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CAPINFO COMPANY LIMITED*

首都信息發展股份有限公司

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1075)*

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

FINANCIAL SUMMARY OF THE GROUP

- Revenue decreased by 1.83% to RMB334.6 million.
- Profit attributable to owners of the Company decreased by 57.39% to RMB24.9 million. After deducting the non-recurring income of RMB45.4 million from the deemed disposal of equity interests in PayEase Corp. ("PayEase") during the corresponding period of last year, profit attributable to owners of the Company increased 91.06% as compared with the same period of last year.
- Basic earnings per share was RMB0.86 cents.
- The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (same period of 2015: Nil).

The board of directors (the "Board") of Capinfo Company Limited (the "Company") is pleased to announce the interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2016.

* For identification purpose only

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	Six months ended	
		30 June 2016	30 June 2015
		RMB'000	RMB'000
		(Unaudited)	(Unaudited) (Restated)
Revenue		334,589	340,827
Cost of sales		(218,424)	(229,354)
Gross profit		116,165	111,473
Other income		13,372	8,756
Other gains and losses		(20,838)	30,701
Research and development costs		(13,341)	(21,056)
Marketing and promotional expenses		(34,141)	(35,796)
Administrative expenses		(38,981)	(37,856)
Finance cost for loan wholly repayable within five years		(23)	(506)
Share of results of associates		4,557	3,960
Profit before tax		26,770	59,676
Income tax expense	6	(2,011)	(1,324)
Profit for the period	7	24,759	58,352
Profit and total comprehensive income for the period attributable to			
– Owners of the Company		24,895	58,432
– Non-controlling interests		(136)	(80)
		24,759	58,352
Earnings per share for profit attributable to the owners of the Company during the period	9		
– Basic		<u>RMB0.86 cents</u>	<u>RMB2.02 cents</u>
– Diluted		<u>RMB0.86 cents</u>	<u>RMB2.02 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		30 June	31 December
		2016	2015
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	<i>10</i>	139,819	152,147
Investment property	<i>10</i>	47,170	49,057
Goodwill		184,598	184,598
Intangible assets		27,226	32,568
Prepaid lease payments		25,313	32,578
Deposits paid on acquisition of property, plant and equipment		44,254	1,149
Interests in associates		76,124	75,974
Financial assets at fair value through profit or loss		9,106	6,659
Available-for-sale investments		971	971
Trade receivables	<i>11</i>	53,708	57,040
Deferred tax assets		20,638	18,046
		628,927	610,787
Current assets			
Inventories		23,690	17,461
Prepaid lease payments		15,813	8,548
Trade and other receivables	<i>11</i>	349,095	327,928
Income tax recoverable		–	1,098
Amounts due from customers for contract works		118,295	59,235
Amounts due from related parties		45,917	24,711
Bank deposits		76,250	80,910
Bank balances and cash		478,968	498,559
		1,108,028	1,018,450

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2016

		30 June 2016	31 December 2015
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
Current liabilities			
Trade and other payables	12	277,888	335,042
Contingent consideration payable		96,698	82,255
Amounts due to related parties		32,937	4,463
Amounts due to customers for contract works		363,888	243,515
Loan from government		1,810	1,810
Income tax payable		7,697	7,125
		780,918	674,210
Net current assets		327,110	344,240
Total assets less current liabilities		956,037	955,027
Non-current liabilities			
Contingent consideration payable		30,341	37,438
Deferred tax liabilities		119	547
		30,460	37,985
Net assets		925,577	917,042
Capital and reserves			
Share capital	13	289,809	289,809
Share premium and reserves		605,031	627,094
Equity attributable to owners of the Company		894,840	916,903
Non-controlling interests		30,737	139
Total equity		925,577	917,042

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 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 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 interim financial report contains condensed consolidated financial statements and selected explanatory notes and are presented in Renminbi ("RMB"), which is also the functional currency of the Group.

2. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including in compliance with Hong Kong Accounting Standard 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The interim financial report is unaudited, but has been reviewed by the Company's auditor, Grant Thornton Hong Kong Limited in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

3. SIGNIFICANT ACCOUNTING POLICIES

The interim financial report has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

Except as described below, the accounting policies and methods of computation used in the interim financial report for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA which are relevant to the Group:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 Cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in this interim financial report and/or disclosures set out in this interim financial report.

4. RESTATEMENTS DUE TO CHANGE IN ACCOUNTING POLICY BY THE COMPANY’S ASSOCIATE

In preparing the Group’s consolidated financial statements for the year ended 31 December 2015, the Group has identified certain restatements required in the comparative financial information presented arising from share of results in Beijing Certificate Authority Co., Ltd. (“BJCA”) 北京數字認證股份有限公司, an associate of the Group principally engaged in the provision of services related to digital certificates.

In the prior periods, revenue of BJCA arising from the provision of services related to digital certificates was recognised immediately upon relevant digital certificate has been installed and the security keys have been delivered and accepted by customers or upon relevant services contract being renewed.

During the year ended 31 December 2015, the management of BJCA conducted an evaluation of the above basis of revenue recognition and determined that after installation of digital certificate together with the delivery of security keys to customers, BJCA also serves as services provider to the individualised security keys, such that the users are then able to access to the security system. BJCA has to provide services to its customers such as unlock, deactivate and certificate search when individual customers login to security system during the life of the digital certificate, therefore the management of BJCA concluded that proper treatment is to recognise the revenue received over the life of digital certificate and hence the management of BJCA decided to proceed with the restatements.

As a result of change in BJCA’s revenue recognition policy, the condensed consolidated financial statements for the six months ended 30 June 2015 have also been restated.

The impact of the restatements in the condensed consolidated financial statements in respect of the change in revenue recognition policy recognised by BJCA on the Group is as follows:

Condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2015

	As previously reported RMB'000 (Unaudited)	Decrease RMB'000	Restated RMB'000 (Unaudited)
Share of results of associates	4,017	(57)	3,960
Profit before tax	59,733	(57)	59,676
Profit and total comprehensive income for the period	58,409	(57)	58,352
Profit and total comprehensive income for the period attributable to owners of the Company	58,489	(57)	58,432
Earnings per share for profit attributable to owners of the Company during the period			
– Basic	RMB2.02 cents	–	RMB2.02 cents
– Diluted	RMB2.02 cents	–	RMB2.02 cents

Consolidated statement of financial position as at 1 January 2015

	As previously reported RMB'000 (Audited)	Decrease RMB'000	Restated RMB'000 (Audited)
As at 1 January 2015			
Interests in associates	82,915	(18,386)	64,529
Total non-current assets	663,117	(18,386)	644,731
Total assets less current liabilities	978,759	(18,386)	960,373
Net assets	864,604	(18,386)	846,218
Share premium and reserves	574,658	(18,386)	556,272
Total equity	864,604	(18,386)	846,218

Condensed consolidated statement of financial position as at 30 June 2015

	As previously reported RMB'000 (Unaudited)	Decrease RMB'000	Restated RMB'000 (Unaudited)
As at 30 June 2015			
Interests in associates	82,106	(18,443)	63,663
Total non-current assets	610,829	(18,443)	592,386
Total assets less current liabilities	972,740	(18,443)	954,297
Net assets	892,293	(18,443)	873,850
Share premium and reserves	602,427	(18,443)	583,984
Total equity	<u>892,293</u>	<u>(18,443)</u>	<u>873,850</u>

5. 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 six months ended 30 June 2016 are approximately RMB280,869,000 (six months ended 30 June 2015: RMB205,345,000). Other than this, the Group has no customer which contributes more than 10% of the Group’s consolidated revenue for both periods.

