

CAPINFO

Capinfo Company Limited

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

(於中華人民共和國註冊成立之股份有限公司)

(Stock Code 股份代號：1075)

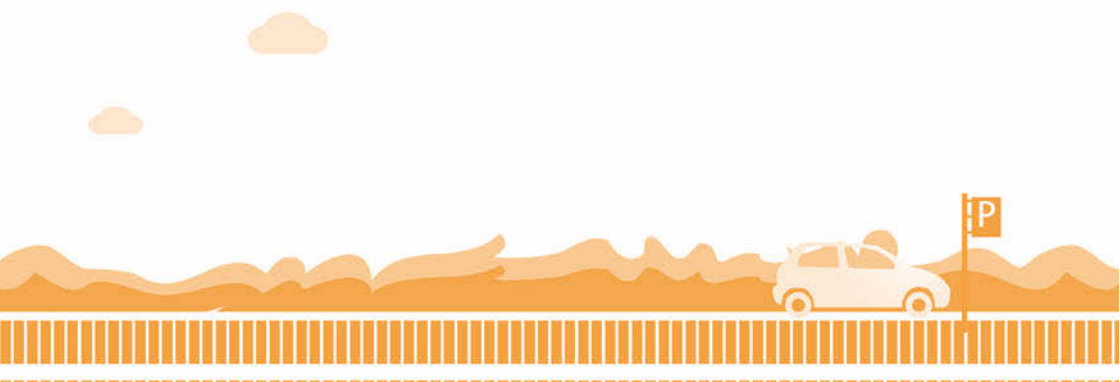


2017

中期報告
Interim Report

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MANAGEMENT

>>> DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2017, the national economy presented an obvious trend of improvement amidst stabilisation and the IT industry saw a sound growth. In the new development stage, the Group concentrated its efforts on innovation in terms of management and business and sped up transformation and upgrade. While continuously consolidating the smart infrastructure service, the Group further promoted the development in the fields of internet + government affair service, smart medical and health service and enterprise smart innovation, laying a solid foundation for the “Thirteenth Five-Year” period.

For the six months ended 30 June 2017, the main operating revenue of the Group amounted to RMB323.5 million; profit attributable to owners of the Company arrived at RMB19.6 million, representing a decrease of RMB5.3 million as compared with the same period of last year. The decrease of profit compared with the corresponding period of last year was mainly due to fair value loss of series C-2 preferred stock of Mozido Inc. held by the Group.

Smart Infrastructure Service

During the reporting period, the E-governance website, Internet of Things data website and other important systems of the Group ran well. The Group accomplished the guarantee tasks in provision of information technology guarantee for Yanqi Lake International Conference Centre at which the “One Belt, One Road” International Cooperation Summit Forum was held, Huairou District Committee Conference Centre, etc. and successful treatment of the “Ransomware” which outbreaked in a large area in the world. The Group endeavoured to get the opportunities for Beijing Sub-centre and Beijing-Tianjin-Hebei Integration Project to seize a commanding height in the field of information technology construction for smart city.

MANAGEMENT DISCUSSION AND ANALYSIS <<<

Capinfo EA V1.0, the unified technical structure of the Group, has been put into preliminary application and combined with a number of projects in several segments including healthcare security and social security, software and cloud computing, which has generated outstanding preliminary results. Subsequently, Capinfo EA V2.0 will be improved and launched to achieve comprehensive application and practice throughout the Group to reduce technological development and operation costs and enhance core technological competitiveness and projects' profitability.

"Internet + Government Affair" Service

"Beijing-China Website Clusters" (www.beijing.gov.cn) ran stably. Riding on years of experience in government information construction and operation, the Group won the title of "2017 China Top 100 Internet Enterprises" jointly issued by Internet Society of China and the Ministry of Industry and Information Technology and was recognised by the industry and the State. In the first half of the year, the Group won the bid for a number of projects including the construction project of Beijing Points System for Household Registration, the website cluster construction projects of the Agency for International Economic Cooperation of the Ministry of Commerce, further consolidating and expanding the user base.

