with continuous professional development to be competent for their jobs. During the Reporting Period, the Directors provided their training records to the Company regularly.

CONTINUOUS PROFESSIONAL DEVELOPMENT PARTICIPATED BY DIRECTORS

Name	Reading regulatory updates	Attending seminars/conferences relevant to the Directors' duties	Receiving shareholders' visit
Executive Directors			
Ms. Lin Yankun (Party Secretary) ¹	N/A	N/A	N/A
Mr. Yu Donghui (Chief Executive Officer) ²	N/A	N/A	N/A
Non-executive Directors			
Mr. Xu Zhe (Chairman) ³	✓	✓	
Dr. Feng Haocheng ⁴	✓	✓	
Mr. Cao Jun ⁵	✓	✓	
Mr. Zhou Weihua	✓	✓	
Mr. Shan Yuhu	✓	✓	
Ms. An Lili	✓	✓	
Independent Non-executive Directors			
Mr. Gong Zhiqiang	✓	✓	
Mr. Cheung, Wai Hung Boswell	✓	✓	
Mr. Li He ⁶	✓	✓	
Mr. Yang Xiaohui ⁷	✓	✓	
Resigned or retired Directors			
Dr. Wang Xu (Chairman & Chief Executive Officer)	✓	✓	
Mr. Lu Lei (Executive Director)	✓	✓	✓
Mr. Wu Shengjiao (Non-executive Director)	✓	✓	
Mr. Shi Hongyin (Non-executive Director)	✓	✓	
Dr. Jiao Jie (Independent Non-executive Director)	✓	✓	
Ms. Zhou Liye (Independent Non-executive Director)	✓	✓	

Notes:

- Ms. Lin Yankun was appointed as the Secretary of the Party Committee of the Company in November 2016, and was appointed as Executive Director in January 2017.
- Mr. Yu Donghui was appointed as chief executive officer of the Company in November 2016; and was appointed to replace Mr. Lu Lei as Executive Director in January 2017.
- Mr. Xu Zhe was appointed to replace Dr. Wang Xu as Chairman in January 2016.
- Dr. Feng Haocheng was appointed as Non-executive Director in January 2016.
- Mr. Cao Jun was appointed as Non-executive Director in January 2016.
- Mr. Li He was appointed to replace Dr. Jiao Jie as Independent Non-executive Director in May 2016.
- Mr. Yang Xiaohui was appointed to replace Ms. Zhou Liye as Independent Non-executive Director in November 2016.

DIRECTORS' LIABILITY INSURANCE

In accordance with the requirement of Code Provision A.1.8 set out in Appendix 14 to the Listing Rules, liability insurance for Directors is maintained by the Company with coverage for any legal liabilities which may arise in the course of performing their duties and enhance the effectiveness of decision-making.

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors are responsible for supervising the preparation of accounts for the year which shall present a true and fair view of the state of affairs, results of operations and cash flow of the Company during the Reporting Period. In preparing the financial statements for the year ended 31 December 2016, the Directors had selected and consistently applied suitable accounting policies; made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors ensure that the preparation of the consolidated financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. The Company's independent auditor's reporting responsibilities on the Group's accounts are set out in the Independent Auditor's Report on pages 89 to 93 of this annual report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a Code of Securities Transactions regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors confirm that they have complied with the required standard of dealings and the Company's Code of Securities Transactions regarding securities transactions by the Directors throughout the year ended 31 December 2016.

BOARD MEETING

The Chairman of the Board is responsible for convening the Board meetings which shall be convened at least four times each year. In accordance with the requirements of Code Provision A.1.3 and A.7.1 of Appendix 14 to the Listing Rules, the Company had notified all Directors at least fourteen days before the convening of a board meeting and ensure that relevant meeting materials has been sent to the Directors at least three days before the meeting. Notices and agendas of the Board meetings of the Company were prepared under the instruction of the Chairman of the Board and distributed to the Board members within reasonable time before the meetings pursuant to the Articles of Association and the Rules of Procedures of the Board of Directors.

During the Reporting Period, the Board of Directors held three on-the-spot meetings, and signed meeting documents six times in the form of circulation. Details on the convening of meetings of the members of the Board of Directors set out in the "Records of Attendance of Meetings of the Board and its Subordinate Specialized Committees" on page 67 of this annual report.

board meetings are voted by a show of hands. To ensure the Directors making decisions objectively in the best interests of the Company, pursuant to the requirements mentioned in Rule 13.44 of the Listing Rules and the relevant requirements of Article 123 of the Articles of Association, any Director shall abstain from voting on any resolutions in which he or his close associate(s) is/are materially interested and shall not be counted in the quorum of the meeting.

In accordance with the requirements of Rule (c) and (d) as set out in Paragraph I of Appendix 14 to the Listing Rules, any Director attending the Board meeting by electronic means such as teleconference and video conference shall be deemed as present in person, while attendance of meetings of the Board meetings or meetings of its subordinate specialized committees by authorized representatives shall not be counted in the attendance of meeting rate of the respective Director.

SUPPLY OF AND ACCESS TO INFORMATION OF THE BOARD

- All Directors are entitled to receive advice and services of the secretary of the Board and the secretary of the Company. If any Director need to seek independent professional advice in the exercise of their functions and powers, the relevant fees shall be at the Company's expense;
- Directors are entitled to receive the communication information of the management of the Company so as to communicate and keep them informed of the operations of the Company in a timely manner;
- Directors are entitled to have immediate access to the agendas and relevant meeting documents of the Board meetings and may require the management to supplement more detailed information on the meeting and other relevant information;
- The minutes of meetings of the Board and its subordinate specialized committees are kept, which record in details the opinion expressed and any doubts or objection raised by the Directors. Directors may comment on the draft minutes. The final versions of the minutes will be filed within a reasonable time after the meeting and are available for inspection by all Directors.

SPECIALIZED COMMITTEES UNDER THE BOARD

The Company established four specialized committees under the Board, i.e. the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Strategy Committee, which are delegated to perform certain function of the Board so as to improve efficiency of the Board.

AUDIT COMMITTEE

The Company established the Audit Committee in accordance with Rule 3.21 of the Listing Rules, and formulated the Articles of Audit Committee to specify its written terms of reference, so as to regulate the compliant operation of the Audit Committee. The Audit Committee of the Company comprises four members, all being Independent Non-executive Directors. The term of the Audit Committee of the Company is three years the same as that of the Board and will expire on 18 June 2018. The appointment will be re-appointed thereafter subject to re-election and re-appointment and other related provisions as stipulated in the Articles of Association of the Company and the Articles of Audit Committee, provided that the appointment may be terminated when both the member and the Company agree. Details of the members of the Audit Committee up to the date of this report are set out as below:

Name	Director Type	Position
Mr. Yang Xiaohui ¹	Independent Non-executive Director	Chairman
Mr. Gong Zhiqiang	Independent Non-executive Director	Member
Mr. Cheung, Wai Hung Boswell	Independent Non-executive Director	Member
Mr. Li He ²	Independent Non-executive Director	Member

Notes:

1. Mr. Yang Xiaohui was appointed to replace Ms. Zhou Liye as chairman of the Audit Committee in November 2016.
2. Mr. Li He was appointed to replace Dr. Jiao Jie as a member of the Audit Committee in May 2016.

The main authorities and duties of the Audit Committee include:

- to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, to approve the remuneration and the terms of engagement of external auditor;
- to develop and implement policies on the engagement of an external auditor to provide non-audit services;
- to monitor the independent auditor's independence and objectivity and the effectiveness of the audit process;
- to meet at least twice a year with the external auditors, review the external auditor's explanatory statement to the management on its audit or review, discuss with the auditors about any issues or doubt appears during the audit of the annual accounts and review of interim accounts;
- to monitor the financial, accounting policies and practices of the Company;
- to supervise the setting up of comprehensive internal audit, review system, and to review and monitor any significant connected transactions;

- to conduct regular assessment on the performance of the financial and audit departments of the Company and the performance of the responsible staff in charge of these departments;
- to discuss with the management the internal control and risk management systems and ensure that the management has discharged its duties to establish an effective internal control and risk management systems;
- to raise concern and take appropriate action towards and request the Company to undertake a fair and independent investigation over the matters with regard to the financial report, internal control of the Company or other matters with respect to any misconduct exists which are reported or raised by the staff; and
- to perform other duties as delegated by the Board of the Company.

Convening of Audit Committee Meetings:

During the Reporting Period, the Audit Committee held two on-the-spot meetings and signed meeting documents two times in the form of circulation. The meeting mainly reviewed the following issues:

- 2015 Independent Auditor's Report and 2016 Interim Independent Review Report of the Group, the Financial and Operation Analysis Report of the Group for the first quarter and third quarter of 2016, and re-appointed Grant Thornton Hong Kong Limited as the independent auditor of the Company;
- Nine copies of Internal Audit Report and ten copies of Audit Follow-up Report of the Group; and
- The report on internal audit for the year 2015 and the plan on internal audit for the year 2016.

The Audit Committee is of the opinion that, the internal control management of the Company was effective, while the procedures of internal audit were standard and reasonable, thus fulfilling the target of effectively controlling and preventing the operation risk. The Company was able to accurately identify the operation risk with rapid response and prompt correction; meanwhile the Company formulated feasible risk control measures, which were strictly executed. The accounting policy of the Company was carried out properly, the preparation of the financial reports of the Company strictly complied with applicable accounting standards, the Listing Rules and other laws and regulations, the financial reporting information is complete and accurate, and adequate disclosures have been made that give a true picture of the Company's operational position.

Details of the convening of meetings of the members of the Audit Committee set out in "Records of Attendance of Meetings of the Board and its Subordinate Specialized Committees" on page 67 of this annual report.

REMUNERATION AND APPRAISAL COMMITTEE

The Company established the Remuneration and Appraisal Committee in accordance with Rule 3.25 of the Listing Rules, and formulated the Articles of Remuneration and Appraisal Committee to specify its written terms of reference, so as to regulate the compliant operation of the Remuneration and Appraisal Committee. The Remuneration and Appraisal Committee of the Company comprises three members. The term of the Remuneration and Appraisal Committee is three years (the same as that of the Board) and will expire on 18 June 2018. The appointment will be re-appointed thereafter subject to re-election and reappointment and other related provisions as stipulated in the Articles of Association of the Company and the Articles of Remuneration and Appraisal Committee, provided that the appointments may be terminated when both the member and the Company agree. Details of the members of the Remuneration and Appraisal Committee up to the date of this report are set out as below:

Name	Director Type	Position
Mr. Gong Zhiqiang	Independent Non-executive Director	Chairman
Mr. Yang Xiaohui ¹	Independent Non-executive Director	Member
Ms. Lin Yankun ²	Executive Director	Member

Notes:

1. Mr. Yang Xiaohui was appointed to replace Ms. Zhou Liye as a member of the Remuneration and Appraisal Committee in November 2016.
2. Ms. Lin Yankun was appointed to replace Dr. Feng Haocheng as a member of the Remuneration and Appraisal Committee in January 2017.

The main authorities and duties of the Remuneration and Appraisal Committee include:

- according to the operation objectives and goals of the Company, propose to the Board the entire remuneration policies, structures and appraisal criteria for the Directors and senior management of the Company;
- to make recommendations to the Board of the remuneration packages for individual Executive Director and senior management, including benefits in kind, pension right and compensation payment;
- to ensure that no Directors or any of their associates is involved determining their own remuneration;
- to vote on the service contracts of the Directors before submitting to the shareholders for approval;
- to make recommendations to the Board on the remuneration of the Non-executive Directors;
- to monitor the implementation of the remuneration system of the Company and propose any amendment thereto if needed; and
- to perform other duties as delegated by the Board.

Convening of meetings of Remuneration and Appraisal Committee:

During the Reporting Period, the Remuneration and Appraisal Committee signed meeting documents once in the form of circulation. The committee members confirmed the overall implementation of remuneration of the employees of the Company in 2015 according to the performance of the Company and the remuneration level of senior management of peer companies as well as the specific performance, and reviewed the proposal on distribution of bonus of 2015 as well as the basic annual salary scheme to the senior management in 2016, and submitted to the Board for consideration and approval.

Details of the convening of meetings of the members of the Remuneration and Appraisal Committee set out in "Records of Attendance of Meetings of the Board and its Subordinate Specialized Committees" on page 67 of this annual report.

Directors' Remuneration

Unit: RMB'000

Name	Salaries, allowances and retirement benefit scheme		Audit committee	Remuneration and appraisal committee	Nomination committee	Strategy committee	Total
	Fees	contributions					
Executive Directors							
Ms. Lin Yankun (Party Secretary) ¹	-	-	-	-	-	-	-
Mr. Yu Donghui (Chief Executive Officer) ²	-	-	-	-	-	-	-
Non-executive Directors							
Mr. Xu Zhe (Chairman) ³	-	-	-	-	-	-	-
Dr. Feng Haocheng ⁴	-	-	-	-	-	-	-
Mr. Cao Jun ⁵	-	-	-	-	-	-	-
Mr. Zhou Weihua	-	-	-	-	-	-	-
Mr. Shan Yuhu	-	-	-	-	-	-	-
Ms. An Lili	-	-	-	-	-	-	-
Independent Non-executive Directors							
Mr. Gong Zhiqiang	50.0	-	5.0	10.0	5.0	-	70.0
Mr. Cheung, Wai Hung Boswell	50.0	-	5.0	-	5.0	-	60.0
Mr. Li He ⁶	29.8	-	3.0	-	-	3.0	35.8
Mr. Yang Xiaohui ⁷	6.3	-	1.3	0.6	-	-	8.2
Resigned or retired Directors							
Dr. Wang Xu (Chairman & Chief Executive Officer) ⁸	-	-	-	-	-	-	-
Mr. Lu Lei (Executive Director) ⁹	-	813.3	-	-	-	-	813.3
Mr. Wu Shengjiao (Non-executive Director) ¹⁰	-	-	-	-	-	-	-
Mr. Shi Hongyin (Non-executive Director) ¹¹	-	-	-	-	-	-	-
Dr. Jiao Jie (Independent Non-executive Director) ¹²	20.8	-	2.1	-	-	2.1	25.0
Ms. Zhou Liye (Independent Non-executive Director) ¹³	43.8	-	8.8	4.4	-	-	57.0

Notes:

- Ms. Lin Yankun was appointed as the Secretary of the Party Committee of the Company in November 2016, and was appointed as Executive Director and to replace Dr. Feng Haocheng as a member of the Remuneration and Appraisal Committee in January 2017. During the year, the total remuneration for the role of Party Secretary was approximately RMB83,800.
- Mr. Yu Donghui was appointed as chief executive officer of the Company in November 2016, and was appointed to replace Mr. Lu Lei as Executive Director and a member of the Strategy Committee in January 2017. During the year, the total remuneration for the role of vice president and chief executive officer was approximately RMB861,000 and RMB83,700 respectively.
- M. Xu Zhe was appointed to replace Dr. Wang Xu as Chairman, and Chairman of Strategy Committee and Nomination Committee in January 2016.

4. Dr. Feng Haocheng was appointed as a member of the Strategy Committee in January 2017 and resigned as a member of the Remuneration and Appraisal Committee at the same time.
5. Mr. Cao Jun was appointed as Non-executive Director in January 2016.
6. Mr. Li He was appointed to replace Dr. Jiao Jie as Independent Non-executive Director and a member of the Audit Committee and of Strategy Committee in May 2016.
7. Mr. Yang Xiaohui was appointed to replace Ms. Zhou Liye as Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration and Appraisal Committee in November 2016.
8. Dr. Wang Xu resigned as Chairman, Executive Director, chief executive officer, Chairman of Nomination Committee and Strategy Committee due to change of work allocation in January 2016.
9. Mr. Lu Lei resigned as Executive Director and a member of Strategy Committee due to work arrangement in January 2017.
10. Mr. Wu Shengjiao resigned as Non-executive Director and a member of the Remuneration and Appraisal Committee due to change of work allocation in January 2016.
11. Mr. Shi Hongyin resigned as Non-executive Director due to change of work allocation in January 2016.
12. Dr. Jiao Jie resigned as Independent Non-executive Director, a member of Audit Committee and of Strategy Committee due to work arrangement in March 2016.
13. Ms. Zhou Liye resigned as Independent Non-executive Director, the chairman of Audit Committee and a member of Remuneration and Appraisal Committee due to work arrangement in November 2016.

Senior Management's Emoluments

The annual emoluments of the senior management of the Company fall within RMB1.5 million, and four of the five highest paid employees are senior management of the Company. Details on the five highest paid individuals are set out in note 9 to the consolidated financial statements on page 131 of this annual report.