6. INCOME TAX EXPENSE

	Six months ended	
	30 June 2016	30 June 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax		
– Current period	4,032	4,012
– Under/(Over) provision	999	(525)
Deferred tax credit		
– Current period	(2,692)	(2,163)
– Effect of change in tax rate	(328)	–
	2,011	1,324

The Company was recognised as a High Technology Enterprise (“HTE”) in 2011, further accredited as 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”).

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 PRC on EIT, the first year income tax exemption commenced for 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 rate 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.

At the end of the reporting period, certain subsidiaries had unused tax losses of approximately RMB17,506,000 (31 December 2015: RMB15,868,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unused tax losses will expire before 2021.

The deferred tax credit in the current period is mainly due to the increase of deferred tax assets in respect of deductible temporary difference of allowance for doubtful debts in respect of trade and other receivables of the Group.

7. PROFIT FOR THE PERIOD

	Six months ended	
	30 June 2016	30 June 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited) (Restated)
Profit for the period has been arrived at after charging the following items:		
Directors', chief executive's and supervisors' remuneration	470	863
Other staff costs	87,575	88,083
Other staff's retirement benefit scheme contributions	10,686	11,137
	<u>98,731</u>	<u>100,083</u>
Less: Staff costs included in		
– research and development costs	(9,478)	(13,849)
– cost of sales	(44,566)	(42,592)
	<u>44,687</u>	<u>43,642</u>
Depreciation of property, plant and equipment	25,688	33,582
Depreciation of investment property	1,887	1,887
Total depreciation	27,575	35,469
Less: Depreciation included in		
– research and development costs	(916)	(1,743)
– cost of sales	(19,464)	(20,391)
	<u>7,195</u>	<u>13,335</u>
Amortisation of intangible assets	<u>8,915</u>	<u>6,814</u>
Operating lease rentals in respect of		
– cable network and office premises	22,928	39,385
Less: Operating lease rentals included in		
– research and development costs	(1,067)	(1,304)
– cost of sales	(14,583)	(26,815)
	<u>7,278</u>	<u>11,266</u>
Cost of inventories recognised as expenses	44,432	78,831
Share of tax of associates (included in share of results of associates)	1,407	998

11. TRADE AND OTHER RECEIVABLES

	30 June 2016	31 December 2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Total trade receivables	377,009	329,483
Less: Allowance for doubtful debts	(44,085)	(29,406)
	332,924	300,077
Less: Non-current portion which is shown in non-current assets	(53,708)	(57,040)
	279,216	243,037
Other receivables and prepayments	21,142	19,977
Deposits for technology service contracts	49,490	65,667
Less: Allowance for doubtful debts	(753)	(753)
	69,879	84,891
Trade and other receivables shown in current assets	349,095	327,928

The Group allows an average credit period of 180 days to its trade customers except for certain Build-and-Transfer (“BT”) projects. The trade receivables from the BT projects are unsecured, which are repayable by installments 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 30 June 2016 and 31 December 2015, presented based on the date of delivery of goods or the billing date of contract works and net of allowance for doubtful debts:

	30 June 2016	31 December 2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Age		
0 to 6 months	148,839	175,058
7 to 12 months	81,403	26,245
Over 1 year	102,682	98,774
	332,924	300,077
Less: Non-current portion	(53,708)	(57,040)
	279,216	243,037

12. TRADE AND OTHER PAYABLES

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Trade payables	76,828	128,278
Bills payable	–	1,164
Deferred income arising from government grants (<i>note</i>)	30,020	25,069
Other payables	53,566	46,630
Accrued expenses	69,359	76,638
Payroll and welfare payables	27,764	52,720
Dividend payables to shareholders other than holding company	16,694	–
Advance from customers	3,657	4,543
	277,888	335,042

Note:

The balance arises as a result of the benefit received from the government. The Group received government grants of RMB8,249,000 (six months ended 30 June 2015: RMB18,194,000) during the current interim period for certain technology research activities and recognised RMB3,298,000 (six months ended 30 June 2015: RMB732,000) in other income in the current interim period.