In the housing construction field, the Group intensively tapped the field of housing provident fund in Beijing, Shanghai, Guangzhou, Chongqing and Nanning and won a number of upgrade and transformation projects. While accumulating project experience, the Group implemented the nationwide development strategy to seek for the effective way for duplication of the successful model in other cities.

Smart Medical and Health Service

During the reporting period, the Group proactively cooperated with the implementation of comprehensive reform of separation of clinic from pharmacy and the trans-provincial and long-distance medical settlement policy to ensure equal policy treatment for 18.95 million social security card holders. "Beijing hospital medical card" business was advanced in an orderly way and over 10 million cards have been accumulatively issued, to provide convenient real-time medical settlement service for card holders.

Progress has been made in respect of "hospital financial settlement platform" which is independently developed by the Group. The Group has entered into cooperation agreements with scores of hospitals and put the platform into operation in a number of hospitals. To promote commercialisation of the platform, the Group has entered into agreements on settlement of commercial insurances with multiple commercial insurance companies. A new business model has gradually taken shape.

MANAGEMENT

DISCUSSION AND ANALYSIS

Enterprise Smart Innovation

During the reporting period, with enterprises cloud service as the pilot, the Group explored the corporate services models of IaaS, PaaS and SaaS to support enterprises' application of cloud platform in a more convenient, faster and safer manner. The Group completed application for the cloud project for state-owned enterprises, and took the opportunity of construction of a new cloud platform for vigorous development cloud application products and development of cloud ecosystem to form a cloud computing industrial chain with the operational platform with Capinfo business cloud as the core and technological innovation resources of Beijing-Tianjin-Hebei as the ecology to promote the nationwide development of cloud computing business.

Human Resources

As of 30 June 2017, the Group had 1,500 employees and expense of employees during the reporting period was RMB95.1 million. During the reporting period, the Group continuously studied and optimised the organisational structure and gathered corporate resources to form joint force for development. The Group improved and promoted the remuneration assessment system and followed the principles of investment and output, all staff share, linking with all staff and incremental incentive. Different index systems, assessment methods and incentive methods were adopted in combination with the establishment of a talent appraisal and employment qualification system to deeply implement the all staff employment system.

Prospect

In the second half of the year, the Group will give play to the leading role of smart city service provider in the Capital and fully participate in the collaborative construction of Beijing Sub-center and Beijing-Tianjin-Hebei to enhance the position in the industry and fulfill the Company's mission. Further efforts will be exerted to develop innovative businesses in the field of smart health care field and improve the new business model for cooperation and achieving a win-win situation with hospitals and commercial insurance companies; the Group will improve the company level business platform Capinfo EA to carry out technical research and application of big data to enhance the Company's overall technical capacity; moreover, the Group will strengthen capital market operation and integrate and utilise advantageous resources to promote the sustained, rapid and healthy development of the Company.

FINANCIAL REVIEW

During the reporting period, amongst the enhanced industry debate, our Group actively strive for core business market share, and move fast to drive the innovation business. Our Group is in the deep reform and transformation. For the six months ended 30 June 2017, the Group recorded an unaudited revenue of RMB323.5 million. The Group recorded a gross profit of RMB106.1 million, representing a decrease of 8.70% over that of the same period of last year, and a gross profit margin of 32.78%, representing a decrease of 1.94 percentage point as compared with the same period of last year.

For the six months ended 30 June 2017, the core business of the Group accumulated a revenue of RMB95.5 million, representing a decrease of 24.09% compared with the corresponding period of last year, accounting for 29.50% of the total revenue of the Group; gross profit of core business was RMB20.3 million, representing a decrease of 48.37% as compared with the corresponding period of last year, accounting for 19.14% 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. The revenue of core business was decreased as compared with corresponding period of last year, which was mainly because the revenue of core business recognised in the same period of last year included those projects which had started in prior years but recognised revenue in the first half of 2016. There are no significant changes on the overall size of the core project.