NOMINATION COMMITTEE

The Company established the Nomination Committee in accordance with Rule A.5.1 of Appendix 14 to the Listing Rules, and formulated the Articles of Nomination Committee to specify its written terms of reference, so as to regulate the compliant operation of the Nomination Committee. The Nomination Committee of the Company comprises three members. The term of the Nomination Committee is three years (the same as that of the Board) and will expire on 18 June 2018. The appointment will be reappointed thereafter subject to re-election and re-appointment and other related provisions as stipulated in the Articles of Association of the Company and the Articles of Nomination Committee, provided that the appointments may be terminated when both the member and the Company agree. Details of the members of the Nomination Committee up to the date of this report are set out as below:

Name	Director Type	Position
Mr. Xu Zhe*	Non-executive Director (Chairman)	Chairman
Mr. Gong Zhiqiang	Independent Non-executive Director	Member
Mr. Cheung, Wai Hung Boswell	Independent Non-executive Director	Member

Note*: Mr. Xu Zhe was appointed to replace Dr. Wang Xu to act as Chairman of Nomination Committee in January 2016.

The main authorities and duties of the Nomination Committee include:

- to make recommendations to the Board in relation to the scale and composition of the Board, including the rational number of the Board, gender, age, cultural and educational background and diversity of professional experience of the Board;
- to examine the implementation of diversity policy of the members of the Board;
- to review and assess the independence of the Independent Non-executive Directors;
- to make recommendations to the Board on the appointment or re-appointment or succession of Directors;
- to study the selection criteria and procedures of Directors, and make recommendations to the Board;
- to identify qualified candidates for directorship in an extensive scale;
- to conduct appraisals on the candidates for directorship and make recommendations; and
- to perform other duties as delegated by the Board.

Convening of meetings of Nomination Committee:

During the Reporting Period, the Nomination Committee signed meeting documents three times in the form of circulation. Mr. Li He, Mr. Yang Xiaohui, Mr. Yu Donghui and Ms. Lin Yankun were recommended by the Nomination Committee after inspections in consideration of their qualifications and experience, and applied for the approval by the Board of Directors and general meeting.

Details of the attendance of the meetings of the Nomination Committee are set out in “Records of Attendance of Meetings of the Board and its Subordinate Specialized Committees” on page 67 of this annual report.

STRATEGY COMMITTEE

The Company established the Strategy Committee and formulated the Articles of Strategy Committee to specify its written terms of reference, so as to regulate the compliant operation of the Strategy Committee. The Strategy Committee of the Company comprises four members. The term of the Strategy Committee of the Company is three years (the same as that of the Board) and will expire on 18 June 2018. The appointment will be re-appointed thereafter subject to re-election and re-appointment and other related provisions as stipulated in the Articles of Association of the Company and the Articles of Strategy Committee, provided that the appointments may be terminated when both the member and the Company agree. As of the date of this report, list of members of the Strategy Committee are as follow:

Name	Director Type	Position
Mr. Xu Zhe ¹	Non-executive Director (Chairman)	Chairman
Mr. Li He ²	Independent Non-executive Director	Member
Mr. Yu Donghui ³	Executive Director	Member
Dr. Feng Haocheng ⁴	Non-executive Director	Member

Notes:

1. Mr. Xu Zhe was appointed to replace Dr. Wang Xu to act as Chairman of Strategy Committee in January 2016.
2. Mr. Li He was appointed to replace Dr. Jiao Jie to act as a member of Strategy Committee in May 2016.
3. Mr. Yu Donghui was appointed to replace Mr. Lu Lei to act as a member of Strategy Committee in January 2017.
4. Dr. Feng Haocheng was appointed to act as a member of Strategy Committee in January 2017.

Corporate Governance Report

The main authorities and duties of the Strategy Committee include:

- to conduct studies and make recommendations on the Company's long-term development strategies;
- to conduct studies and make recommendations on the Company's major investment and financing plans;
- to conduct studies and make recommendations on the Company's major capital operations and asset operation projects;
- to conduct studies and make recommendations on other significant events that may affect the development of the Company;
- to conduct inspection and supervision on implementation of the above matters; and
- to perform other duties as delegated by the Board of the Company.

Convening of meetings of Strategy Committee:

During the Reporting Period, the Strategy Committee signed meeting documents once in the form of circulation. Each member of the committee has reviewed Strategic Development Planning for 13th Five Years in light of the development trend of the national macro-economy and industry, and to be implemented after the deliberation and approval of the Board.

Records of Attendance of Meetings of the Board and its Subordinate Specialized Committees

Name	The Board ¹	Audit Committee ²	Remuneration and Appraisal Committee ³	Nomination Committee ⁴	Strategy Committee ⁵
Executive Directors					
Ms. Lin Yankun ⁶	N/A		N/A		
Mr. Yu Donghui (Chief Executive Officer) ⁷	N/A				N/A
Non-executive Directors					
Mr. Xu Zhe (Chairman) ⁸	3/3			3/*	1/*
Dr. Feng Haocheng ⁹	3/3		1/*		N/A
Mr. Cao Jun ¹⁰	2/3				
Mr. Zhou Weihua	2/3				
Mr. Shan Yuhu	2/3				
Ms. An Lili	3/3				
Independent Non-executive Directors					
Mr. Yang Xiaohui ¹¹	0/0	0/0			
Mr. Gong Zhiqiang	3/3	2/2	1/*	3/*	
Mr. Cheung, Wai Hung Boswell	1/3	0/2		3/*	
Mr. Li He ¹²	1/1	1/1			1/*
Resigned or retired Directors					
Dr. Wang Xu (Chairman & Chief Executive Officer) ¹³	0/0			0/0	0/0
Mr. Lu Lei (Executive Director) ¹⁴	3/3				1/*
Mr. Wu Shengjiao (Non-executive Director) ¹⁵	0/0		0/0		
Mr. Shi Hongyin (Non-executive Director) ¹⁶	0/0				
Dr. Jiao Jie (Independent Non-executive Director) ¹⁷	1/1	0/0			0/0
Ms. Zhou Liye (Independent Non-executive Director) ¹⁸	2/3	1/2	1/*		

Corporate Governance Report

Notes:

1. The Board held three on-the-spot meetings and signed meeting documents six times in the form of circulation.
2. The Audit Committee held two on-the-spot meetings and signed meeting documents two times in the form of circulation.
3. The Remuneration and Appraisal Committee did not hold any on-the-spot meeting, but signed meeting documents once in the form of circulation.
4. The Nomination Committee did not hold any on-the-spot meeting, but signed meeting documents three times in the form of circulation.
5. The Strategy Committee did not hold any on-the-spot meeting, but signed meeting documents once in the form of circulation.
6. Ms. Lin Yankun was appointed as the Secretary of the Party Committee of the Company in November 2016, and was appointed as Executive Director and to replace Dr. Feng Haocheng as a member of the Remuneration and Appraisal Committee in January 2017.
7. Mr. Yu Donghui was appointed as chief executive officer of the Company in November 2016; and was appointed to replace Mr. Lu Lei as Executive Director and a member of the Strategy Committee in January 2017.
8. Mr. Xu Zhe was appointed to replace Dr. Wang Xu as Chairman, and Chairman of Strategy Committee and Nomination Committee in January 2016.
9. Dr. Feng Haocheng was appointed as Non-executive Director and a member of Remuneration and Appraisal Committee in January 2016, and was appointed as a member of Strategy Committee and resigned as member of Remuneration and Appraisal Committee in January 2017.
10. Mr. Cao Jun was appointed as Non-executive Director in January 2016.
11. Mr. Yang Xiaohui was appointed to replace Ms. Zhou Liye as Independent Non-executive Director, the chairman of the Audit Committee and a member of the Remuneration and Appraisal Committee in November 2016.
12. Mr. Li He was appointed to replace Dr. Jiao Jie as Independent Non-executive Director and a member of the Audit Committee and of Strategy Committee in May 2016.
13. Dr. Wang Xu resigned as Chairman, Executive Director, chief executive officer, Chairman of Nomination Committee and Strategy Committee due to change of work allocation in January 2016.
14. Mr. Lu Lei resigned as Executive Director and a member of Strategy Committee due to work arrangement in January 2017.
15. Mr. Wu Shengjiao resigned as Non-executive Director and a member of the Remuneration and Appraisal Committee due to change of work allocation in January 2016.
16. Mr. Shi Hongyin resigned as Non-executive Director due to change of work allocation in January 2016.
17. Dr. Jiao Jie resigned as Independent Non-executive Director, a member of Audit Committee and Strategy Committee due to work arrangement in March 2016.
18. Ms. Zhou Liye resigned as Independent Non-executive Director, the chairman of Audit Committee and a member of Remuneration and Appraisal Committee due to work arrangement in November 2016.

COMPANY SECRETARIES

Upon approval by the Board, Ms. Koo Ching Fan was appointed as company secretary of the Company, together with Mr. Lu Lei, the secretary of the Board, assist the Board of Directors to perform its responsibilities to the shareholders in accordance with the Listing Rules and provide professional advice to the Board regarding corporate governance, so as to maintain smooth information communication among the members of the Board, arrange induction training and professional development for the Directors, ensure the compliance of the procedures of the Board and improve the efficiency of the Board.

Ms. Koo Ching Fan was appointed as secretary of the Company since January 2012. She is serving at Fair Wind Secretarial Services Limited in Hong Kong instead of a full-time employee of the Company. Ms. Koo graduated from the Hong Kong Polytechnic University with a master degree in professional accounting in 2002 and successively obtained the qualification as an associate member of each of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators, U.K. and a fellow member of the Association of Chartered Certified Accountants. She has rich working experience in company secretarial work.

Pursuant to the provisions of Rule 3.29 of the Listing Rules, Ms. Koo has participated in over 15 hours of professional trainings during the Reporting Period, mainly covering the laws and regulations, finance, internal control and corporate governance trainings organized by the Hong Kong Institute of Chartered Secretaries. The professional capabilities of the secretaries have been effectively enhanced through continuous trainings and developments, which made positive contribution to promote the effective functioning of the Board of Directors.

BOARD OF SUPERVISORS

The Company established the Board of Supervisors in accordance with Article 118 of the Companies Law, and formulated the Rules of Procedures of Meetings of the Board of Supervisors to specify its written terms of reference, so as to regulate the operation of the Board of Supervisors. The Board of Supervisors of the Company comprises three members. Details of the members are set out as below:

Name	Supervisor Type	Position
Mr. Di Guojun	Shareholder Representative	Chairman
Mr. Liang Xianjun	Shareholder Representative	Supervisor
Mr. Lang Jianjun	Staff Representative Supervisor	Supervisor

The term of the sixth session of the Board of Supervisors of the Company is three years and will expire on 18 June 2018. The appointment will be re-appointed thereafter subject to re-election and re-appointment and other related provisions as stipulated in the Articles of Association of the Company and the Rules of Procedures of Meetings of the Board of Supervisors, provided that the appointments may be terminated when both the member and the Company agree.

The Company has entered into supervisor service contracts with each of the members of the sixth session of the Board of Supervisors. Save as disclosed above, none of the supervisors has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation. Biographies of the above-mentioned existing supervisors are set out in the section under the title of "Profiles of Directors, Supervisors and Senior Management" on page 23 to page 28 of this annual report.

The main authorities and duties of the Board of Supervisors include:

- to raise proposals to the general meeting and to convene extraordinary general meeting;
- to attend the general meetings of the Company upon being invited, and to supervise and investigate into the implementation of the resolutions of the general meetings;
- to attend the meetings of the Board of the Company upon being invited. So to supervise the matters, including the legality of the procedures of the convening of the meetings of the Board of the Company, the abstention of Directors as connected persons from voting and whether or not the contents of the resolutions of the meeting of the Board conform to the requirements of the laws, regulations and the Articles of Association and meet the actual needs of the Company;
- to attend the meetings, including the work meetings of the President that involve material operating activities of the Company;
- to supervise the acts of the Directors, President and other senior management of the Company in their performance of the company duties, that are in violation of the laws, administrative rules and regulations or the Articles of Association;
- to represent the Company in negotiation with, or bring legal actions against, the Directors;
- to examine the finance of the Company; and
- such other powers and duties as stipulated in relevant laws and regulations, regulatory documents or the Articles of Association and as delegated by the general meetings.

Convening of meetings of the Board of Supervisors:

During the Reporting Period, details of the convening of meetings of the Board of Supervisors set out in "Supervisors' Report" on pages 44 to 46 of this annual report.

Participation of trainings by supervisors:

During the Reporting Period, all supervisors have participated in various forms of learning and education activities during their tenure to develop and refresh their knowledge and skills. The forms of learning taken by the supervisors include laws and regulations, finance and commerce, internal control of risks and corporate governance. Meanwhile, the Company also sends a duplicate of "Monthly Report to Directors" (provided to Directors) to supervisors so as to update them the latest developments in the business and finance of the Group in a timely manner. During the Reporting Period, the supervisors provided their training records to the Company regularly.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

General meeting is the organ of the highest authority of the Company. The Board of Directors is the decision-making body of the Company. The Board of Supervisors is the supervision organ of the Company. The Company established four specialized committees under the Board, i.e. the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Strategy Committee, as the decision-making research units of the Board. Chairman of the Board and management of the Company directed, coordinated, managed and supervised the Company's daily operations in accordance with the decisions of the Board. Authorities perform their respective duties to ensure the stable operation of the Company.

During the Reporting Period, the Company established a comprehensive and systematic internal control and risk management system and made the internal control manual and had them implemented effectively. The Company has established the audit department, which carries out effective internal control supervision, performs independent and objective assessment and provide advices to the internal control.

Risk Management and Internal Control System	
Control Culture	Establish regulated corporate governance structure, foster the integrity and moral values of employees, enhance the competence and control awareness of employees and create good business atmosphere for the Company.
Risk Assessment	Confirm and identify risks relating to the Company as the basis to develop control measures.
Control Measures	Formulate policies and procedures for each business function, including approval, authorization, check, advice, performance assessment, assets safety and division of responsibilities.
Information Communication	Ensure smooth information communication with outside and provide responsibilities reminder for the management to take measures to implement the supervision effectively.
Supervision	Adopt control and risk assessment system and continuously assess and control risks through internal audit and by informing employees of important control process.

Through the design, operation, evaluation and continuous improvement of risk management and internal control system, the Company kept reinforcing the duty of internal control management, regulated risks, as well as improved the internal control management. The Company implemented the risk management and internal control system in all business processes and operations, ensuring integrity, rationality and effectiveness in the improvement of internal control environment, enhancement of risk identification and assessment capabilities, reinforcement of risk control measures, improvement of information exchange and strengthening of supervision and evaluation mechanism. The risk management and internal control system provides reasonable assurance for the Company to implement the development strategy, achieve the business objectives and realize sustainable healthy development of all businesses.

During the Reporting Period, the Company continued to strengthen and improve the establishment of risk management and internal control system so as to keep optimizing the internal control environment, improved the corporate governance system; enhanced management and direction over the branches and controlled subsidiaries; further implemented talent strategy; and strengthened the corporate culture with an aim to promote the implementation of its strategic goal. Meanwhile, the Company further improved its decision-making and risk control abilities and extended the breadth and depth of market risk management; promoted the standardized and computerized management of the financial information; made a comprehensive business plan and annual budget; perfected the appraisal standards of business performance and business development; further optimized the business processes, which made the business processing more efficient; intensified the management of the operational risk by integrating the risk monitoring system; further enhanced the management system for connected transactions, significant risk alert mechanism and emergency handling mechanism to regulate the crisis management procedure; improved the information disclosure and investor relations management to continue to enhance the transparency and safeguard the rights and interests of the shareholders. Through the above measures, the Company kept reinforcing its internal control.

During the Reporting Period, the Company further increased the strength on supervision and inspection. By focusing on development strategy and oriented by risk and aimed at uplifting corporate value, the internal audit department effectively performed its duties of internal control by supervising the business transformation and business innovation, as well as the effectiveness of implementation of business regulatory requirements and the Company's systems to generally cover the key areas which need to be paid more attention and controlled.

Effectiveness of Risk Management and Internal Control

The Board of the Company is responsible to ensure a sound and effective risk management and internal control system, so as to safeguard investments of shareholders and assets of the Company, and can only provide reasonable but not absolute assurance against the risks of material misstatement or loss, and to manage but not eliminate the risk of failure to achieve business objectives.

The audit department and the management of the Company regularly discussed the effectiveness of the Group's risk management and internal control and reported to the Board after reviewed by Audit Committee. As of 31 December 2016, the Board was of the view that the Company did a fruitful job in risk management and internal control during the Reporting Period, and no significant events which may affect the shareholders were identified.

INSIDE INFORMATION MANAGEMENT

In order to reinforce its management of insiders and external information users and keep inside information confidential so as to prevent insider trading, the Company developed Management System of Inside Information and Insiders to enhance internal control over inside information management.