The following is an aging analysis of trade payables at 30 June 2016 and 31 December 2015, which is presented based on the date of material or service received or the billing date of contract works:

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Age		
1 year	50,419	75,420
1 to 2 years	5,642	14,949
2 to 3 years	12,836	24,456
Over 3 years	7,931	13,453
	76,828	128,278

Included in trade payables are retention payables of RMB3,356,000 (31 December 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.

13. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid <i>RMB'000</i>
	Domestic shares	H shares	
Balance of share capital of RMB0.10 each per share at 1 January 2015, 31 December 2015 and 30 June 2016	2,123,588,091	774,498,000	289,809

14. DISPOSAL OF PARTIAL INTERESTS 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 condensed consolidated financial statements and the Disposal was accounted for as an equity transaction.

The difference of RMB1,458,000 between the consideration of RMB29,276,000 and the carrying amount of non-controlling interests of RMB30,734,000 was recorded in retained profits during the current interim period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2016, China's macro economy was undergoing deep adjustment. With the constantly intensified competition in the IT industry, the business development of the Company suffered greater challenges. Faced with the austere external environment, the Company proactively adjusted its structure, promoted technological innovation, strengthened risk prevention and control, continued to expand the Internet of Things, medical health, cloud services, big data, etc., to lay a solid foundation for the "13th Five-Year" Plan Period.

For the six months ended 30 June 2016, the main operating revenue of the Group amounted to RMB334.6 million, representing a decrease of 1.83% as compared with the same period of last year; profit attributable to owners of the Company arrived at RMB24.9 million, representing a decrease of 57.39% as compared with the same period of last year. After deducting the non-recurring income of RMB45.4 million from the deemed disposal of equity interests in PayEase during the corresponding period of last year, profit attributable to owners of the Company increased 91.06% as compared with the same period of last year.

Smart City Service and Management

The Beijing wired electronic E-Governance service website, 4G wireless Internet of Things data website, and www.beijing.gov.cn built, operated and maintained by the Company were operating steadily. As of 30 June 2016, the number of application projects carried on the 4G wireless Internet of Things data website exceeded 50. In particular, the "Red Cross 999 Vehicle Monitoring System" built by the Company has been highly praised when Mr. Ban Ki-moon, the UN Secretary-General visited the Beijing Red Cross 999 Emergency Rescue Center by virtue of its superior performance. During the reporting period, the Company again won the bid for the "Atmospheric Environmental Quality Monitoring Network Upgrade Project of Beijing Environmental Protection Monitoring Center" to further consolidate the Company's position in the market of environmental protection.

Based on the existing smart city network platform and customer resources, the Company further exploited the demand of customers and participated in the programs writing and top-level design of E-Governance service LAN for the municipality and 15 districts and counties of Beijing, which offered the Company dominance in the construction of information-based E-Governance service LAN. During the reporting period, the Company undertook the top-level design in smart city of Beijing and kept a close watch on the business opportunities arising from the information construction to make preparations for industrial layout ahead of schedule and bring new sources of growth to the Company.

While offering constant services for users of government at all levels in Beijing, the Company made efforts to expand its business scope to national ministries and commissions. During the reporting period, breakthrough has been made in key projects of national ministries and commissions and the Company successfully won the bid for the projects of the United Front Work Department of CPC Central Committee and the State Intellectual Property Office, laying a solid foundation for further expanding the Company's business to the national ministries and commissions.

Smart Livelihood

Comprehensive upgrading and reconstruction have been accomplished in the Beijing medical insurance information system and social security card application system and the performance of the systems has been improved gradually. As of 30 June 2016, 17.6 million Beijing social security cards were issued with the scope of services covering the entire insured population of Beijing; 5.7 million “Beijing hospital medical cards” were issued by 29 pilot hospitals, which provided great convenience for patients who come to Beijing for visiting doctors. The number of pilot hospitals for issuing the “Beijing hospital medical cards” is expected to further expand in the future.