During the reporting period, the businesses which made rapid progress in market expansion (collectively “market businesses”) recorded a revenue of RMB218.0 million, representing an increase of 13.31% over the corresponding period of last year, accounting for 67.38% of the total revenue of the Group; gross profit of the market businesses was RMB83.4 million, representing an increase of 24.39% over the corresponding period of last year, accounting for 78.66% of the total gross profit of the Group. Market businesses of the Group mainly include house information business, medical information business, Capinfo cloud platform, tobacco information business and enterprise informatisation business. The growth of market business income mainly came from the contribution of e-government network business. During the reporting period, the Group’s other main business income was RMB10.0 million, representing a decrease of 5.31% as compared to the same period of last year, accounting for 3.12% of the Group’s total operating income.

MANAGEMENT

DISCUSSION AND ANALYSIS

Other income of the Group amounted to RMB18.2 million, representing an increase of 35.96% over the corresponding period of last year, mainly due to the substantial increase in the income from government subsidies in respect of project research and development compared with the same period of last year. With regard to other gains and losses, the losses of the Group amounted to RMB24.0 million, representing an increase of losses by RMB3.2 million as compared with the same period of last year, mainly due to fair value loss of series C-2 preferred stock of Mozido Inc. held by the Group and the increase in provision for bad debts according to the increase in accounts receivable.

The Group's 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 RMB199.2 million, representing a decrease of 2.53% as compared with the corresponding period of last year and accounting for 61.59% of the total revenue of the Group; revenue from system integration amounted to RMB88.7 million, representing a decrease of 5.14% as compared with the corresponding period of last year and accounting for 27.40% of the total revenue of the Group; revenue from software development amounted to RMB27.2 million, representing a decrease of 22.47% as compared with the corresponding period of last year and accounting for 8.42% of the total revenue of the Group; revenue from IT consultancy and sale of commodities totaled RMB8.4 million, representing an increase of 439.38% as compared with the corresponding period of last year and accounting for 2.59% of the total revenue of the Group.

Capital Expenditure, Liquidity and Financial Resources

As of 30 June 2017, the Group had total assets of RMB1,737.8 million, representing a decrease of 0.42% over the beginning of the year. Equity attributable to owners of the Company amounted to RMB964.7 million, representing a decrease of 1.23% over the beginning of the year. The Group's current ratio, defined as total current assets over total current liabilities, was 1.53 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 2017, the Group had no assets pledged and had no significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS <<<

The Group's unsecured loan from government of RMB0.9 million was applied for construction of E-commercial platform from Beijing Finance Bureau in 2002, bearing an average annualised interest rate of 1.80%. Bank balances and cash of the Group amounted to RMB505.6 million, representing a decrease of 11.49% over the beginning of the year.

Equity Investments

In the first half of 2017, the Group's share of results of associates was RMB8.6 million (the corresponding period of 2016: RMB4.6 million), which was mainly due to the contribution from BJCA.

Income Tax

In the first half of 2017, the income tax credit of the Group was RMB1.4 million, mainly due to over provision in the prior years as the Company accomplished the recordation of preferential Enterprise Income Tax policies applicable to key software enterprises in the national planning layout for the years 2015 and 2016 in June 2017 and retrospectively entitled to a preferential tax rate of 10% for years 2015 and 2016.

»»» CORPORATE GOVERNANCE

CORPORATE GOVERNANCE CODE

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 best interest 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 standardised and improved corporate governance structure. It also strictly complies with the state laws and regulations, relevant regulatory requirements and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) as well as closely observes trends in regulatory changes in China and abroad to improve the corporate governance level.

During the reporting period, the Company has established a set of regulated and transparent management system and has been in strict compliance with the code provisions of the corporate governance code as set out in Appendix 14 to the Listing Rules.

CORPORATE GOVERNANCE FRAMEWORK

In accordance with the relevant provisions of the laws and regulations including the PRC Companies Law (“Companies Law”) and the Listing Rules as well as relevant requirement of the Capinfo Company Limited’s Articles of Association (“Articles of Association”), and with reference to the status quo of the Company, the Company constantly developed, improved and effectively implemented work systems and related work processes for the Board and its various specialised committees. The Company has established 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 specialised committees, the Board of Supervisors and the management led by the Chairman 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.

BOARD OF DIRECTORS

The Board is responsible for managing the overall businesses of the Company. In accordance with Articles of Association and Rules of Procedures of the 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. As an important part of good corporate governance, the Company established several specialised committees under the Board, including 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.