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Company:

- strictly kept the inside information of the Company confidential before disclosure, and disclosed it immediately after the Board approved to do so;
- conducted registration of insiders strictly according to the requirements of Management System of Inside Information and Insiders;
- regulated all relevant securities transactions by giving notice to insiders in a timely manner, including registration of specific insiders before the price-sensitive period (including 60 days prior to final results announcement and 30 days prior to interim results announcement), and sending notice of restrictions on trading in shares and prohibitions on insider trading by email at the same time.

During the Reporting Period, there was no disclosure of inside information, and none of the Directors, supervisors or senior management of the Company made use of any inside information to deal with the shares of the Company. No investigation or rectification was conducted or required by the regulatory authorities in this regard.

INTERNAL AUDIT

The Company established the audit department, which is under the guidance of the Audit Committee. The audit department performs independent examination and evaluation on all business operations and management activities of the Company. To ensure the independence and effectiveness of the internal audit, material audit findings and internal control defects are directly reported to the management and the Audit Committee.

During the Reporting Period, the Company implemented risk-oriented and value adding-targeted audit activities according to the development strategy of the Company, and fully accomplished the annual audit plan, including 9 copies of Internal Audit Reports, 10 copies of Audit Follow-up Reports and 2 copies of Leaving/Transferring Post Audit Reports. Thus, the Company has performed its audit supervision and evaluation duties in a more effective way.

The Company performed supervision and examination on internal control of business units through onsite examinations, off-site audits, special audits and departure/transfer audits, which covered major areas of the Company's operation and management including business, financial management, connected transactions, terms, duty performance and departure of senior management members. Audits focused on strategic, systematic and mechanism risks in main businesses with strong influence over the Company's operation, fast innovative development and new workflow system mode, as well as efficiency of key rules, processes, systems, operations and related management and control. The internal audits addressed the focuses of the Board and regulatory requirements. The problems identified in the audits were continuously tracked and the units/departments responsible for the problems were urged to carry out rectification. The Company conducted examination on overall business and process risks, thereby promoting the sound operation and sustainable development of the Company.

During the Reporting Period, internal auditors of the Company actively adapted to the requirements on duty performance under the complex risk management circumstance, accelerated functional transformation and professional innovation and optimized working methods and management mechanisms, thereby improving the effects of the operation of audit projects. Emphasis was placed on integration and analysis of the various types of risk and control information, to enhance auditing service capabilities in terms of problem identification and overall supervision; more information technologies were applied during audits, auditing practice standards were perfected, and expertise of the auditing team was further strengthened, effectively supporting the comprehensive improvement of auditing quality and performance.

Corporate Governance Report

The audit department mainly completed the following work during the Reporting Period:

Reporting Period	Number of Audit Reports	Number of Audit Follow-up Reports	Number of Leaving/ Transferring Post Audit Reports
Year 2015	3	3	0
First quarter of 2016	1	3	1
Second quarter of 2016	3	1	1
Third quarter of 2016	2	3	0
Total	9	10	2

INDEPENDENT AUDITORS

Grant Thornton Hong Kong Limited ("Grant Thornton Hong Kong") and Grant Thornton (Special General Partnership) ("Grant Thornton China") are the overseas auditor and the domestic auditor of the Company, both of Grant Thornton Hong Kong and Grant Thornton China (collectively referred to as "Grant Thornton") have written to the Audit Committee confirming that they are independent to the Company and that there is no relationship between Grant Thornton and the Company which may affect their independence. During the Reporting Period, Grant Thornton provided the Company with the following services:

Unit: RMB'000

Services	2016	2015
Audit service	1,122	1,120
Non-audit service	333	269
Total	1,455	1,389

CONTINUOUS IMPROVEMENT

The Company has made continuous efforts to improve its corporate governance standards with an aim to continue to enhance and, where appropriate, improve our corporate governance practices in light of the evolving regulatory requirements and international development trends based on our extensive experience accumulated for years, so as to realize the best interests of shareholders.

In 2016, in an honest and pragmatic manner and with an active and open attitude, the Company maintained effective communication with the investors, and took continuous efforts in improving investors' recognition of the Company's value. As of 31 December 2016, the market capitalization of the Company amounted to HK\$2,115.6 million.

To ensure a sound and continuous relationship with investors, the Company further enhanced the transparency of corporate governance, extending the scope and depth of information disclosure, improving the reception process of investors and unblocking the communication channel. During the year, the Company kept updating investor records, including continued to update the special column for investor relations at its official website so that the latest information about the Company has been made available to investors in a timely manner; positively searched for information on the capital market, followed up movements of shareholders and timely reported the same to the management level, so as to provide data for planning and arrangement of major activities for investor relations.

CLASS OF SHAREHOLDERS AND PUBLIC FLOAT

The Company has issued an aggregate of 2,898,086,091 ordinary shares, of which, 2,123,588,091 are domestic shares and 774,498,000 are overseas listed foreign invested shares (H shares), representing approximately 73.28% and 26.72% of the total issued ordinary shares of the Company respectively. As of the date of this report, based on the information that is publicly available, the public float meets the requirement of minimum public float stated in Rule 8.08 of the Listing Rules.

RECEPTION ACTIVITIES BY WAY OF RESEARCH

In 2016, the Company positively enhanced interaction with capital market and received 4 batches of visits from institutional investors, and conducted positive and frank communication with the investors and analysts through various channels such as annual general meeting, company visits and teleconference to update the investors information on the macro-economic environment, the industry prospect and the operation of the Company, further strengthening their understanding of the industry and the Company and enabling them to accurately evaluate the Company's investment value. In communicating with the investors, the Company earnestly listened to the advice or opinions of the investors and timely reported the questions raised by the investors to the management, with an aim to constantly improve the quality of our work.

No.	Date of reception	Place of reception	Mode of reception	Type of subjects of reception	Subjects of reception
1	June 2016	Beijing	Teleconference	Institutions	First Manhattan & First Beijing (第一曼哈頓第一北京)
2	August 2016	Beijing	On-site research	Institutions	Global Zhongcheng Asset Management (Beijing) Co., Ltd (環球眾城資產管理(北京)有限公司)
3	October 2016	Beijing	On-site research	Institutions	Shenzhen Zhichangrong Investment & Research Co., Ltd. (深圳市知常容投資研究有限公司)
4	November 2016	Beijing	On-site research	Institutions	Beijing Zhoutong Investment & Technology Institute (北京洲通投資技術研究所)

INVESTORS RELATIONS

INFORMATION DISCLOSURE

The Company firmly believes that information disclosure is not only the responsibility and obligation to protect investors' interest in accordance with the regulatory provisions for the listed companies, but also an important means to improve transparency, enhance the understanding of the Company by the capital market and establish a smooth communication channel. Since its listing, the Company has strictly complied with the information disclosure requirements under the Listing Rules for listed companies and made information disclosure in a timely, just, fair and accurate manner. In 2016, the Company published 46 corporate communications such as announcements and circulars. Such publications have objectively and comprehensively disclosed information regarding the Company's results, operating performance, financial information, dividend payment, connected transaction, poll results of general meetings.

The Company's website (www.capinfo.com.cn) is one of the important disclosure channel for corporation information, and also an important platform for investors to access information of the Company. In 2016, the Company published the following information through the websites of the Stock Exchange and the Company pursuant to the Listing Rules:

No.	Events	Publish Date
1	Monthly Return on Movements in Securities for December 2015	7 January 2016
2	Poll Results of Extraordinary General Meeting and Changes of Non-executive Directors, Chairman and Board Committees Chairman/Member	12 January 2016
3	List of Board of Directors and Their Roles and Functions	12 January 2016
4	Terms of Reference (Revised Edition) of the Audit Committee	26 January 2016
5	Monthly Return on Movements in Securities for January 2016	1 February 2016
6	Monthly Return on Movements in Securities for February 2016	2 March 2016
7	Notice of Board Meeting	14 March 2016
8	Changes in Independent Non-executive Director and Board Members	18 March 2016
9	List of Board of Directors and Their Roles and Functions	18 March 2016
10	Consolidated Results for the Year Ended 31 December 2015	24 March 2016
11	Revision of Annual Caps for Continuing Connected Transaction in Relation to the Lease of Office Premises	31 March 2016
12	Monthly Return on Movements in Securities for March 2016	6 April 2016
13	Connected Transaction in Relation to (I) System and Hardware Contract; (II) Network Equipment Contract; contract; and (III) Integrated System Contract	8 April 2016
14	2015 Annual Report	11 April 2016
15	Notice of the Annual General Meeting	11 April 2016
16	Proposed Election of Independent Non-executive Directors, Proposed General Mandate of Issuance of H Shares and Notice of Annual General Meeting	11 April 2016
17	Form of Proxy	11 April 2016
18	Reply Slip	11 April 2016
19	Connected Transaction Relating to the Disposal of 26% Equity Interest in Subsidiary	3 May 2016
20	Monthly Return on Movements in Securities for April 2016	4 May 2016
21	Poll Results of the Annual General Meeting	27 May 2016

No.	Events	Publish Date
22	List of Board Members and Their Roles and Functions	27 May 2016
23	Monthly Return on Movements in Securities for May 2016	6 June 2016
24	Monthly Return on Movements in Securities for June 2016	5 July 2016
25	Adjustment to Phase II Consideration in Relation to a Major Transaction	8 July 2016
26	Monthly Return on Movements in Securities for July 2016	3 August 2016
27	Notice of Board Meeting	16 August 2016
28	Interim Results for the 6 Months Ended 30 June 2016	26 August 2016
29	Monthly Return on Movements in Securities for August 2016	1 September 2016
30	2016 Interim Report	6 September 2016
31	Changes of Independent Non-executive Director and Chairman of the Audit Committee and Member of the Remuneration and Appraisal Committee	29 September 2016
32	Notice of Extraordinary General Meeting	29 September 2016
33	Proposed Election of Independent Non-executive Director and Notice of Extraordinary General Meeting	29 September 2016
34	Form of Proxy for EGM	29 September 2016
35	Reply Slip for EGM	29 September 2016
36	Monthly Return on Movements in Securities for September 2016	7 October 2016
37	Monthly Return on Movements in Securities for October 2016	3 November 2016
38	Poll Results of Extraordinary General Meeting and Change of Independent Non-Executive Director, Chairman of the Audit Committee and Member of the Remuneration and Appraisal Committee	15 November 2016
39	List of Board of Directors and Their Roles and Functions	15 November 2016
40	Appointment of Chief Executive Officer	25 November 2016
41	Change of Executive Director and Member of Strategy Committee, Remuneration and Appraisal Committee	5 December 2016
42	Proposed Election of Executive Directors and Notice of Extraordinary General Meeting	5 December 2016
43	Notice of Extraordinary General Meeting	5 December 2016
44	Form of Proxy for EGM	5 December 2016
45	Reply Slip for EGM	5 December 2016
46	Monthly Return on Movements in Securities for November 2016	5 December 2016

SHARE PRICE PERFORMANCE

As at 21 December 2001, the H shares issued by the Company were listed on the Hong Kong Stock Exchange at the allotment price of HK\$0.48 per share. Since listing, the Company's performance increased stably. According to the data from Wind Information, during the period from the listing date to 31 December 2016, the closing price of the H share of the Company increased from HK\$0.44 that recorded on the first listing date to HK\$0.73, increased by 65.91%. In 2016, the closing price of the shares of the Company increased from HK\$0.68 that recorded at the beginning of the year to HK\$0.73. The market value of the Company amounted to approximately HK\$2,115.6 million in aggregate calculated at the closing price of HK\$0.73 as at 31 December 2016.

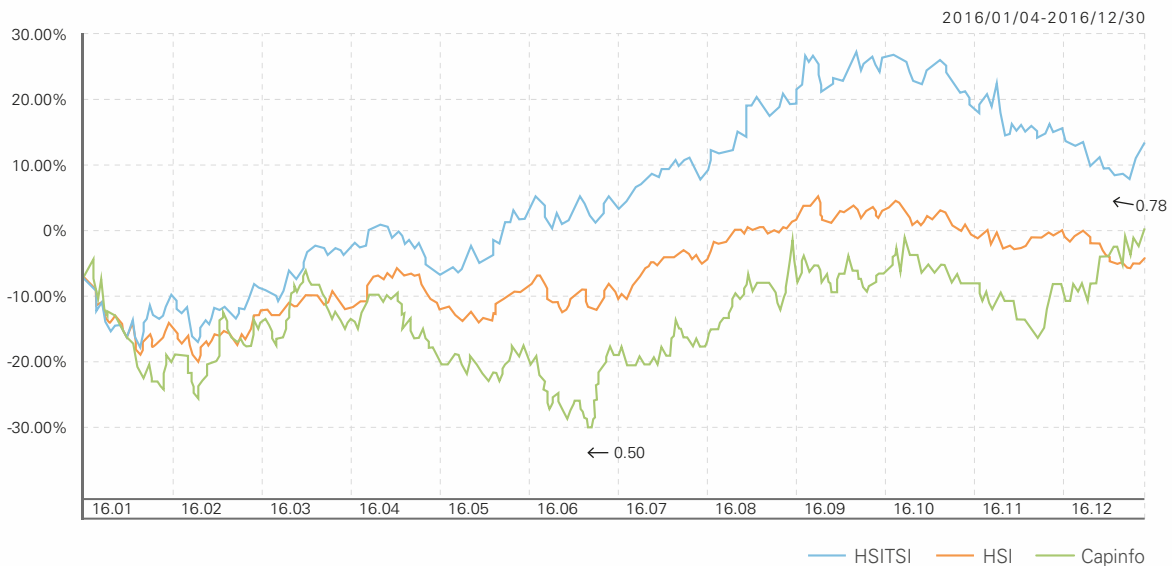
SHARE PRICE PERFORMANCE FROM LISTING

2001/12/21-2016/12/30



SHARE PRICE PERFORMANCE OF 2016

2016/1/4-2016/12/30



DIVIDEND POLICY

The Company always attaches great importance to the shareholders' demand for dividends, and is committed, based on the financial performance of the Company as well as taking into consideration the long-term interests of the Company, the interests of the shareholders as a whole and the sustainable development of the Company, to maintaining a stable dividend policy to ensure the continuity and stability of the relevant policy.

PROFIT DISTRIBUTION PLAN IN THE REPORTING PERIOD

The Company always attaches great importance on the reasonable investment return for the investors. Profit distribution plan is determined by the Company based on the financial performance to ensure continuity and stability of the dividend distribution policy. In accordance with the requirements of the Articles of Association, unless otherwise approved by special resolution of shareholders, the Company shall only distribute dividends once a financial year.

- I. Pursuant to article 137 of the Articles of Association, when distributing the after-tax profit for the related accounting year, the Company shall adopt whichever is the lower of the after-tax profit in financial statements prepared under the PRC accounting standards and regulations of the PRC or prepared under the international accountings standards or the accounting standards of the jurisdiction outside the PRC where the Company's shares are listed. During the Reporting Period, profit attributable to owners of the Company amounted to approximately RMB70.2 million and RMB109.2 million respectively and the basic earnings per share amounted to RMB2.42 cents and RMB3.77 cents respectively under the PRC accounting standards and Hong Kong Financial Reporting Standards ("HKFRSs"). The Board of the Company proposed a payment of final dividend of RMB1.09 cents (approximately HK\$1.23 cents, tax inclusive), per share for the year 2016, totaling approximately RMB31.6 million (tax inclusive). The 2016 annual general meeting will be held on Friday, 26 May 2017 to consider and approve the proposed payment of final dividend for the year 2016 by the Board.
- II. In accordance with the provisions of Article 146 and 147 of the Articles of Association, dividends shall be declared and denominated in RMB. Dividends payable to holders of domestic shares shall be paid in RMB while dividends payable to holders of H shares shall be paid in Hong Kong Dollars. In paying dividends in Hong Kong Dollars, the applicable exchange rate shall be the average of the closing price for conversion of RMB to Hong Kong Dollar as announced by the People's Bank of China for the calendar week preceding to the date on which such dividends are declared.
- III. Pursuant to the Law on Corporate Income Tax of the People's Republic of China and its implementation rules which came into effect on 1 January 2008, the Company is required to withhold and pay corporate income tax at the rate of 10% before distributing the final dividends to non-resident corporate shareholders whose names appear on the H share register of members of the Company. Any H shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be deemed as shares held by non-resident corporate shareholders, therefore the dividends payable on such shares will be subject to the withholding of the corporate income tax. After receipt of the dividends, a non-resident corporate shareholder may, in person or through an agent, apply to the competent tax authorities for preferential treatment under the taxation treaties (arrangements) to enjoy tax refund at the presence of evidence in support of its status as a beneficial owner as defined in the taxation treaties (arrangements).