During the reporting period, the comprehensive information system for housing accumulation funds operated steadily. As commissioned by the Supervision Department of Housing Accumulation Funds, the Ministry of Housing and Urban-Rural Development of the PRC, the Company provided technical training for officials from the housing accumulation fund management centers in more than 20 provinces and cities, which helped the Company established a good corporate brand image and effectively strengthened the loyalty of customers. The Company continued to promote the informatization construction of smart communities, set up the “Beijing Engineering Laboratory for Internet Technologies of the Smart Health Pension Industry” to promote the application of big data and Internet of Things technology in the construction of smart pension. The laboratory was identified as the 2015 municipal engineering laboratory by the Beijing Municipal Development and Reform Commission.

Smart Medical Service

As the state attached greater importance to medical health informatization and the Company continued to accumulate experience in the medical service informatization industry, the Company gradually expanded its business to the field of medical service informatization. During the reporting period, the Company built the “Unified Financial Settlement Service Platform for Hospital Commercial Insurance” through cooperation with Chaoyang Hospital, and the project was successfully launched in Chaoyang Hospital for pilot. By optimizing the medical expenses settlement of the hospital, users can get better medical service and medical experience. The partnership is the second attempt following China-Japan Friendship Hospital for the Company to explore the construction of unified financial settlement platform for hospitals. As the Company continued to optimize the function of the platform, the application of the platform will be gradually expanded to provide more efficient and intelligent informationalized services for medical service organizations, insurance payers, and patients.

Cloud Services and Enterprise Informatization

In recent years, cloud services market has continued to grow with constantly intensified competition in the market. Capinfo Cloud Platform won widespread recognition among customers due to its superior technical strength and reliable service quality and got a place in the competition accordingly. During the reporting period, the cloud platform of China Beijing Equity Exchange (hereinafter: Beijing Equity Exchange) planned and constructed by the Company was officially

launched, which is the first private cloud platform invested by Beijing Equity Exchange for equity transactions and plays an exemplary role in cloud computing applications for national equity transactions. Meanwhile, as a cloud service provider for the Supreme People's Court, the Company successfully accomplished the cloud migration of all 14 internet sites and platforms of the Supreme People's Court to promote building of "Smart Court".

During the reporting period, the informatization service projects intended for business users advanced in an orderly manner and the financial supervision system for the tobacco industry was operating steadily. In respect of construction of enterprise fund management systems, the Company has successfully expanded five major clients including Qingdao Airport and Double Star Group. At the same time, the Company developed the "micro business alliance platform for operating tobacco one thousand meters away" (千米尋煙微商盟平台) for tobacco vendors and users, which has been successfully launched for pilot in Hengshui, Hebei and is expected to further promote to Guangzhou, Xiamen and other regions.

Product Research and Development

The Company has continued to increase investment in research and development to enhance the overall competitive strength. During the reporting period, the Company completed technical research and development in big data analysis and processing platform. A technology of "wireless communication gateway" independently developed by the Company was awarded patent licensing by the State Intellectual Property Office; the two system software products of "customized service center system V1.0" and "content management and publishing system V2.0" acquired the software product certificates; five system software products including the "operation, maintenance, monitoring and management system V1.0 of Capinfo Science and Technology" were awarded the computer software copyright registration certificate issued by the National Copyright Administration, which further consolidated the technological strength of the Company.

Human Resources

As of 30 June 2016, the Group had 1,488 employees and expense of employees was RMB98.7 million. During the reporting period, the Top-Level Planning for Human Resources was formulated according to the 13th Five-Year Strategic Plan. Centering on "meeting the demand for talent for strategic development and enhancing the quality of core human capital", the Company improved the compensation and welfare system, enhanced employee satisfaction, and promoted the healthy development of the Company to achieve the "13th Five-Year" strategic objectives. During the reporting period, in order to enhance the overall quality of staff, train and reserve interdisciplinary talents, the Company continued to organize 39 management and technology professional training courses for employees, with nearly 740 trained personnel.