The Company's Board of Directors comprises twelve Directors, including two Executive Directors (Ms. Lin Yankun and Mr. Yu Donghui (Chief Executive Officer)), six Non-executive Directors (Mr. Xu Zhe (Chairman), Dr. Feng Hao Cheng, Mr. Cao Jun, Mr. Zhou Weihua, Mr. Shan Yuhu and Ms. An Lili) and four Independent Non-executive Directors (Mr. Gong Zhiqiang, Mr. Cheung, Wai Hung Boswell, Mr. Li He and Mr. Yang Xiaohui). The Company's Directors are professionals in finance, law, commerce and information services with extensive experience and expertise in various areas. In terms of the composition of the Board, the comprehensive professional backgrounds and the strong independent element of the Directors demonstrate significant importance in corporate governance. The Company has entered into service contracts with the Directors for a term expiring on 18 June 2018 and subject to re-election.

During the reporting period, the Board held one on-the-spot meeting, and signed meeting documents three times in the form of circulation. To enable the Directors to have a comprehensive knowledge of the Company's businesses, in addition to work report at the regular meetings of the Board and timely report of significant events at the special meetings of the Board, the Company also submits "Monthly Report to Directors" to the Directors every month, which contains information on the major trades and financial affairs of the Company, updating them on the business performance of the Company.

»»» CORPORATE GOVERNANCE

The secretary of the Board and the Company Secretary assisted the Board 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. The secretary of the Board and the Company Secretary will provide introduction materials on the operation of the major businesses of the Company as well as the duties and responsibilities of the Directors as conferred by the laws, regulations and the Listing Rules to the Directors at the time of their appointment. In addition, relevant seminars, courses and training programmes will be provided to the Directors to assist them to achieve continuous professional development.

During the reporting period, all Directors have participated in various forms of training programmes to improve their knowledge and skills so as to ensure that their contribution into the Board remains informed and relevant. Directors should also ensure that they have enough time to handle the business of the Company. 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, so as to mitigate the liabilities of the Directors and enhance the effectiveness of decision-making.

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 confirmed 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 six months ended 30 June 2017. The senior managements and employees, who may have access to unpublished inside information because of their duties, have been requested to comply with the requirements of the Model Code.

AUDIT COMMITTEE

The audit committee usually holds four meetings every year, and is responsible for monitoring the financial, accounting policies and practices of the Company and assessing the effectiveness of the internal control and risk management systems. 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 operation of the audit committee. The audit committee of the Company comprises four members, including Mr. Yang Xiaohui (chairman), Mr. Gong Zhiqiang, Mr. Cheung, Wai Hung Boswell and Mr. Li He.

During the reporting period, the audit committee held one on-the-spot meeting, and signed one meeting document in the form of circulation. The committee reviewed the Independent Auditor's Report for the year of 2016, the Financial and Operation Analysis Report of the Group for the first quarter of 2017, the overview report of the internal audit for the year of 2016, the internal audit plan for the year of 2017, three copies of Internal Audit Report, four copies of Internal Audit Follow-up Report, and the re-appointment of auditor.

As of the date of this report, the audit committee has reviewed the Independent Review Report and the Interim Report of the Group for the interim period of 2017.

REMUNERATION AND APPRAISAL COMMITTEE

The remuneration and appraisal committee holds at least one meeting every year to review remuneration and other matters. 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 operation of the remuneration and appraisal committee. The remuneration and appraisal committee of the Company comprises three members, including Mr. Gong Zhiqiang (chairman), Ms. Lin Yankun and Mr. Yang Xiaohui.

During the reporting period, the remuneration and appraisal committee signed meeting documents once in the form of circulation to recognise the Company's implementation of total remuneration in 2016, and review the bonus distribution plan of senior management of the Company for the year of 2016 and the basic annual salary plan of senior management for the year of 2017.

»»» CORPORATE GOVERNANCE

NOMINATION COMMITTEE

The nomination committee holds at least one meeting every year, and is responsible for nominating and recommending candidates to fill the vacancies of members of the Board. 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 in accordance with the requirements of Rule A.5.2 of Appendix 14 to the Listing Rules to specify its written terms of reference, so as to regulate the operation of the nomination committee. The nomination committee of the Company comprises three members, including Mr. Xu Zhe (chairman), Mr. Gong Zhiqiang and Mr. Cheung, Wai Hung Boswell.