INVESTORS RELATIONS

- IV. Pursuant to the regulation promulgated by the State Administration of Taxation of the PRC (Guo Shui Han [2011] No. 348), the Company is required to withhold and pay the individual income tax for its individual holders of H shares (“Individual H Shareholders”) and the Individual H Shareholders are entitled to certain tax preferential treatments according to the tax treaties between those countries where the Individual H Shareholders are residents and China and the provisions in respect of tax arrangements between mainland China and Hong Kong (Macau). The Company will withhold and pay the individual income tax at the tax rate of 10% on behalf of the Individual H Shareholders who are Hong Kong residents, Macau residents or residents of those countries having agreements with China for an individual income tax rate in respect of dividend of 10%. For Individual H Shareholders who are residents of those countries having agreements with China for an individual income tax rate in respect of dividend of lower than 10%, the Company will make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知》(國稅發 [2009] 124號)). For Individual H Shareholders who are residents of those countries having agreements with China for an individual income tax rate in respect of dividend of higher than 10% but lower than 20%, the Company will withhold and pay the individual income tax at the agreed effective tax rate. For Individual H Shareholders who are residents of those countries without any taxation agreements with China or having agreements with China for an individual income tax in respect of dividend of 20% or under other situations, the Company will withhold and pay the individual income tax at the tax rate of 20%.

The Company will determine the country of domicile of the Individual H Shareholders based on the registered address as recorded in the H share register of members of the Company at 4:30 p.m. on Friday, 9 June 2017 and will accordingly withhold and pay the individual income tax. If the country of domicile of the Individual H Shareholder is not the same as the registered address, the Individual H Shareholder shall notify the share registrar of the Company’s H shares, Hong Kong Registrars Limited, and provide relevant supporting documents before 4:30 p.m. on Friday, 9 June 2017 (address: Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong).

- V. The Company will not assume any liability and will not entertain any claims arising from any delay in or inaccurate determination of the status of the shareholders of the Company or any disputes over the withholding and payment of tax. Shareholders are recommended to consult their tax advisers regarding the PRC, Hong Kong and other tax implications arising from their holding and disposal of H shares of the Company.

DIVIDEND DISTRIBUTION INFORMATION FOR PREVIOUS YEARS

Year of distribution	Declaration date	Payment date**	Dividend per share before tax		Total amount of cash dividend paid RMB million	Net profit attributable to the shareholders of the parent company under HKFRSs RMB million	Percentage of net profit attributable to the shareholders of the parent company under HKFRSs
			RMB cent	HK\$ cent			
Final dividend for 2007	20 March 2008	15 July 2008	1.40	1.54	40.6	47.1	86.13%
Final dividend for 2008	23 March 2009	16 July 2009	0.52	0.59	15.1	53.2	28.32%
Interim dividend for 2010	12 August 2010	5 November 2010	2.05	2.35	59.4	76.8*	77.35%
Final dividend for 2010	21 March 2011	9 August 2011	1.15	1.36	33.3	73.7	45.22%
Final dividend for 2011	23 March 2012	13 August 2012	1.20	1.48	34.8	69.1	50.36%
Final dividend for 2012	22 March 2013	24 September 2013	1.30	1.61	37.7	81.4	46.31%
Final dividend for 2013	21 March 2014	23 September 2014	1.30	1.65	37.7	81.4	46.29%
Final dividend for 2014	27 March 2015	24 September 2015	1.06	1.34	30.7	67.0	45.83%
Final dividend for 2015	24 March 2016	23 September 2016	1.57	1.88	45.5	101.5	44.81%
Final dividend for 2016	24 March 2017	29 September 2017	1.09	1.23	31.6	109.2	28.92%

Notes:

* Net profit attributable to the shareholders of the parent company for the interim period of 2010 represented the sum of net profit attributable to the shareholders of the parent company for the annual period of 2009 and the interim period of 2010.

** The payment date refers to the payment date of dividends paid on H shares. The payment date of dividends paid on the domestic shares is approximate to that of the H shares.

CONVENING OF SHAREHOLDER'S GENERAL MEETINGS

Pursuant to the Articles of Association and Rules of Procedures for General Meetings, the Company specified the convening procedures and voting process of shareholder's general meetings. During the Reporting Period, the Company held annual general meeting in strict compliance with the procedures of notification, convening and holding as stipulated in the relevant laws and regulations, the Listing Rules and the Articles of Association. The details are set out as follows:

	2016 First Extraordinary General Meeting	2015 Annual General Meeting	2016 Second Extraordinary General Meeting
Date of meeting	12 January 2016	27 May 2016	15 November 2016
Place of meeting	Beijing		
Issues	1. The election of Mr. Xu Zhe as Non-executive Director	Ordinary resolutions	1. the audited consolidated financial statements of the Group and the Directors' and independent auditor's reports for the year ended 31 December 2015
	2. The election of Dr. Feng Haocheng as Non-executive Director		2. the supervisors' report for the year 2015
	3. The election of Mr. Cao Jun as Non-executive Director		3. the independent directors' report for the year 2015
	4. To authorize the Board of Directors to fix the remuneration of each newly elected Non-executive Director		4. the re-appointment of Grant Thornton Hong Kong Limited as auditor and to authorize the Board of Directors of the Company to fix their remuneration
	5. To authorize the Board of Directors to enter into a service contract with each newly elected Non-executive Director		5. declaration of the final dividend of RMB1.57 cents (i.e. HK1.88 cents) per share for the year ended 31 December 2015
			6. the election of Mr. Li He as independent non-executive director, and to authorize the Board of Directors to enter into a service contract with Mr. Li He
			7. authorize the Board of Directors to fix the remuneration of the Directors
			8. authorize the Board to fix the remuneration of supervisors
			9. authorize the Board to approve the general mandate of issuance of additional H shares of the Company
	Special resolution		
			The election of Mr. Yang Xiaohui as an independent Non-executive Director, and to authorize the Board of Directors to enter into a service agreement with Mr. Yang Xiaohui

	2016 First Extraordinary General Meeting	2015 Annual General Meeting	2016 Second Extraordinary General Meeting
Number of shareholders or authorized representatives present at the meeting	7	8	7
Total number of representing shares	2,135,648,091	2,126,456,091	2,124,258,091
Of total share capital	73.69%	73.37%	73.30%
For	100%	Ordinary resolutions 100%, Special resolution 99.99%	100%
Against	Nil	Ordinary resolutions Nil, Special resolution 0.01%	Nil

ATTENDANCE OF GENERAL MEETINGS OF THE DIRECTORS

Name	2016 First Extraordinary General Meeting	2015 Annual General Meeting	2016 Second Extraordinary General Meeting
Executive Directors			
Ms. Lin Yankun ¹	N/A	N/A	N/A
Mr. Yu Donghui (Chief Executive Officer) ²	N/A	N/A	N/A
Non-executive Directors			
Mr. Xu Zhe (Chairman) ³	N/A	✓	
Dr. Feng Haocheng ⁴	N/A	✓	
Mr. Cao Jun ⁵	N/A	✓	✓
Mr. Zhou Weihua	✓	✓	
Mr. Shan Yuhu	✓	✓	
Ms. An Lili	✓	✓	✓
Independent Non-executive Directors			
Mr. Yang Xiaohui ⁶	N/A	N/A	N/A
Mr. Gong Zhiqiang	✓		
Mr. Cheung, Wai Hung Boswell	✓		
Mr. Li He ⁷	N/A	N/A	✓
Resigned or retired Director			
Dr. Wang Xu (Chairman & Chief Executive Officer)	N/A	N/A	N/A
Mr. Lu Lei (Executive Director)	✓	✓	✓
Mr. Wu Shengjiao (Non-executive Director)	N/A	N/A	N/A
Mr. Shi Hongyin (Non-executive Director)	N/A	N/A	N/A
Dr. Jiao Jie (Independent Non-executive Director)	N/A	N/A	N/A
Ms. Zhou Liye (Independent Non-executive Director)	✓		

INVESTORS RELATIONS

Notes:

1. Ms. Lin Yankun was appointed as the secretary of the party committee in November 2016, and was appointed as executive director in January 2017.
2. Mr. Yu Donghui was appointed as chief executive officer in November 2016, and was appointed as the executive director to replace Mr. Lu Lei in January 2017.
3. Mr. Xu Zhe was appointed to replace Dr. Wang Xu as Chairman in January 2016.
4. Dr. Feng Haocheng was appointed as Non-executive Director in January 2016.
5. Mr. Cao Jun was appointed as the Non-executive Director in January 2016.
6. Mr. Yang Xiaohui was appointed as Independent Non-executive Director in November 2016.
7. Mr. Li He was appointed as Independent Non-executive Director in May 2016.

VOTE BY WAY OF POLL

Pursuant to the provisions in Article 67 of the Articles of Association, the votes for all resolutions at the general meetings will be taken by way of poll. Each share represents one voting right. The announcement of poll results of the annual general meeting will be published at the websites of the Stock Exchange and the Company respectively on the same day after the annual general meeting for the information of the shareholders and investors.

AMENDMENTS TO ARTICLES OF ASSOCIATION

During the Reporting Period, the Company made no amendments to the provisions of the Articles of Association.

INVESTORS CALENDAR

Date	Issue
24 March 2017	Announcement of annual results for the year ended 31 December 2016
10 April 2017	Dispatch of 2016 Annual Report, 2016 Notice of Annual General Meeting, Proxy Form and Reply Slip
26 April to 26 May 2017	Closure of register of members (both days inclusive) to ascertain the entitlement of shareholders to attend the general meeting
26 May 2017	Convention of 2016 Annual General Meeting*
31 May 2017	Ex-dividend date
4:30 p.m. 1 June 2017	Closing time for registration for 2016 final dividend
2 June to 9 June 2017	Closure of register of members (both days inclusive) to ascertain the entitlement to the dividend
4:30 p.m. 9 June 2017	Registered Shareholders are eligible for dividends
August 2017	Announcement of interim Results for the six months ended 30 June 2017
29 September 2017	Payment of final dividend of 2016

Notes*:

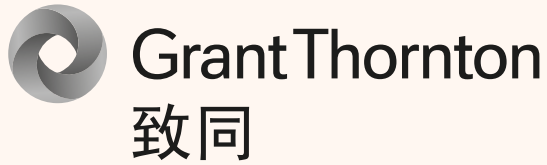
The reply slip for the annual general meeting must be lodged in person or by mail with the Company's H share registrar and transfer office, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, the PRC or the registered office of the Company at 12th Floor, Quantum Silver Plaza, 23 Zhichun Road, Haidian District, Beijing, the PRC (for holders of domestic shares) on or before Friday, 5 May 2017.

To be valid, the form of proxy together with any power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the above addresses not later than 24 hours before the time scheduled for the annual general meeting or any adjournment thereof.

INVESTORS RELATIONS

SHAREHOLDER SERVICES

- Any matters relating to the H shares in your name, such as transfer of shares, change of name or address and loss of share certificates, should be addressed in writing to the Company's Hong Kong share registrar and transfer office.
- Shareholders are, at any time, welcome to raise questions and request published information of the Company (to the extent it is publicly available) from the Board and the management by sending emails to the E-mail address for Investors Relations: investor@capinfo.com.cn or to Mr. Lu Lei, the vice president and secretary of the Board of the Company by post. Any such letter from the shareholders should be marked with "Shareholders' Communication" on envelope.



To the members of Capinfo Company Limited

(established as a joint stock limited company in the People's Republic of China)

OPINION

We have audited the consolidated financial statements of Capinfo Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 94 to 167, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

The Key Audit Matter	How our audit addressed the Key Audit Matter
<i>Revenue recognition on technology service contracts</i>	
<p>Refer to significant accounting policies in note 3.5, key sources of estimation uncertainty in note 4, and note 5 to the consolidated financial statements.</p> <p>Revenue and costs of technology service contracts are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. The stage of completion requires the management to estimate the total contract costs expected to be incurred in completing the contracts undertaken by the Group.</p>	<p>Our audit procedures in relation to the revenue recognition on technology service contracts included:</p> <ul style="list-style-type: none"> - Discussing with the project leader in respect of the preparation of approved budgets and the determination of stage of completion; - Checking, on a sample basis, the contract sum and budget costs to the signed technology service contracts and approved budgets, and on a sample basis, checked to actual costs incurred and progress billings up to date; - Evaluating and challenging management's assessment on the determination of, amongst others, the percentage of completion of the technology service contracts, including actual costs incurred up to date, estimated costs to completion and provisions for loss making contracts.
<i>Impairment of goodwill</i>	
<p>Refer to significant accounting policies in note 3.18, key sources of estimation uncertainty in note 4 and the disclosures of goodwill in note 16 to the consolidated financial statements.</p> <p>The Group's goodwill as at 31 December 2016 amounted to RMB184,598,000, which has been allocated to Rito Info Technology Co., Ltd.</p> <p>Under the HKFRSs, the Group is required to perform impairment test on goodwill annually. The recoverable amount of the cash generating unit has been determined based on the value-in-use calculations. These calculations require the exercise of significant judgement about future market conditions, including growth rates and discount rates applied in the calculations.</p>	<p>Our audit procedures in relation to the impairment of goodwill are focused on evaluating and assessing the key assumptions used by management in conducting the impairment review and included:</p> <ul style="list-style-type: none"> - Assessing the value-in-use calculations methodology adopted by management; - Comparing the current years' actual cash flows with the prior years' cash flow forecasts and consider if the forecasts included assumptions that were overly optimistic; - Assessing the reasonableness of key assumptions (including growth rates and discount rates); - Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the Company's 2016 annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road, Wanchai

Hong Kong

24 March 2017

Shaw Chi Kit

Practising Certificate No.: P04834

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Revenue	5	929,651	879,473
Cost of sales		(621,033)	(618,760)
Gross profit		308,618	260,713
Other income	5	24,177	31,374
Other gains and losses	7	(2,617)	48,871
Research and development costs		(58,269)	(75,124)
Marketing and promotional expenses		(94,597)	(84,805)
Administrative expenses		(77,652)	(94,717)
Finance cost for loan wholly repayable within five years		(40)	(679)
Share of results of associates	19	20,977	16,272
Profit before tax		120,597	101,905
Income tax expense	10	(10,653)	(361)
Profit for the year	11	109,944	101,544
Profit and total comprehensive income for the year attributable to			
– Owners of the Company		109,234	101,542
– Non-controlling interests		710	2
		109,944	101,544
Earnings per share for profit attributable to owners of the Company during the year	13		
– Basic		RMB3.77 cents	RMB3.50 cents
– Diluted		RMB3.77 cents	RMB3.50 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION <<<

As at 31 December 2016

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	14	167,645	152,147
Investment property	15	45,283	49,057
Goodwill	16	184,598	184,598
Intangible assets	17	21,695	32,568
Prepaid lease payments	18	25,322	32,578
Deposits paid on acquisition of property, plant and equipment		1,730	1,149
Interests in associates	19	130,134	75,974
Financial assets at fair value through profit or loss	20	3,565	6,659
Available-for-sale investments	21	971	971
Trade receivables	24	25,123	57,040
Deferred tax assets	22	28,737	18,046
		634,803	610,787
Current assets			
Inventories	23	23,116	17,461
Prepaid lease payments	18	7,373	8,548
Trade and other receivables	24	374,790	327,928
Income tax recoverable		–	1,098
Amounts due from customers for contract works	25	96,661	59,235
Amounts due from related parties	38	37,150	24,711
Bank deposits	26	61,135	80,910
Bank balances and cash	26	510,063	498,559
		1,110,288	1,018,450
Current liabilities			
Trade and other payables	27	359,363	335,042
Other financial liabilities	28	30,336	82,255
Amounts due to related parties	38	20,942	4,463
Amounts due to customers for contract works	25	291,362	243,515
Loan from government	29	900	1,810
Income tax payable		23,974	7,125
		726,877	674,210
Net current assets		383,411	344,240
Total assets less current liabilities		1,018,214	955,027
Non-current liabilities			
Other financial liabilities	28	9,894	37,438
Deferred tax liabilities	22	–	547
		9,894	37,985
Net assets		1,008,320	917,042

»»» CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Capital and reserves			
Share capital	30	289,809	289,809
Share premium and reserves		686,928	627,094
Equity attributable to owners of the Company		976,737	916,903
Non-controlling interests		31,583	139
Total equity		1,008,320	917,042

Mr. Xu Zhe
Chairman

Mr. Yu Donghui
Executive Director, CEO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY <<<

For the year ended 31 December 2016

	Attributable to owners of the Company						
	Share capital	Share premium	Statutory surplus reserve	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	289,809	254,079	58,663	243,530	846,081	137	846,218
Profit and total comprehensive income for the year	-	-	-	101,542	101,542	2	101,544
Dividend recognised as distribution (note 12)	-	-	-	(30,720)	(30,720)	-	(30,720)
Profit appropriations	-	-	5,580	(5,580)	-	-	-
At 31 December 2015 and 1 January 2016	289,809	254,079	64,243	308,772	916,903	139	917,042
Profit and total comprehensive income for the year	-	-	-	109,234	109,234	710	109,944
Dividend recognised as distribution (note 12)	-	-	-	(45,500)	(45,500)	-	(45,500)
Disposal of partial interest in a subsidiary (note 37)	-	-	-	(3,900)	(3,900)	30,734	26,834
Profit appropriations	-	-	7,964	(7,964)	-	-	-
At 31 December 2016	289,809	254,079	72,207	360,642	976,737	31,583	1,008,320