Prospect

With the accelerated process of industrialization in the PRC, IT industry application improved constantly and market competition intensified persistently. In the second half of 2016, the Company will continue to increase investment in research and development and promote technological innovation to enhance overall competitive advantages; it will deepen mechanism reform to explore business transformation and upgrading and efficiently utilize the capital market platform and resources to promote rapid and sustainable development of the Company.

FINANCIAL REVIEW

In the first half of 2016, in the face of increasingly fierce industry competition, the Group integrated its superior resources to strengthen the market share of core business and actively expand the market-oriented business, leading to the evident results of early business layout. For the six months ended 30 June 2016, the Group recorded an unaudited revenue of RMB334.6 million, representing a decrease of 1.83% as compared with the same period of last year. The Group recorded a gross profit of RMB116.2 million, representing an increase of 4.21% over that of last year, and a gross profit margin of 34.72%, representing an increase of 2.01% as compared with the same period of last year.

For the six months ended 30 June 2016, the core business of the Group accumulated a revenue of RMB125.7 million, representing a decrease of 12.31% as compared with the corresponding period of last year, accounting for 37.58% of the total revenue of the Group; gross profit of core business was RMB39.3 million, representing a decrease of 9.09% as compared with the corresponding period of last year, accounting for 33.85% of the total gross profit of the Group. The core businesses of the Group mainly include the E-Governance network and the Internet of Things platform project developed and operated and maintained for the smart city businesses, 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. Decline in revenue of core business was mainly due to the delay in income recognition of some projects affected by the progress of works and the decrease in gross profit arising from the constantly rising procurement and outsourcing costs.

Furthermore, the businesses which were a derivative from the core businesses and made rapid progress in market expansion (collectively “new businesses”) recorded a revenue of RMB192.4 million, representing an increase of 6.00% over the corresponding period of last year, accounting for 57.50% of the total revenue of the Group; gross profit of the new businesses was RMB67.1 million, representing an increase of 9.99% over the corresponding period of last year, accounting for 57.73% of the total gross profit of the Group. New businesses of the Group mainly include business from E-Governance internet, house information business, medical information business, Capinfo cloud platform, tobacco information business and enterprise informatization business.

In order to promote the competitiveness of the Group in construction and operation of smart cities, during the reporting period, the Company has transferred its 26% equity interests in Capinfo Technology to Capnet Company Limited (“Capnet”), so as to help Capinfo Technology to expand its E-Governance IT service market with the resources of Capnet. Following the completion of disposal of equity interests, the Company still has the control of Capinfo Technology. During the reporting period, increase in revenue from new businesses was mainly due to the contribution from E-Governance internet of Capinfo Technology and Capinfo cloud platform businesses.

Other income of the Group amounted to RMB13.4 million, representing an increase of 52.72% over the corresponding period of last year, mainly due to the substantial growth in the income from project research and development as compared with the corresponding period of last year. Other gains and losses of the Group amounted to RMB20.8 million, representing a decrease of gains by RMB51.5 million over the corresponding period of last year, mainly due to the deemed disposal of equity interests in PayEase for the consideration of RMB45.4 million. In the meanwhile, allowance for doubtful debts increased with the increasing receivables in the current period.

In respect to the Group’s business model, the main businesses were divided into operation and maintenance, system integration, software development, IT consultancy and sale of commodities. Of which, revenue from operation and maintenance amounted to RMB204.4 million, representing a decrease of 4.92% as compared with the corresponding period of last year and accounting for 61.10% of the total revenue of the Group; revenue from system integration amounted to RMB93.5 million, representing a decrease of 6.80% as compared with the corresponding period of last year and accounting for 27.93% of the total revenue of the Group; revenue from software development amounted to RMB35.1 million, representing an increase of 65.81% as compared with the corresponding period of last year and accounting for 10.50% of the total revenue of the Group; revenue from IT consultancy and sale of commodities totaled RMB1.6 million, representing a decrease of 64.14% as compared with the corresponding period of last year and accounting for 0.47% of the total revenue of the Group.