STRATEGY COMMITTEE

The strategy committee holds at least one meeting every year, and is responsible for making recommendations on the Company's long-term development strategies, major investment and financing plans, capital operations and other matters to the Board and supervising on the implementation of the said matters. 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 operation of the strategy committee. The strategy committee of the Company comprises four members, including Mr. Xu Zhe (chairman), Mr. Yu Donghui, Dr. Feng Hao Cheng and Mr. Li He.

BOARD OF SUPERVISORS

The Board of Supervisors holds at least two meetings every year, and is responsible for examining the financial affairs of the Company and supervising the legality and legitimacy of the performance of duties by the Directors and senior management and the decision-making procedures of the Company's meetings as well as the implementation of the solutions of the meetings. The Company established the Board of Supervisors in accordance with Article 118 of the Companies Law, and formulated the Rules of Procedures 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, including Mr. Di Guojun (chairman), Mr. Liang Xianjun and Mr. Lang Jianjun.

During the reporting period, the Board of Supervisors signed meeting documents one time in the form of circulation to review the Independent Auditor's Report for the year of 2016, the Continuing Connected Transactions Report and the Supervisors' Report.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Board of the Company conducts review on the effectiveness of the internal control and risk management systems of the Company regularly to ensure the relevant systems are effectively and adequately followed. The internal control and risk management systems are risk control procedure provided by the Board, management and the persons concerned to enhance operating effectiveness and efficiency and the reliability of financial reporting, covering management on internal environment, risk assessment, control activities, information communication and supervision procedures, so as to identify and assess the risks to which the Company is exposed and allocate resources to control these risks based on their severity, with an aim to improve operating results.

INTERNAL CONTROL ACTIVITIES

The Company established the audit department, which is under the guidance of the Audit Committee and assumes the important responsibilities of supervising the internal governance of the Company. The audit department is responsible for carrying out independent internal audit on operations, management and major economic events of the Company in accordance with the principle of independence, objectivity and authority of internal audit, and for giving advice and suggestions on operations and internal control and management so as to promote the development of the Company's business. The audit committee assessed the effectiveness of the internal control and risk management systems of the Company on behalf of the Board, covering the operating effectiveness and efficiency, the reliability of financial reporting and other matters. The audit committee is of the opinion that, as at 30 June 2017, adequate and effective internal control and risk management systems were maintained to safeguard the investments of the shareholders and the assets of the Company.

>>> CORPORATE GOVERNANCE

CONTINUOUS DISCLOSURE OBLIGATIONS REGARDING INSIDE INFORMATION

The Company has developed a system with established policies, process and procedure across all relevant divisions and departments for complying with the disclosure obligations regarding inside information. The Company will further improve the mechanism based on the operation and development of business and the new rules and regulations. During the reporting period, there was no divulgence 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.

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As at 30 June 2017, 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 (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 to in Appendix 10 of the Listing Rules.

INTERESTS 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, supervisors or chief executive of the Company) as recorded in the register required to be kept under section 336 of the SFO as at 30 June 2017:

Name of 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%

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

For the six months ended 30 June 2017, the Group did not purchase, sell or redeem any of the Company's listed securities.

»»» INFORMATION FOR INVESTORS

Financial Calendar

Announcement of interim results	30 August 2017
Dispatch of interim report to shareholders	14 September 2017

Interim Report

The Chinese and English versions of the interim report will be posted on the website of the Company (www.capinfo.com.cn) on 13 September 2017

SHARE REGISTRAR AND TRANSFER OFFICE

Domestic shares

China Securities Depository and Clearing Corporation Limited

Address: No. 17 Taipingqiao Street, Xicheng District, Beijing

Post Code: 100033

Tel.: (8610) 5937 8888

Fax: (8610) 5859 8977

H shares

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CONTACTS

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Grant Thornton

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**To the board of directors of Capinfo Company Limited
(established as a joint stock limited company in the People's Republic of China)**

INTRODUCTION

We have reviewed the interim financial report set out on pages 19 to 51 which comprises the condensed consolidated statement of financial position of Capinfo Company Limited (the "Company") and its subsidiaries (together the "Group") as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of the interim financial report in accordance with HKAS 34.