»»» CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before tax		120,597	101,905
Adjustments for:			
Finance cost		40	679
Interest income from bank deposits		(3,729)	(2,413)
Fair value loss/(gain) on financial assets at fair value through profit or loss		3,094	(5,594)
Gain on deemed disposal of partial interest in an associate		(37,590)	–
Change in fair value of contingent consideration payable		9,172	6,532
Share of results of associates		(20,977)	(16,272)
Depreciation of property, plant and equipment		54,770	72,516
Depreciation of investment property		3,774	3,774
Amortisation of intangible assets		17,960	19,195
Loss on disposal of property, plant and equipment		1,895	201
Gain on disposal of available-for-sale investments		–	(56,862)
Written back of long outstanding payables		(1,250)	–
Impairment losses on trade and other receivables		30,960	9,419
Operating cash flows before movements in working capital		178,716	133,080
(Increase)/decrease in inventories		(5,655)	10,647
(Increase)/decrease in amounts due from customers for contract works		(37,426)	16,924
Increase in amounts due from related parties		(12,582)	(5,150)
Increase in trade and other receivables		(37,474)	(60,688)
Increase in trade and other payables		25,571	69,542
Increase/(decrease) in amounts due to related parties		14,138	(48)
Increase/(decrease) in amounts due to customers for contract works		47,847	(3,069)
Cash generated from operations		173,135	161,238
Income tax paid		(6,386)	(15,186)
Net cash generated from operating activities		166,749	146,052

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Investing activities			
Interest received		3,729	2,413
Dividend received from an associate		4,407	4,827
Proceeds from disposal of property, plant and equipment		119	–
Cash paid for acquisition of property, plant and equipment		(71,161)	(37,338)
Deposits paid for acquisition of property, plant and equipment		(1,702)	(854)
Cash paid for development costs		(7,087)	(6,924)
Withdrawal from bank deposits		84,177	10,723
Placement of bank deposits		(64,402)	(87,040)
Cash paid for prepaid lease payments		–	(438)
Proceeds from disposal of available-for-sale investments		–	51,441
Cash paid for settlement of contingent consideration payable		(88,635)	–
Cash paid for acquisition of financial assets at fair value through profit or loss		–	(193,000)
Cash received from redemption of financial assets at fair value through profit or loss		–	197,356
Repayment from related parties		3,893	2,170
Cash advanced to related parties		(1,409)	(6,591)
Net cash used in investing activities		(138,071)	(63,255)
Financing activities			
Interest paid		(40)	(679)
Repayment of loan from government		(910)	(910)
Repayment of short term bank loan		–	(20,000)
Dividends paid		(45,500)	(30,720)
Proceeds from disposal of partial interest in a subsidiary	37	29,276	–
Net cash used in financing activities		(17,174)	(52,309)
Net increase in cash and cash equivalents		11,504	30,488
Cash and cash equivalents at the beginning of the year		498,559	468,071
Cash and cash equivalents at the end of the year, represented by bank balances and cash		510,063	498,559

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

The Company is a joint stock limited company established in Beijing, the People's Republic of China (the "PRC") and its H shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is 北京市國有資產經營有限責任公司 (Beijing State-owned Assets Management Co., Ltd., or "BSAM"), a state-owned enterprise, also established in the PRC. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

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 and self-developed computer software.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Group. The consolidated financial statements on pages 94 to 167 were approved and authorised for issue by the Board of Directors on 24 March 2017.

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amended HKFRSs that are effective for annual period beginning on 1 January 2016

The Group has applied for the first time the new and amended HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are first effective for the current accounting period of the Group's financial statements. None of these new and amended HKFRSs have any material impact on how the Group's results and financial position for the current or prior periods have been prepared or presented.

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and amended HKFRSs issued but not yet effective

The Group has not early applied the following new and amended HKFRSs that have been issued but are not yet effective:

Amendments to HKAS 7 Amendments to HKAS 12 HKFRS 9 HKFRS 15 HKFRS 16 Amendments to HKFRS 10 and HKAS 28	Disclosure Initiative ¹ Recognition of Deferred Tax Assets for Unrealised Losses ¹ Financial Instruments ² Revenue from Contracts with Customers ² Leases ³ Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture ⁴
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¹ Effective for annual periods beginning on or after 1 January 2017
² Effective for annual periods beginning on or after 1 January 2018
³ Effective for annual periods beginning on or after 1 January 2019
⁴ Available for early application, the mandatory effective date is subject to a date to be determined

The directors anticipate that all of the new and amended HKFRSs will be adopted in the Group’s accounting policy for the first period beginning after the effective date of the new and amended HKFRSs. Information on new and amended HKFRSs that are expected to have impact on the Group’s accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group’s consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The amendments to HKAS 7 require entities to provide disclosure that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

An entity applies its judgement when determining the exact form and content of the disclosures needed. The amendments suggest a number of specific disclosures in order to satisfy the above requirement, including:

- changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses.
- a reconciliation of the opening and closing balances of liabilities arising from financing activities in the consolidated statement of financial position including those changes identified immediately above.

The directors consider that the application of amendments to HKAS 7 in the future will not have a significant impact on the Group’s results and financial position.

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and amended HKFRSs issued but not yet effective (continued)

HKFRS 9 Financial Instruments

HKFRS 9 will replace HKAS 39 in its entirety. The new standard introduces changes to HKAS 39’s guidance on the classification and measurement of financial assets. Under HKFRS 9, each financial asset is classified into one of three main classification categories: amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. An entity may make an irrevocable election at initial recognition to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

Most of the HKAS 39’s requirements for financial liabilities were carried forward unchanged to HKFRS 9. The requirements related to the fair value option for financial liabilities have however been changed to address own credit risk. Where an entity chooses to measure its own debt at fair value, HKFRS 9 requires the amount of the change in fair value due to changes in the entity’s own credit risk to be presented in other comprehensive income, unless effect of changes in the liability’s credit risk would create or enlarge an accounting mismatch in profit or loss, in which case, all gains or losses on that liability are to be presented in profit or loss.

HKFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities are required to account for expected credit losses when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

HKFRS 9 also provides new guidance on the application of hedge accounting. The new hedge accounting models retain the three types of hedge accounting and the requirements of formal designation and documentation of hedge accounting relationships. The new hedge accounting requirements look to align hedge accounting more closely with entities’ risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The directors are currently assessing the possible impact of HKFRS 9 on the Group’s results and financial position in the first year of application.

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and amended HKFRSs issued but not yet effective (continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a single and comprehensive framework for determining when to recognise and how much revenue to recognise through a 5-step approach.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

HKFRS 15 supersedes HKAS 18 “Revenue”, HKAS 11 “Construction Contracts”, and revenue-related interpretations.

HKFRS 15 establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing HKFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. The directors are currently assessing the possible impact of HKFRS 15 on the Group’s results and financial position in the first year of application.

HKFRS 16 Leases

HKFRS 16 applies a control model to the identification of leases, distinguishing between leases and services contracts on the basis of whether there is an identified asset controlled by the customer.

HKFRS 16 introduces a single lessee accounting model and requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of the lease arrangement. The initial measurement of the right-of-use asset is based on the lease liability and adjusted for any prepaid lease payments, lease incentives received, initial direct costs incurred and an estimate of costs the lessee is obliged to incur to dismantle, remove or restore the underlying asset and/or site. Subsequently, the right-of-use asset is depreciated following the requirements of HKAS 16 and impaired, if any, following the requirements of HKAS 36. The lease liability is accounted for similarly to other financial liabilities using an effective interest method.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and amended HKFRSs issued but not yet effective (continued)

HKFRS 16 Leases (continued)

The lessor accounting requirements are not substantially changed and classification of leases as operating leases or finance leases are retained. HKFRS 16 replaces HKAS 17 “Leases”, and related Interpretations. HKFRS 16 is effective from 1 January 2019, an entity is allowed to apply HKFRS 16 before that date but only if it also applies HKFRS 15 “Revenue from Contracts with Customers”.

The directors are currently assessing the impact of HKFRS 16 upon adoption and expect that certain portion of lease commitments will be required to be recognised in the consolidated statement of financial position as a right-of-use asset and a lease liability.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Group (its subsidiaries). Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

An investment in a subsidiary is consolidated into the consolidated financial statements when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries are attributed to owners of the Company and to the non-controlling interests.

Where necessary, adjustments are made to the financial statements of subsidiary to bring its accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition of a financial asset, or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.2 Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of investment over the Group's share of the net fair value of the identifiable assets, liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Investments in associates (continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale is accounted for using the equity method.

Upon disposal or partial disposal of the Group's interest in an associate in which the Group lost significant influence and discontinued the use of equity method, any retained interest that is within the scope of HKAS 39 is measured at fair value on that date, the difference between the carrying amount of the associate at the date, and the proceeds from disposing of such interest (or partial interest) in the associate and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the Group lost significant influence or joint control over the investee.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Deposits and instalments received from customers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the Group's rights to receive payment have been established, provided that it is probable that the economic benefits will flow to the Group and the amounts of revenue can be measured reliably.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

3.5 Technology service contracts

When the outcome of a contract for the technology service of network systems can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of each reporting period, as measured by the proportion that contract costs incurred for the work performed to date bear to estimated total costs, except where this would not be representative of the stage of completion. Variations in contract works, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Technology service contracts (continued)

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract works. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract works. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as customers' deposits for contract works. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

3.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

3.8 Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.8 Intangible assets (continued)****Internally-generated intangible assets – research and development expenditure (continued)**

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.9 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Leasing (continued)

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

3.10 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

3.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use of sale. Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.12 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognise as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.13 Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contribution.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.16 Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.16 Financial instruments (continued)****Financial assets (continued)****Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and those designated as at fair value through profit or loss on initial recognition. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

The Group's available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**3.16 Financial instruments (continued)****Financial assets (continued)****Impairment of financial assets (continued)**

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related parties, loan from government and other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.17 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Impairment losses on tangible and intangible assets

Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and if that person:
 - (i) has control or joint control over of the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (b) the party is an entity and if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) the entity and the Group are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, or any member of a group of which it is apart, provides key management personnel services to the Group or to the parent of the Group.

Closing members of the family of a person are those family members who may be expected to influence, or be influenced by, that in their dealings with the entity.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.18. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates about future cash flows, including growth rates and discount rates. In the process of estimating expected future cash flows management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details of the estimates of the recoverable amounts of cash generating units containing goodwill are disclosed in note 16.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of trade receivables is RMB316,990,000 (net of impairment losses of RMB58,433,000) (31 December 2015: the carrying amount of trade receivables is RMB300,077,000, net of impairment losses of RMB29,406,000) (note 24).

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual values. The determination of the useful lives and residual values of network equipment involves management's estimation regarding change in technology and customers' expectation regarding network infrastructure services to be provided by the Group. The Group assesses annually the residual value and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year the estimate is changed and the future period. Details of the depreciation of property, plant and equipment are disclosed in note 14.

Revenue recognition on technology service contracts

Revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of each reporting period set out in note 5. The stage of completion requires the management to estimate total contract costs expected to be incurred in completing the contracts undertaken by the Group. The time taken and the cost ultimately incurred may be adversely affected by many factors, including additional variations to the plans requested by the customers or because of technical needs, disputes with sub-contractors, changes in the government's priorities and other unforeseen problems and circumstances. Any of these factors may give rise to delays in completion of work or cost overruns or termination of contracts by the customers, which in turn may affect the stage of completion and therefore recognition of contract revenue and costs in the future period.

Deferred taxation on certain tax losses and other deductible/taxable temporary differences

No deferred tax asset has been recognised on certain of the tax losses and other deductible/taxable temporary differences due to the unpredictability of future profit streams, availability of taxable temporary differences and the timing of reversal of such tax losses and other deductible temporary differences as set out in note 22. The probability in respect of the utilisation of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future and the timing of the utilisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. REVENUE AND OTHER INCOME

- (a) Revenue represents revenue generated from sales of goods and income from technology service contracts during the year. An analysis of the Group's revenue and other income for the year is as follows:

	2016 RMB'000	2015 RMB'000
Revenue		
<i>Income from technology service contracts</i>		
Operation and maintenance service	526,317	494,607
System integration service	238,056	193,547
Software development service	159,489	173,323
Consulting service	5,763	5,602
	929,625	867,079
<i>Sales of goods</i>	26	12,394
	929,651	879,473

- (b) An analysis of the Group's other income for the year is as follows:

	2016 RMB'000	2015 RMB'000
Other income		
Gross rental income from investment property	13,412	11,703
Interest income from bank deposits	3,729	2,413
Imputed interest income from Build-and-Transfer ("BT") projects	2,477	3,087
Government grants (note)	4,106	14,149
Others	453	22
	24,177	31,374

Note:

Government grants are obtained specifically for certain of the Group's research and development projects, for the purposes of compensating depreciation, staff costs, cable network and research and development costs incurred by the Group.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. SEGMENT INFORMATION

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and to assess its performance. The Group's Chief Executive Officer ("CEO") or the person who is authorised to exercise the authority of CEO is identified as the chief operating decision maker.

CEO for the purpose of resource allocation and assessment of performance, reviewed consolidated profit after taxation and the consolidated revenue of the Group as a whole prepared in accordance with the Accounting Standards for Business Enterprise of the PRC, which has no significant differences as compared with the consolidated profit after taxation and the consolidated revenue reported under HKFRSs. Therefore, the operation of the Group constitutes one single operating segment. Accordingly, no operating segment is presented, other than the entity-wide disclosure.

The Group's operations are located in the PRC and all the revenue of the Group comes from the PRC customers. The Group's non-current assets are substantially located in the PRC. Aggregated revenues from government-related entities and the PRC government for the year ended 31 December 2016 are approximately RMB807,189,000 (2015: RMB672,740,000) (note 38 (iv)). Other than this, the Group has no customer which contributes more than 10% of the Group's consolidated revenue for both years.

7. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Fair value (loss)/gain on financial assets at fair value through profit or loss	(3,094)	5,594
Gain on disposal of available-for-sale investments (note)	–	56,862
Fair value changes of contingent consideration payable (note 28)	(9,172)	(6,532)
Loss on disposal of property, plant and equipment	(1,895)	(201)
Gain on deemed disposal of partial interest in an associate (note 19)	37,590	–
Impairment losses on trade and other receivables (note 24)	(30,960)	(9,419)
Written back of long outstanding payables	1,250	–
Exchange gain, net	3,664	2,567
	(2,617)	48,871

7. OTHER GAINS AND LOSSES (CONTINUED)

Note:

On 23 October 2014, the Company was informed by PayEase Corp. ("PayEase") (an available-for-sale investee with nil carrying value) that on 21 October 2014 (United States time) a merger agreement was entered into among PayEase and Mozido Inc. ("Mozido"), an independent third party, two of Mozido's subsidiaries ("First Subsidiary" and "Second Subsidiary"), and other parties including the escrow agent, the payments administrator and a person representing the security holders in PayEase for the purpose of the merger agreement. The Group was not a party to the merger agreement.

Pursuant to the merger agreement, Mozido has conditionally agreed to cause its First Subsidiary to merge with and into PayEase and, promptly after, PayEase to merge with and into Second Subsidiary, with Second Subsidiary surviving as a wholly-owned subsidiary of Mozido. It has been agreed between PayEase and Mozido that (subject to certain closing adjustments) the aggregate consideration for the mergers is US\$750 million, which will be satisfied by (i) US\$135 million in the form of cash, less third party expenses, PayEase Group's debt, amounts set aside for expenses to be incurred by the person representing the security holders in PayEase for the purposes of the merger agreement, and working capital deficit; (ii) the allotment and issue of approximately 8,977,361 shares of Series C-1 preferred stock of Mozido ("C-1 Stock") at an issuance price of US\$12.81 per share (approximately RMB78.29); and (iii) the allotment and issue of approximately 39,032,006 shares of Series C-2 preferred stock of Mozido ("C-2 Stock") at an issuance price of US\$12.81 per share (approximately RMB78.29).

On 6 January 2015 (Hong Kong time), the Group received from PayEase supporting documents evidencing that First Subsidiary was merged with and into PayEase on 31 December 2014 and then PayEase was merged with and into Second Subsidiary on 2 January 2015.

As informed by PayEase, based on the Group's shareholding in PayEase, subject to any escrow arrangements, the expected consideration receivable by the Group following the execution and return of certain documents will be amounted to approximately US\$14.8 million in form of cash; 1,254,164 shares of C-1 Stock; and 5,452,886 shares of C-2 Stock. The expected consideration is subject to closing adjustments.

During the year ended 31 December 2015, the Group recognised gain on the deemed disposal of PayEase amounting to RMB56,862,000. The gain comprised of cash received of RMB51,441,000 and 2,771,484 shares of C-2 Stock valued at RMB5,421,000.