In addition, in respect of industries which clients are engaged in, government clients of the Group accounted for the largest share, with 83.95% of revenue from the projects of the Group from government clients. In respect of regions of business expansion, our business coverage has expanded from Beijing to 31 cities across the country, such as Shanghai, Guangzhou, Xiamen etc. However, the revenue of the Group was still derived mainly from Beijing, which accounted for 94.02% of the total revenue.

Capital Expenditure, Liquidity and Financial Resources

As of 30 June 2016, the Group had total assets of RMB1,737.0 million, representing an increase of 6.61% over the beginning of the year. Equity attributable to owners of the Company amounted to RMB894.8 million, representing a decrease of 2.41% over the beginning of the year, which was mainly due to the transfer of 26% equity interests of Capinfo Technology and distribution of dividend by the Company. The Group's current ratio, defined as total current assets over total current liabilities, maintained at a relatively reasonable level of over 1.4 times while the net gearing ratio, defined as total borrowings over net assets, stayed at a relatively low level of less than 3.00%. Both ratios reflected the sufficiency in financial resources of the Group. For the six months ended 30 June 2016, the Group had no assets pledged and had no significant contingent liabilities. The Group's financial position was not affected by fluctuations in exchange rates or any related hedges.

The Group's unsecured loan from government of RMB1.8 million was applied for construction of E-commercial platform from Beijing Finance Bureau in 2002, bearing an average annualized interest rate of 3.35%. Bank balances and cash of the Group amounted to RMB479.0 million, representing a decrease of 3.93% over the beginning of the year.

Equity Investments

In the first half of 2016, the Group's share of results of associates was RMB4.6 million (the corresponding period of 2015: RMB4.0 million), which was mainly due to the contribution from Beijing Certificate Authority Co., Ltd. ("BJCA"). An application for initial public offering on the ChiNext of the Shenzhen Stock Exchange made by BJCA was approved by the Public Offering Review Committee of the Growth Enterprise Market of the China Securities Regulatory Commission on 1 July 2016.

Due to the change of accounting policy of BJCA for revenue recognition in 2015, the Group restated the 2015 interim financial information, in which the profit attributable to owners of the Company restated to RMB58.4 million from RMB58.5 million. The comparative data used in financial review represented the restated financial information.

Income Tax

In the first half of 2016, the income tax expense of the Group was RMB2.0 million, representing an increase of 51.89% as compared with the same period of last year, mainly due to the increase in operating profit and underprovision in prior period.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the Model Code contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Having made specific enquiry with the Directors and supervisors, all the Directors and supervisors confirmed that they have complied with the required standard as set out in the Company's Code of Securities Transactions and the Model Code of the Stock Exchange throughout the six months ended 30 June 2016.

AUDIT COMMITTEE

The audit committee has discussed auditing, internal control, risk management and financial reporting matters including the review of the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016 with the senior management of the Company. The committee is of the view that the financial statements were prepared in accordance with applicable accounting policies, the Listing Rules and other applicable legal requirements.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2016, except that there is 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 is the Chairman of the Company. The daily management of the Company is under the leadership of Mr. Xu 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. Meanwhile, the Board will also identify appropriate candidate for the position of Chief Executive Officer as soon as possible.

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

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
CAPINFO COMPANY LIMITED*
Mr. Xu Zhe
Chairman

Beijing, the People's Republic of China
26 August 2016

As of the date hereof, the executive director of the Company is Mr. Lu Lei; the non-executive directors of the Company are Mr. Xu Zhe, Dr. Feng Hao Cheng, Mr. Cao Jun, Mr. Zhou Weihua, Mr. Shan Yuhu and Ms. An Lili, and the independent non-executive directors of the Company are Ms. Zhou Liye, Mr. Gong Zhiqiang, Mr. Cheung, Wai Hung Boswell and Mr. Li He.