As the Group is not a party to the merger agreement, in the opinion of the management, the stock price of US\$12.81 (approximately RMB78.29) per share does not represent the fair value of the C-1 Stock and C-2 Stock (which are of different terms) and therefore the fair value of C-2 Stock has been determined by reference to the valuation of professional valuer on a combination of market approach and Black-Scholes option pricing model, details of which are set out in note 32.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. OTHER GAINS AND LOSSES (CONTINUED)

Note: (continued)

The Group did not recognise the remaining cash portion and C-1 Stock and C-2 Stock withheld under escrow agent and subject to escrow arrangements and closing adjustments as the ultimate realisation of the amount of cash portion and number of C-1 Stock and C-2 Stock are unable to ascertain and the economic inflow is uncertain as at the date of this report.

Details are set out in the Company's announcements dated 18 November 2014, 8 January 2015, 17 February 2015, 14 April 2015, 14 May 2015 and a circular dated 26 October 2015.

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS

	2016 RMB'000	2015 RMB'000
Fees		
– independent non-executive directors	256	260
Other emoluments for executive and non-executive directors		
– basic salaries and allowances	766	1,262
– retirement benefit scheme contributions	47	84
	813	1,346
Other emoluments for chief executive officer		
– basic salaries and allowances	80	–
– retirement benefit scheme contributions	4	–
	84	–
Other emoluments for supervisors		
– basic salaries and allowances	249	567
– retirement benefit scheme contributions	39	84
	288	651
	1,441	2,257

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (CONTINUED)

The emoluments paid or payable to each of the 20 (2015: 20) directors, chief executive and supervisors were as follows:

2016

	Other emoluments			Total RMB'000
	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	
Directors				
Executive Directors				
Mr. Lu Lei (Vice President, Secretary and Executive Director resigned on 20 January 2017)	-	766	47	813
Dr. Wang Xu (Chairman & CEO, resigned on 12 January 2016)	-	-	-	-
Non-executive Directors				
Mr. Xu Zhe* (Chairman, appointed on 12 January 2016)	-	-	-	-
Dr. Feng Hao Cheng* (appointed on 12 January 2016)	-	-	-	-
Mr. Cao Jun* (appointed on 12 January 2016)	-	-	-	-
Mr. Shi Hongyin* (resigned on 12 January 2016)	-	-	-	-
Mr. Wu Shengjiao* (resigned on 12 January 2016)	-	-	-	-
Mr. Zhou Weihua*	-	-	-	-
Mr. Shan Yuhu*	-	-	-	-
Ms. An Lili*	-	-	-	-
Independent Non-executive Directors				
Mr. Gong Zhiqiang	70	-	-	70
Mr. Cheung Wai Hung Boswell	60	-	-	60
Mr. Li He (appointed on 27 May 2016)	36	-	-	36
Mr. Yang Xiaohui (appointed on 15 November 2016)	8	-	-	8
Dr. Jiao Jie (resigned on 18 March 2016)	25	-	-	25
Ms. Zhou Liye (resigned on 15 November 2016)	57	-	-	57
Chief Executive Officer				
Mr. Yu Donghui (appointed on 25 November 2016)	-	80	4	84
Supervisors				
Mr. Di Guojun*	-	-	-	-
Mr. Liang Xianjun*	-	-	-	-
Mr. Lang Jianjun	-	249	39	288
	256	1,095	90	1,441

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (CONTINUED)

2015

	Fees RMB'000	Other emoluments		Total RMB'000
		Basic salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	
Directors				
Executive Directors				
Mr. Lu Lei (Vice President and Secretary, re-designated from Non-executive Director to Executive Director on 19 June 2015)	–	471	44	515
Dr. Wang Xu (Chairman & CEO, resigned on 12 January 2016)	–	791	40	831
Non-executive Directors				
Mr. Zhou Weihua* (appointed on 19 June 2015)	–	–	–	–
Mr. Shan Yuhu* (appointed on 19 June 2015)	–	–	–	–
Ms. An Lili* (appointed on 19 June 2015)	–	–	–	–
Mr. Pan Jiaren* (resigned on 19 June 2015)	–	–	–	–
Ms. Hu Sha* (resigned on 19 June 2015)	–	–	–	–
Mr. Wang Zhuo* (resigned on 19 June 2015)	–	–	–	–
Mr. Shi Hongyin* (resigned on 12 January 2016)	–	–	–	–
Mr. Wu Shengjiao* (resigned on 12 January 2016)	–	–	–	–
Independent Non-executive Directors				
Ms. Zhou Liye	63	–	–	63
Mr. Gong Zhiqiang	65	–	–	65
Dr. Jiao Jie (appointed on 19 June 2015 and resigned on 18 March 2016)	32	–	–	32
Mr. Cheung Wai Hung Boswell (appointed on 19 June 2015)	32	–	–	32
Mr. Chen Jing (resigned on 19 June 2015)	38	–	–	38
Mr. Zeng Xianggao (resigned on 19 June 2015)	30	–	–	30
Supervisors				
Mr. Di Guojun*	–	–	–	–
Mr. Liang Xianjun*	–	–	–	–
Mr. Lang Jianjun (appointed on 19 June 2015)	–	234	40	274
Ms. Xu Xiangyan (resigned on 19 June 2015)	–	333	44	377
	260	1,829	168	2,257

* These directors and supervisors are also the employees of Group's domestic shareholders. The emoluments of these directors and supervisors were borne by the domestic shareholders without recharging to the Group.

In 2015, Dr. Wang Xu was also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive Officer.

No directors have waived any emoluments during both years of 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included one (2015: one) director of the Company, whose emoluments are included in note 8 above. The emoluments of the remaining four (2015: four) highest paid individuals are as follows:

	2016 RMB'000	2015 RMB'000
Basic salaries and allowances	3,316	3,115
Retirement benefit scheme contributions	190	176
	3,506	3,291

The above employees' emoluments were within the following bands:

	Number of individuals	
	2016	2015
Nil to Hong Kong Dollar ("HK\$")1,000,000	3	2
Hong Kong Dollar ("HK\$")1,000,001 to 1,500,000	1	2

During the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the five highest paid individuals, directors, chief executive officer and supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
PRC Enterprise Income Tax		
– Current year	21,041	7,993
– Under provision in prior years	850	403
Deferred tax credit (note 22)		
– Current year	(10,910)	(3,153)
– Effect of change in tax rate	(328)	(4,882)
Income tax expense	10,653	361

The Company was accredited as a High Technology Enterprise ("HTE") in 2014 and subject to the PRC income tax at 15% for three years from 2015 to 2017 in accordance with the Law of the PRC on Enterprise Income Tax ("EIT").

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. INCOME TAX EXPENSE (CONTINUED)

The Company's subsidiary, Capinfo Technology Development Co., Ltd. ("Capinfo Technology") was accredited as HTE and subject to PRC income tax at 15% for three years from 2015 to 2017 in accordance with the Law of the PRC on EIT.

In accordance with the tax legislations applicable to the enterprises which newly engaged in the development of software in the PRC, the Company's subsidiary Rito Info Technology Co., Ltd. ("Rito Info") 廈門融通信息技術有限責任公司 is entitled to exemptions from the PRC on EIT for the first two years commencing from the first profit-making year of operation and thereafter, entitled to a 50% relief from the PRC on EIT for the following three years ("Tax Preferential Period"). According to the EIT, the first year income tax exemption commenced from year 2011 and enjoyed the second year income tax exemption for the year 2012. Rito Info is entitled to a concession tax rate of 12.5% from Years 2013 to 2015.

Rito Info was recognised as a HTE in 2012 and further accredited in 2015, in accordance with the Law of the PRC on EIT, which was accredited to the PRC income tax at 15% for three years after the Tax Preferential Period.

The Company's subsidiary incorporated in Hong Kong had no assessable profits since its incorporation.

The charge for the year can be reconciled to the profit per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	120,597	101,905
Tax at statutory income tax rate of 25% (2015: 25%)	30,149	25,476
Tax effect of the various low tax rate incentives	(6,804)	(8,948)
Tax effect of share of results of associates	(5,244)	(4,068)
Tax effect of expenses that are not deductible for tax purpose	2,937	3,801
Tax effect of income not subject to tax	(10,124)	(12,069)
Recognition of deductible temporary differences previously not recognised	(773)	-
Tax effect of deductible temporary differences not recognised	-	773
Utilisation of tax losses previously not recognised	(10)	(125)
Tax effect of changes in tax rate of deferred tax assets/liabilities recognised	(328)	(4,882)
Under provision in respect of prior years	850	403
Tax expense for the year	10,653	361

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For the year ended 31 December 2016

11. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Profit for the year has been arrived at after charging the following items:		
Directors', chief executive's and supervisors' remuneration (note 8)	1,441	2,257
Other staff costs	246,493	252,101
Other staff's retirement benefit scheme contributions	26,641	27,205
	274,575	281,563
Less: Staff costs included in		
– research and development costs	(38,275)	(51,470)
– cost of sales	(120,673)	(101,718)
	115,627	128,375
Depreciation of property, plant and equipment (note 14)	54,770	72,516
Depreciation of investment property (note 15)	3,774	3,774
Total depreciation	58,544	76,290
Less: Depreciation included in		
– research and development costs	(3,704)	(3,737)
– cost of sales	(41,316)	(40,806)
	13,524	31,747
Amortisation of intangible assets (note 17)	17,960	19,195
Operating lease rentals in respect of		
– cable network (note 34)	41,467	45,575
– office premises (note 34)	29,716	38,568
	71,183	84,143
Less: Operating lease rentals included in		
– research and development costs	(3,903)	(4,609)
– cost of sales	(54,144)	(59,724)
	13,136	19,810
Auditor's remuneration	1,704	1,817
Direct operating expenses arising from investment property that generated rental income	2,361	3,617
Cost of inventories recognised as expenses	158,871	168,461
Share of tax of associates (included in share of results of associates)	4,928	2,528

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends recognised as distribution during the year:		
2014 Final – RMB1.06 cents per share	–	30,720
2015 Final – RMB1.57 cents per share	45,500	–
	45,500	30,720

Subsequent to the end of the reporting period, a final dividend of RMB1.09 cents pre-tax per share in respect of the year ended 31 December 2016 (2015: final dividend of RMB1.57 cents pre-tax per share in respect of the year ended 31 December 2015) in total of approximately RMB31,589,000 (2015: RMB45,500,000) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2016 RMB'000	2015 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	109,234	101,542

	2016	2015
Number of shares		
Number of ordinary shares for the purpose of basic and diluted earnings per share	2,898,086,091	2,898,086,091

Diluted earnings per share for the years ended 31 December 2016 and 2015 are the same as the basic earnings per share as there are no potential ordinary shares outstanding during the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

14. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment RMB'000	Network equipment RMB'000	Office equipment, furniture and fixtures RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2015	151,961	597,440	13,272	52,879	44,713	860,265
Additions	8,767	15,615	136	14,646	-	39,164
Transfer	121	42,241	-	304	(44,713)	(2,047)
Eliminated on disposals/written-off	(4,580)	(14,476)	(247)	-	-	(19,303)
At 31 December 2015 and 1 January 2016	156,269	640,820	13,161	67,829	-	878,079
Additions	10,481	8,890	518	6,020	46,373	72,282
Eliminated on disposal/written-off	(3,236)	(29,983)	(696)	(5,391)	-	(39,306)
At 31 December 2016	163,514	619,727	12,983	68,458	46,373	911,055
Accumulated depreciation						
At 1 January 2015	135,523	504,016	9,810	23,169	-	672,518
Provided for the year	11,841	41,456	1,304	17,915	-	72,516
Eliminated on disposal/written-off	(4,506)	(14,365)	(231)	-	-	(19,102)
At 31 December 2015 and 1 January 2016	142,858	531,107	10,883	41,084	-	725,932
Provided for the year	10,780	28,817	1,241	13,932	-	54,770
Eliminated on disposals/written-off	(3,205)	(29,800)	(550)	(3,737)	-	(37,292)
At 31 December 2016	150,433	530,124	11,574	51,279	-	743,410
Carrying amount						
At 31 December 2016	13,081	89,603	1,409	17,179	46,373	167,645
At 31 December 2015	13,411	109,713	2,278	26,745	-	152,147

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Computer equipment	33.33%
Network equipment	20% or over the remaining period of the relevant contract work, whichever is shorter
Office equipment, furniture and fixtures	20%
Leasehold improvements	Over the period of the respective leases

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. INVESTMENT PROPERTY

	RMB'000
Cost	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	74,320
Accumulated depreciation	
At 1 January 2015	21,489
Provided for the year (note 11)	3,774
At 31 December 2015 and 1 January 2016	25,263
Provided for the year (note 11)	3,774
At 31 December 2016	29,037
Carrying amount	
At 31 December 2016	45,283
At 31 December 2015	49,057

The investment property is situated in the PRC under medium-term lease and leased out for rental.

The fair value of the Group's investment property at 31 December 2016 was RMB167,000,000 (2015: RMB161,000,000). The fair value has been arrived at based on a valuation carried out by DTZ Cushman & Wakefield, independent qualified professional valuer not connected with the Group. The valuation was determined based on the average result of comparable approach and income approach. The comparable approach reflects recent transaction prices for similar properties in the similar locations and conditions. The income approach assessed the market rentals of all lettable units of the properties and discounted the market rental at the market yield expected by investors for this type of properties. The market rental are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties. The valuation was performed on the assumption that the Group had obtained the ownership title of the investment property. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. INVESTMENT PROPERTY (CONTINUED)

Details of the fair value of the Group's investment property determined by level 3 of the fair value hierarchy as at 31 December 2016 are as follows:

	2016 RMB'000	2015 RMB'000
Commercial property units located in the PRC	167,000	161,000

The above investment property is depreciated on a straight-line basis at 5% per annum.

At 31 December 2016, the ownership title certificate of the property had not been issued to the Group.

16. GOODWILL

	2016 RMB'000	2015 RMB'000
At beginning and end of the year	184,598	184,598

Goodwill were arisen from the acquisition of Rito Info in 2014. The carrying amount of goodwill, net of any impairment loss is allocated to Rito Info.

The recoverable amount for the cash generating unit was determined based on value-in-use calculations covering a detailed five-year budget plan followed by an extrapolation of expected cash flows at the growth rates stated below. The growth rates reflect the long-term average growth rates for the product lines of the cash generating unit.

The key assumptions used for value-in-use calculations were as follows:

	2016	2015
Average growth rate	5.76%	7.13%
Discount rate	13.80%	12.50%

The annual revenue growth rate used is consistent with the forecasts of the market. The discount rate used is pre-tax and reflects specific risks relating to the operating segment.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. INTANGIBLE ASSETS

	Capitalised development cost (note (i)) RMB'000	Customer base (note (ii)) RMB'000	Total RMB'000
At 1 January 2015	41,749	1,043	42,792
Additions from internal developments	8,971	–	8,971
Amortisation expenses (note 11)	(18,419)	(776)	(19,195)
At 31 December 2015 and 1 January 2016	32,301	267	32,568
Additions from internal developments	7,087	–	7,087
Amortisation expenses (note 11)	(17,693)	(267)	(17,960)
At 31 December 2016	21,695	–	21,695

Notes:

- (i) Capitalised development cost represents the cost in relation to the cloud computing and self-developed computer software and computer software through business combination. The capitalised development cost is amortised on a straight-line basis over commercial lives of the underlying products not exceeding 3 years.
- (ii) The customer base was recognised in the acquisition of Shanghai Hengyue Computer Technology Co., Ltd. The customer base is amortised on a straight-line basis based on the estimated useful lives of 3 years.

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2016 RMB'000	2015 RMB'000
Current portion	7,373	8,548
Non-current portion	25,322	32,578
	32,695	41,126

Prepaid lease payments represent prepayments made by the Group for the rental of premises for a period from 1 to 7 years (2015: from 1 to 8 years) for installation of wireless equipment for the government network projects.

19. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Cost of listed investment in an associate	14,314	–
Cost of unlisted investments in associates	10,000	24,314
Share of post-acquisition profit and the effect on deemed disposal of partial interest in an associate, net of dividends received	105,820	51,660
	130,134	75,974

Details of material associate

Details of the Group's material associate, which is a limited company established and operated in the PRC, at the end of the reporting period are as follows:

Name of entity	Place of incorporation/ establishment	Proportion of interest and voting power held by the Group		Principal activities
		2016	2015	
BJCA (北京數字認證股份有限公司)	The PRC	26.24%	34.98%	Provision of services related to digital certificates

BJCA is accounted for using the equity method in these consolidated financial statements.

The shares of BJCA have been listed on the Growth Enterprise Market of the Shenzhen Stock Exchange on 23 December 2016 (the "Listing"), the market value of the Group's listed investment in BJCA as at 31 December 2016 was approximately RMB648,332,000.

For the purposes of the Listing, 20,000,000 new shares have been issued by BJCA to the subscribers, taking the total number of issued shares of BJAC increased from 60,000,000 shares to 80,000,000 shares. Upon completion of the share issuance, the Group's percentage of shareholding in BJCA has been diluted from 34.98% to 26.24% (the "Deemed Disposal"), and a gain on Deemed Disposal of partial interest in BJCA of approximately RMB37,590,000 (note 7), representing the difference between the Group's share of net assets in BJCA before and after the Deemed Disposal has been recognised in the profit or loss.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. INTERESTS IN ASSOCIATES (CONTINUED)

Details of material associate (continued)

Summarised financial information in respect of BJCA is set out below. The summarised financial information below represents amount shown in the associate's financial statements prepared in accordance with HKFRSs.

BJCA

	2016 RMB'000	2015 RMB'000
Current assets	695,281	409,391
Non-current assets	45,668	37,693
Current liabilities	245,640	223,538
Non-current liabilities	10,660	12,609
Net assets	484,649	210,937
Revenue	445,515	373,172
Profit from continuing operations	62,525	54,415
Profit for the year	57,557	47,188
Other comprehensive income for the year	–	–
Total comprehensive income for the year	57,557	47,188
Total comprehensive income attributable to owners of the Company	59,961	47,769
Total comprehensive income attributable to non-controlling interests	(2,404)	(581)
Total comprehensive income of BJCA	57,557	47,188
Dividend received from the associate during the year	4,407	4,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. INTERESTS IN ASSOCIATES (CONTINUED)

Details of material associate (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in BJCA recognised in the consolidated financial statements:

	2016 RMB'000	2015 RMB'000
Equity attributable to owners of the Company	485,184	209,068
Non-controlling interests	(535)	1,869
Net assets of BJCA	484,649	210,937
Proportion of the Group's ownership interest in BJCA	26.24%	34.98%
Carrying amount of the Group's interest in BJCA	127,290	73,132

Details of transaction:

BJCA provided software development and related technical services to the Group during the year, details of which are set out in note 38(ii).

Aggregate information of associate that are not individually material

	2016 RMB'000	2015 RMB'000
The Group's share of profit/(loss) for the year	2	(438)
The Group's share of other comprehensive income	-	-
The Group's share of total comprehensive income/(expense)	2	(438)
Aggregate carrying amount of the Group's interest in an associate	2,844	2,842
Dividend received from the associate during the year	-	-

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'000	2015 RMB'000
Unlisted investment:		
Non-current		
Designated as at fair value through profit or loss – Equity securities	3,565	6,659

The above unlisted investment represents C-2 Stock held by the Group. The fair value measurements information of the above unlisted investment is set out in note 32.

21. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Unlisted equity investments, at cost	971	971

The unlisted investments represent investments in unlisted equity securities issued by private entities. The investments are measured at cost at the end of the reporting period because the range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that the fair values cannot be measured reliably.

Name of investee	Place of incorporation/ establishment	Proportion of nominal value of registered/issued capital held by the Group		Principal activities
		2016	2015	
Capinfo Soft Co., Ltd. (遼寧眾信同行軟件開發有限公司)	The PRC	19%	19%	Development, sales and management consultation of operation systems and related businesses
Loyalty Alliance Enterprise Corporation ("LAEC")	Cayman Islands	12%	12%	Provision of data-driven multi-channel direct marketing and customer loyalty solutions
Ziguang Information Industry Investment Co., Ltd.	The PRC	23%	23%	Provision of development, sales and management consultation of operation systems and related businesses

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. DEFERRED TAXATION

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current year and prior year:

	Payroll and welfare payable and accrued expense RMB'000	Temporary differences on trade and other receivables RMB'000	Temporary difference of intangible assets RMB'000	Total RMB'000
At 1 January 2015	8,219	2,239	(994)	9,464
Effect on change in tax rate (note 10)	4,079	803	–	4,882
Credited to profit or loss for the year (note 10)	1,048	1,658	447	3,153
At 31 December 2015 and 1 January 2016	13,346	4,700	(547)	17,499
Effect on change in tax rate (note 10)	14	130	184	328
Credited to profit or loss for the year (note 10)	3,255	4,365	3,290	10,910
At 31 December 2016	16,615	9,195	2,927	28,737

The analysis of deferred income tax is as follows:

	2016 RMB'000	2015 RMB'000
Deferred income tax assets – to be recovered after more than 12 months	28,737	18,046
Deferred income tax liabilities – to be recovered after more than 12 months	–	(547)
	28,737	17,499

Details of tax losses and other deductible temporary differences not recognised are set out below:

	2016 RMB'000	2015 RMB'000
Tax losses	16,723	15,868
Deductible temporary differences on allowance for the inventories	22,262	22,262
	38,985	38,130

The Group has not recognised deferred tax assets on above tax losses, because it is not probable that the future taxable profits will be available in relevant subsidiaries to utilise the tax losses.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. DEFERRED TAXATION (CONTINUED)

The Group also has not recognised deferred tax assets on certain deductible temporary differences, because it is not probable that these deductible temporary differences can be utilised in the foreseeable future.

Tax losses unrecognised will expire in:

	2016 RMB'000	2015 RMB'000
2017	120	158
2018	8,916	8,916
2019	6,794	6,794
2020	–	–
2021	893	–
Total	16,723	15,868

23. INVENTORIES

The inventories comprise of consumables, spare parts and work in progress of computer software products at the end of the year.

24. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Total trade receivables	375,423	329,483
Less: Impairment losses	(58,433)	(29,406)
	316,990	300,077
Less: Non-current portion which is shown in non-current assets	(25,123)	(57,040)
	291,867	243,037
Other receivables and prepayments	28,898	19,977
Deposits for technology service contracts	54,847	65,667
Less: Impairment losses	(822)	(753)
	82,923	84,891
Trade and other receivables shown in current assets	374,790	327,928

24. TRADE AND OTHER RECEIVABLES (CONTINUED)

The Group allows an average credit period of 180 days to its trade customers except for certain BT Projects. The trade receivables from the BT projects are unsecured, which are repayable by instalments over a five year period after the completion date of the construction of the underlying projects. At initial recognition, the fair values of the trade receivables from the BT projects were estimated at respective applicable effective interest rates.

The following is an aging analysis of trade receivables at the end of the year, presented based on the date of delivery of goods or the billing date of contract works and net of impairment losses:

	2016 RMB'000	2015 RMB'000
Age		
0 to 6 months	184,821	175,058
7 to 12 months	54,439	26,245
Over 1 year	77,730	98,774
	316,990	300,077
Less: Non-current portion	(25,123)	(57,040)
	291,867	243,037

Movements in the impairment losses on trade and other receivables:

	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	30,159	22,782
Impairment losses recognised during the year (note 7)	30,960	9,419
Written-off as uncollectible	(1,864)	(2,042)
Balance at end of the year	59,255	30,159

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The directors believe that there is no further credit provision required in excess of the impairment losses. The credit quality of the trade receivables that is neither past due nor impaired is good.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

	2016 RMB'000	2015 RMB'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred to date	497,838	540,380
Recognised profits less recognised losses	133,444	162,079
	631,282	702,459
Less: Progress billings	(825,983)	(886,739)
	(194,701)	(184,280)
Recognised and included in the consolidated statement of financial position:		
Amounts due from customers for contract works	96,661	59,235
Amounts due to customers for contract works	(291,362)	(243,515)
	(194,701)	(184,280)

26. BANK BALANCES AND CASH/BANK DEPOSITS

Bank balances and cash

Bank balances carry interest at a market interest rate of 0.35% to 3.25% (2015: 0.35%) per annum.

Bank deposits

Bank deposits carry fixed interest rates which range from 1.55% to 1.82% (2015: 0.35% to 3.25%) per annum with maturity period of six months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	106,569	128,278
Bills payable	–	1,164
Deferred income arising from government grants (note)	28,250	25,069
Other payables	51,147	46,630
Accrued expenses	96,750	76,638
Payroll and welfare payables	66,227	52,720
Advance from customers	10,420	4,543
	359,363	335,042

Note:

The balance arises as a result of the benefit received from the government. The Group received government grants of RMB7,287,000 (2015: RMB29,898,000) during the current year for certain technology research activities and recognised RMB4,106,000 (note 5) (2015: RMB14,149,000) in other income in the current year.

The following is an aging analysis of trade payables at the end of the year, which is presented based on the date of material or service received or the billing date of contract works:

	2016 RMB'000	2015 RMB'000
Age		
1 year	63,953	75,420
1 to 2 years	16,846	14,949
2 to 3 years	4,050	24,456
Over 3 years	21,720	13,453
	106,569	128,278

The average credit period on purchase of goods is 15 days (2015: 15 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

Included in trade payables are retention payables of RMB3,356,000 (2015: RMB3,356,000) which are interest-free and payable at the end of the retention period of individual construction contract. These retention payables are expected to be settled in the Group's normal operating cycle which is usually longer than one year.

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28. OTHER FINANCIAL LIABILITIES

	Balance of consideration payable RMB'000	Contingent consideration payable RMB'000	Total RMB'000
At 1 January 2015	–	113,161	113,161
Fair value changes of contingent consideration payable (note 7)	–	6,532	6,532
At 31 December 2015	–	119,693	119,693
Amount due within one year included under current liabilities	–	(82,255)	(82,255)
Amount due after one year included under non-current liabilities	–	37,438	37,438
At 31 December 2015 and 1 January 2016	–	119,693	119,693
Fair value changes of contingent consideration payable (note 7)	–	9,172	9,172
Settled during the year	–	(88,635)	(88,635)
Reclassified to balance of consideration payable	40,230	(40,230)	–
At 31 December 2016	40,230	–	40,230
Amount due within one year included under current liabilities	(30,336)	–	(30,336)
Amount due after one year included under non-current liabilities	9,894	–	9,894

On 12 November 2014, the Group acquired 100% issued capital of Rito Info, depending on the upcoming financial performance of Rito Info, the cash consideration for this acquisition was RMB305,000,000 (subject to adjustments).

As at 31 December 2016, the potential balance payable of undiscounted amount of all future payments that the Group could be required to pay under this arrangement is RMB45,440,000 (2015: RMB135,777,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

29. LOAN FROM GOVERNMENT

	2016 RMB'000	2015 RMB'000
Carrying amount repayable on demand and shown under current liabilities (note 38 (iv))	900	1,810

The loan was granted by the Finance Bureau of Beijing, denominated in Renminbi, unsecured and bears interest at an interest rate of 1.80% (2015: 3.35%) per annum and repayable on demand.

30. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid RMB'000
	Domestic shares	H shares	
Balance of share capital of RMB0.10 per share at 1 January 2015, 31 December 2015 and 31 December 2016	2,123,588,091	774,498,000	289,809

31. RESERVES

Statutory surplus reserve

As stipulated by the relevant laws and regulations in the PRC, the Company and its PRC subsidiaries are required to set aside 10% of its profit after taxation as reported in their statutory financial statements for the statutory surplus reserve (except where the reserve has reached 50% of the relevant entities' registered capital).

According to their Articles of Association, statutory surplus reserve can be used to (i) make up prior year losses; (ii) convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory surplus reserve does not fall below 25% of the entities' registered capital; or (iii) expand production operation.

In accordance with the Company's Articles of Association, the profit after taxation for the purpose of appropriation will be deemed to be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) either International Financial Reporting Standards or overseas accounting standards of the place in which the Company's shares are listed.

Distributable reserve

As at 31 December 2016, the amount of reserve available for distribution to owners of the Company was RMB162,495,000 (note 40 (ii)) (2015: RMB123,319,000)

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32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Loan and receivables (including cash and cash equivalents)	929,802	906,028
Financial assets at fair value through profit or loss	3,565	6,659
Available-for-sale investments, measured at cost	971	971
	934,338	913,658
Financial liabilities		
Amortised cost	364,475	298,517
Financial liabilities at fair value through profit or loss	–	119,693
	364,475	418,210

Financial risk management objectives and policies

The Group's major financial instruments include bank deposits, bank balances and cash, trade and other receivables, available-for-sale investments, financial assets at fair value through profit or loss, amounts due from/to related parties, trade and other payables, loan from government and other financial liabilities. Details of the financial instruments are disclosed in respective notes to these financial statements. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed rate bank deposits (see note 26). The Group's cash flow interest rate risk related primarily to its bank balances and loan from government (see notes 26 and 29). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk and the management will consider hedging interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to variables interest rates for the Group's bank balances and loan from government at the end of reporting period. The analysis is prepared assuming the amount of bank balances and loan from government outstanding at the end of reporting period were outstanding for the whole year. A 10 basis point (2015: 10 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

32. FINANCIAL INSTRUMENTS (CONTINUED)**Financial risk management objectives and policies (continued)****Interest rate risk management (continued)***Sensitivity analysis (continued)*

At the end of reporting period, if interest rate had been increased/decreased by 10 basis points and all other variables were held constant, the Group's profit would increase/decrease by approximately RMB488,000 for the year ended 31 December 2016 (2015: RMB556,000).

Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, bank balances and bank deposits. At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on trade receivables as the total amount due from the Group's five largest trade debtors amounted to RMB114,268,000 (2015: RMB156,161,000) and represented 36% (2015: 52%) of the total trade receivables as at 31 December 2016.

The Group exposed to concentration of credit risk on bank balances and bank deposits which were deposited with several banks only. However, the credit risk on liquid funds is limited because the counterparties are various large state-owned banks in the PRC.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

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32. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables

	Within 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2016				
Trade and other payables	259,787	42,616	302,403	302,403
Amounts due to related parties	20,942	–	20,942	20,942
Loan from government	900	–	900	900
Other financial liabilities	33,004	12,436	45,440	40,230
	314,633	55,052	369,685	364,475

	Within 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2015				
Trade and other payables	239,386	52,858	292,244	292,244
Amounts due to related parties	4,463	–	4,463	4,463
Loan from government	1,810	–	1,810	1,810
Contingent consideration payable	88,510	47,267	135,777	119,693
	334,169	100,125	434,294	418,210

Fair value

Financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurements, as follows:

- Level 1: Fair value measured only using Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement dates.
- Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet with Level 1, and not using unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3: Fair value measured using significant unobservable inputs.

32. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Fair value (continued)

The level in the fair value hierarchy within which the recurring fair value measurement of financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2016				
Financial assets				
Financial assets at fair value through profit or loss (note 20)	–	–	3,565	3,565

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2015				
Financial assets				
Financial assets at fair value through profit or loss (note 20)	–	–	6,659	6,659
Financial liabilities				
Contingent consideration payable (note 28)	–	–	119,693	119,693

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1, 2 and 3.

Information about Level 3 financial assets' fair value measurements

The reconciliation of the carrying amounts of the Group's financial assets at fair value through profit or loss classified within Level 3 of the fair value hierarchy is as follows:

	2016 RMB'000	2015 RMB'000
Fair value at 1 January	6,659	–
C-2 Stock received from deemed disposal of equity interests in PayEase	–	5,421
Changes in fair value	(3,094)	1,238
Fair value at 31 December	3,565	6,659

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Fair value (continued)

Information about Level 3 financial assets' fair value measurements (continued)

The fair value of unlisted financial assets at fair value through profit or loss is determined by using the combination of market approach and the Black-Scholes option pricing model. The valuation techniques and significant unobservable inputs of the unlisted financial assets at fair value through profit or loss are as follows:

Valuation techniques	Significant unobservable inputs	Sensitivity relationship of unobservable inputs to fair value
Market approach	Revenue multiplier of 7.12 times (2015: 3.98 times)	The higher of the multiplier, the higher of the fair value, and vice versa
	Discount for 25% (2015: 25%) for lack of marketability	The higher of the discount rate, the lower of the fair value, and vice versa
Black-Scholes option pricing model	Volatility of 24.89% (2015: 24.74% to 27.83%)	The higher of the volatility, the higher of the fair value, and vice versa
	Risk free rate of 1.45% (2015: 0.57% to 1.40%)	The higher of the risk free rate, the higher of the fair value, and vice versa

Information about Level 3 financial liabilities' fair value measurements

The reconciliation of the carrying amounts of the Group's contingent consideration payable classified within Level 3 of the fair value hierarchy is as follows:

	2016 RMB'000	2015 RMB'000
Fair value at 1 January	119,693	113,161
Settled during the year	(88,635)	–
Changes in fair value (note 28)	9,172	6,532
Reclassified to amortised costs	(40,230)	–
Fair value at 31 December	–	119,693

32. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Fair value (continued)

Information about Level 3 financial liabilities' fair value measurements (continued)

The fair value of contingent consideration payable as at 31 December 2015 was determined by using the discounted cash flow. The valuation technique and significant unobservable inputs of the fair value of contingent consideration payable are as follows:

Valuation technique	Significant unobservable inputs	Sensitivity relationship of unobservable inputs to fair value
Discounted cash flow	Projected profit after tax of Rito Info for the year ending 31 December 2016 of RMB31,317,000	The higher of the projected profit after tax, the higher of the fair value, and vice versa
	Discount rate of 12.50%	The higher of the discount rate, the lower of the fair value, and vice versa

The directors consider that the fair value of other financial assets and financial liabilities in the consolidated financial statements is approximately equal to the carrying amount.

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes the borrowing disclosed in note 29, and equity attributable to owners of the Company, comprising issued share capital, share premium and reserves.

34. OPERATING LEASES

The Group as lessee

	2016 RMB'000	2015 RMB'000
Minimum lease payments recognised as an expense during the year		
– Cable network (note 11)	41,467	45,575
– Office premises (note 11)	29,716	38,568
	71,183	84,143

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. OPERATING LEASES (CONTINUED)

The Group as lessee (continued)

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 RMB'000	2015 RMB'000
Office premises		
– Within one year	26,570	34,778
– In the second to fifth year, inclusive	31,642	66,303
– Over fifth year	–	146
	58,212	101,227

The operating lease commitment does not include lease arrangement set out in note 18 “prepaid lease payments”.

Leases are negotiated, and rentals are fixed, for a term of 1 to 5 years (2015: 1 to 5 years).

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease:

	2016 RMB'000	2015 RMB'000
Within one year	9,177	–
In the second to fifth year, inclusive	16,607	–
	25,784	–

The property held has committed tenants for a term of 4.3 years.

35. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
– Contracted but not provided for	9,495	679
– Authorised but not contracted for	33,120	5,799
	42,615	6,478

36. RETIREMENT BENEFIT SCHEME

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute certain percentage of its payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The total expense recognised in the profit or loss of RMB26,731,000 (2015: RMB27,373,000) represents contributions paid or payable under the retirement benefit scheme.

37. DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

On 3 May 2016, the Company entered into an agreement with Capnet Company Limited (“Capnet”), a fellow subsidiary controlled by BSAM to dispose of its 26% equity interests in Capinfo Technology, a wholly-owned subsidiary of the Company to Capnet, at a consideration of approximately RMB29,276,000 (the “Disposal”). The Disposal was completed on 30 June 2016, which did not result loss of control in Capinfo Technology.

Immediately after the completion of the Disposal, Capinfo Technology became a 74% owned subsidiary of the Company, the financial results of Capinfo Technology continue to be consolidated in the Company’s consolidated financial statements and the Disposal was accounted for as an equity transaction.

The difference of approximately RMB3,900,000 between the consideration of approximately RMB29,276,000, the relevant tax of approximately RMB2,442,000 and the carrying amount of non-controlling interests of approximately RMB30,734,000 was recorded in retained profits during the current year.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. RELATED PARTY DISCLOSURES

(i) Transactions with fellow subsidiaries

Related party	Nature of transactions	Notes	2016 RMB'000	2015 RMB'000
Fellow subsidiaries				
Capnet	Income earned by the Group for providing the network system and related maintenance services	(a)	10,660	12,191
	Providing hardware and related service to the Group	(b)	15,416	3,864
	Consideration received for disposal of partial interest in a subsidiary	37	29,276	–
Beijing IC Design Park Co., Ltd. ("BIDP")	Rental expenses for office premises	(c)	11,476	10,746
Beijing Petroleum Exchange Co., Ltd. ("Beijing Petroleum Exchange")	Income earned by the Group for providing hardware, software and related equipment management service	(d)	293	66
Beijing Guotong Xintai Investment Management Company Limited ("Guotong Xintai")	Income from system integration service, for construction of necessary technology infrastructure and application system of a hospital	(e)	1,095	4,356
Yingzhi Recovery Investment Management Limited ("Yingzhi")	Income from supply certain IT-related hardware and installation, testing and maintenance service	(f)	663	132

38. RELATED PARTY DISCLOSURES (CONTINUED)

(i) Transactions with fellow subsidiaries (continued)

Notes:

(a) On 18 January 2013, Capinfo Technology and Capnet entered into a comprehensive services agreement under which Capinfo Technology is to provide the network system and the related maintenance service to Capnet for a term of 3 years since 1 January 2013. On 15 October 2014, the Company and Capnet entered into a network service agreement for the provision of network equipment lease and services to Capnet for a year term from 15 October 2014. On 30 December 2015, the Company and Capnet and Capinfo Technology and Capnet renewed a comprehensive services agreement and a network service agreement respectively for a term of three years from 1 January 2016. The service income of RMB10,660,000 (2015: RMB12,191,000) was recognised for the year.

(b) On 18 January 2013, Capinfo Technology and Capnet entered into a procurement framework agreement under which Capinfo Technology will procure hardware products and related service from Capnet for a term of approximately 3 years starting from 18 January 2013. On 30 December 2015, Capinfo Technology and Capnet renewed a procurement framework agreement for a term of three years from 1 January 2016. The relevant purchase of RMB15,416,000 (2015: RMB3,864,000) was made for the year.

(c) On 31 March 2009, the Company entered into a lease agreement with BIDP, pursuant to which the Company leases from BIDP certain office premises at a monthly rent of approximately RMB331,000 for the period from 1 April 2009 to 31 March 2012, and then renewed the agreement at a monthly rent of approximately RMB402,000 for the period from 1 April 2012 to 31 March 2015.

On 8 May 2012, the Company entered into a lease agreement with BIDP to lease from BIDP certain office premises at a monthly rent of approximately RMB216,000 for the period from 8 May 2012 to 31 March 2015.

On 1 August 2013, the Company entered into a lease agreement with BIDP, pursuant to which the Company leases from BIDP certain office premises at a monthly rent of approximately RMB177,000 for the period from 1 August 2013 to 31 March 2015.

On 22 April 2015, the Company entered into lease agreements with BIDP, pursuant to which the Company leases from BIDP certain office premises at a monthly rent of approximately RMB179,000 and RMB772,000 for the period from 1 April 2015 to 31 March 2016 and from 1 April 2015 to 31 March 2018 respectively.

On 31 March 2016, the Company entered into lease agreement with BIDP, pursuant to which the Company leases from BIDP certain office premises at a monthly rent of approximately RMB179,000 for the period from 1 April 2016 to 31 March 2018.

The rental expenses of RMB11,476,000 (2015: RMB10,746,000) have been recognised during the year.

(d) On 23 December 2013, the Company and Beijing Petroleum Exchange entered into contract under which the Company will provide hardware, software and related equipment management service to Beijing Petroleum Exchange. The service income of RMB293,000 (2015: RMB66,000) was recognised during the year.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. RELATED PARTY DISCLOSURES (CONTINUED)

(i) Transactions with fellow subsidiaries (continued)

Notes: (continued)

- (e) On 23 May 2013, the Company and Guotong Xintai entered into an agreement that the Company will provide services related to the construction project of Beijing Aiyuhua Hospital for Children and Women ("Aiyuhua Hospital"), including the construction of the necessary information technology infrastructure and application system before the commencement of the trial operation of Aiyuhua Hospital. The contract amount was RMB33,787,000, and the income of RMB1,095,000 (2015: RMB4,356,000) was recognised during the year.
- (f) On 2 July 2015, a system and hardware contract was entered into between the Company and Beijing Shijing Xintian Property Limited ("Beijing Shijing") and a supplemental contract was entered into among the Company, Beijing Shijing and Yingzhi. Pursuant to the supplemental contract, the rights and obligations of Beijing Shijing under the supplemental contract was assigned to Yingzhi.

Pursuant to the system and hardware contract, the Company agreed to supply certain IT-related hardware and installation, testing and maintenance service of the integrated system (the "Project") for the alteration of the building which is undergoing an alteration for the purpose of providing medical and health care services. The aforesaid IT-related hardware include host integration server (HIS), redundant array of independent disk (RAID) and computers. The consideration payable by Yingzhi under the system and hardware contract is RMB930,000, the services income of RMB663,000 (2015: RMB132,000) was recognised during the year.

(ii) Transactions with an associate

An associate	Nature of transactions	2016 RMB'000	2015 RMB'000
BJCA	Software development and providing related technical services to the Group	5,749	2,768

38. RELATED PARTY DISCLOSURES (CONTINUED)

(iii) Amounts due from related parties and amounts due to related parties

	2016 RMB'000	2015 RMB'000
Amounts due from related parties:		
Trading in nature:		
Fellow subsidiaries	26,688	14,107
Associates	54	53
	26,742	14,160
Non-trading in nature:		
Fellow subsidiaries	10,117	8,808
Associates	191	1,743
Ultimate holding	100	–
	10,408	10,551
	37,150	24,711
Amounts due to related parties:		
Trading in nature:		
Fellow subsidiaries	14,728	1,221
Associates	1,688	1,057
	16,416	2,278
Non-trading in nature:		
Fellow subsidiaries	13	13
Associates	2,172	2,172
Ultimate holding	2,341	–
	4,526	2,185
	20,942	4,463

The amounts are unsecured, non-interest bearing and repayable within one year.

The Group allows the same credit period to related parties as other trade customers. As of 31 December 2016, the amounts due from related parties of RMB6,811,000 are aged over 180 days but within one year (2015: RMB4,678,000). Other amounts due from related parties are repayable on demand.

As of 31 December 2016, the amounts due to related parties of RMB15,839,000 are aged within 90 days (2015: RMB869,000). Other amounts due to related parties are repayable on demand.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. RELATED PARTY DISCLOSURES (CONTINUED)

(iv) Transactions with other government-related entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled, jointly-controlled or significantly influenced by the PRC government ("government-related 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 provides E-Government technology services of approximately RMB807,189,000 (2015: RMB672,740,000) (note 6) to other government-related entities and the PRC government. The directors of the Company consider they are independent third parties so far as the Group's business transactions with them are concerned.

As of 31 December 2016, the loan from government of RMB900,000 (2015: RMB1,810,000) (note 29) was borrowed from the Finance Bureau of Beijing which is unsecured, repayable on demand and bears interest at annual interest rate of 1.80% (2015: 3.35%), and the Group has incurred interest expenses of approximately RMB40,000 (2015: RMB77,000) during the year.

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

Except for trade and other receivables of approximately RMB269,332,000 (2015: RMB135,728,000), amounts due from customers for contract works of approximately RMB80,275,810 (2015: RMB28,725,000), amounts due to customers for contract works of approximately RMB217,390,000 (2015: RMB200,725,000) as at 31 December 2016, those transactions as disclosed above, and certain balances disclosed in respective notes to the consolidated financial statements, the directors of the Company are of the opinion that transactions and balances with these related parties are not significant to the Group's operations.

(v) Compensation of key management personnel

The remuneration of directors and key management during the year was as follows:

	2016 RMB'000	2015 RMB'000
Short-term benefits	9,246	10,536
Post-employment benefits	708	797
	9,954	11,333

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

39. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at the end of the reporting period are as follows:

Name of subsidiary	Form of business structure	Place of registration/ incorporation and operation	Particulars of registered/paid up capital	Proportion of nominal value of registered capital held by the Company		Principal activities
				2016	2015	
Directly held						
Capinfo (Hong Kong) Co., Ltd.	Private limited company	Hong Kong	2 Ordinary shares	100%	100%	Investment holding
Capinfo Technology (首都信息科技發展有限公司)	Private limited company	The PRC	RMB50,000,000	74%	100%	Developing software; providing technical service; sale of hardware and software
Beijing Parking Management Centre Co., Ltd. (北京市停車管理中心有限公司)	Private limited company	The PRC	RMB20,000,000	100%	100%	Building and operating the parking management system in Beijing
Shanghai Hengyue Computer Technology Co., Ltd. (上海橫越計算機科技有限公司)	Private limited company	The PRC	RMB500,000	100%	100%	Developing software, and providing system maintenance service
Rito Info (廈門融通信息技術有限責任公司)	Private limited company	The PRC	RMB20,000,000	100%	100%	Sales of self-developed computer software and the provision of related technical and consultancy services
Beijing Capinfo Hangyuan Technology Co., Ltd. (北京首信航源科技有限公司)	Private limited company	The PRC	RMB1,000,000	80%	80%	Developing and sales of software and providing related technical services

None of the subsidiaries had issued any debt securities during both years.

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. PARTICULARS OF SUBSIDIARIES (CONTINUED)

The following table lists out the information relating to Capinfo Technology, the subsidiary of the Group which have material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination:

	2016 RMB'000
NCI percentage	26%
Non-current assets	4,009
Current assets	228,418
Non-current liabilities	–
Current liabilities	110,802
Net assets	121,625
Carrying amount of NCI	31,622
Revenue	166,832
Net profit for the year	5,912
Total comprehensive income for the year	5,912
Net profit for the year attributable to NCI	888
Net cash used in operating activities	30,218
Net cash used in investing activities	3,870
Net cash used in financing activities	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

- (i) Information about the statement of financial position of the Company at the end of the reporting period includes:

	2016 RMB'000	2015 RMB'000
Non-current assets		
Property, plant and equipment	163,310	150,138
Investment property	45,283	49,057
Prepaid lease payments	25,322	32,578
Deposits paid on acquisition of property, plant and equipment	1,730	1,149
Intangible assets	16,704	19,195
Investments in subsidiaries	326,918	339,917
Investments in associates	61,904	24,314
Available-for-sale investments	950	950
Trade receivables	25,123	57,040
Deferred tax assets	21,905	16,057
	689,149	690,395
Current assets		
Inventories	7,976	9,789
Prepaid lease payments	7,373	8,548
Trade and other receivables	253,545	228,136
Amounts due from customers for contract works	64,761	45,022
Amounts due from related parties	33,122	30,685
Amounts due from subsidiaries	5,995	5,816
Tax recoverable	–	1,098
Bank deposits	34,540	41,187
Bank balances and cash	357,332	320,574
	764,644	690,855
Total assets	1,453,793	1,381,250

»»» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

- (i) Information about the statement of financial position of the Company at the end of the reporting period includes: (continued)

	2016 RMB'000	2015 RMB'000
Current liabilities		
Trade and other payables	295,433	273,819
Other financial liabilities	30,336	82,255
Amounts due to customers for contract works	234,976	180,938
Amounts due to related parties	7,471	4,390
Amounts due to subsidiaries	94,547	80,803
Loan from government	900	1,810
Income tax payable	13,933	–
	677,596	624,015
Net current assets	87,048	66,840
Total assets less current liabilities	776,197	757,235
Non-current liabilities		
Other financial liabilities	9,894	37,438
Net assets	766,303	719,797
Capital and reserves		
Share capital	289,809	289,809
Share premium and reserves	476,494	429,988
Total equity	766,303	719,797

Mr. Xu Zhe
Chairman

Mr. Yu Donghui
Executive Director, CEO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

- (ii) Information about the statement of changes in equity of the Company for the reporting period is as below:

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015	289,809	254,079	50,215	146,016	740,119
Profit and total comprehensive income for the year	–	–	–	10,398	10,398
Dividend recognised as distribution	–	–	–	(30,720)	(30,720)
Profit appropriations	–	–	2,375	(2,375)	–
At 31 December 2015 and 1 January 2016	289,809	254,079	52,590	123,319	719,797
Profit and total comprehensive income for the year	–	–	–	92,006	92,006
Dividend recognised as distribution	–	–	–	(45,500)	(45,500)
Profit appropriations	–	–	7,330	(7,330)	–
At 31 December 2016	289,809	254,079	59,920	162,495	766,303

»»» FEEDBACK ON ANNUAL REPORT

The Company wishes to get your comments or suggestions on our annual report by way of questionnaire so as to continue to enhance the quality of our annual report. We will appreciate your cooperation. Please tick the following options as appropriate.

Content	Rating (ranging from 1-5 in ascending order)	Is the information helpful			Comments and Suggestions
		Poor	Fair	Excellent	
The whole Annual Report	1 2 3 4 5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Chairman's Statement	1 2 3 4 5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Management Discussion and Analysis	1 2 3 4 5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Directors' Report	1 2 3 4 5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Independent Non-executive Directors' Report	1 2 3 4 5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Supervisors' Report	1 2 3 4 5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Corporate Governance Report	1 2 3 4 5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Investors Relations	1 2 3 4 5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

1. Any additional information you expected to be disclosed in the Annual Report:

2. Any other comments or suggestions:

The completed feedback may be returned to the Company by:

- Faxing to (852) 2827 4836 or (8610) 8235 8550
- Emailing to investor@capinfo.com.cn
- Sending to Hong Kong Registrars Limited by post, referring to "CORPORATE INFORMATION" for address.

Information Collection Statement:

1. Your supply of personal data to the Company by completing Information Collection Form is on a voluntary basis.
2. The Company will treat your personal data as strictly confidential.
3. Your personal data may be used to feedback your comments or suggestions and publish statistical and data analysis.

Information Collection Form

Name	
Postal Address	
Tel No.	
Email Address	





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