Our responsibility is to express a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

»»» INDEPENDENT REVIEW REPORT

SCOPE OF REVIEW

We conducted our review 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. A review of the interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with HKAS 34.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

30 August 2017

Lam Yau Hing

Practising Certificate No.: P06622

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME <<<

For the six months ended 30 June 2017

	Note	Six months ended	
		30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
Revenue	5	323,540	334,589
Cost of sales		(217,486)	(218,424)
Gross profit		106,054	116,165
Other income	6	18,181	13,372
Other gains and losses	7	(23,994)	(20,838)
Research and development costs		(19,550)	(13,341)
Marketing and promotional expenses		(32,407)	(34,141)
Administrative expenses		(35,605)	(38,981)
Finance costs	8	(2,865)	(23)
Share of results of associates		8,637	4,557
Profit before income tax		18,451	26,770
Income tax credit/(expense)	9	1,360	(2,011)
Profit for the period	10	19,811	24,759
Profit and total comprehensive income for the period attributable to			
– Owners of the Company		19,557	24,895
– Non-controlling interests		254	(136)
		19,811	24,759
Earnings per share for profit attributable to the owners of the Company during the period	12		
– Basic		RMB0.67 cents	RMB0.86 cents
– Diluted		RMB0.67 cents	RMB0.86 cents

Details of dividends payable to equity shareholders of the Company are set out in note 11.

CONDENSED CONSOLIDATED STATEMENT OF

FINANCIAL POSITION

As at 30 June 2017

	Note	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	13	177,518	167,645
Investment property	13	43,397	45,283
Goodwill		184,598	184,598
Intangible assets	14	18,442	21,695
Prepaid lease payments	15	18,182	25,322
Deposits paid on acquisition of property, plant and equipment		9,056	1,730
Interests in associates		132,474	130,134
Financial assets at fair value through profit or loss	16	151	3,565
Available-for-sale investments		971	971
Trade receivables	17	5,763	25,123
Deferred tax assets		31,030	28,737
		621,582	634,803
Current assets			
Inventories		29,965	23,116
Prepaid lease payments	15	10,256	7,373
Trade and other receivables	17	431,697	374,790
Amounts due from customers for contract works		95,633	96,661
Amounts due from related parties	23(iv)	26,069	37,150
Financial assets at fair value through profit or loss	16	17,000	–
Bank deposits		33,848	61,135
Bank balances and cash		471,721	510,063
		1,116,189	1,110,288

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Current liabilities			
Trade and other payables	18	308,192	359,363
Other financial liabilities	19	32,491	30,336
Amounts due to related parties	23(iv)	36,780	20,942
Amounts due to customers for contract works		338,969	291,362
Loan from government	23(v)	900	900
Income tax payable		13,301	23,974
		730,633	726,877
Net current assets		385,556	383,411
Total assets less current liabilities		1,007,138	1,018,214
Non-current liability			
Other financial liabilities	19	10,596	9,894
Net assets		996,542	1,008,320
Capital and reserves			
Share capital	20	289,809	289,809
Share premium and reserves		674,896	686,928
Equity attributable to owners of the Company		964,705	976,737
Non-controlling interests		31,837	31,583
Total equity		996,542	1,008,320

The interim financial report on pages 19 to 51 was approved by the board of directors on 30 August 2017 and is signed on its behalf by:

Mr. Xu Zhe
CHAIRMAN

Mr. Yu Donghui
EXECUTIVE DIRECTOR, CEO

CONDENSED CONSOLIDATED STATEMENT OF

CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company					Non-controlling interests	Total
	Share capital	Share premium	Statutory surplus reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016 (Audited)	289,809	254,079	64,243	308,772	916,903	139	917,042
Profit and total comprehensive income for the period	-	-	-	24,895	24,895	(136)	24,759
Disposal of partial interest in a subsidiary (note 22)	-	-	-	(1,458)	(1,458)	30,734	29,276
Dividend recognised as distribution (note 11)	-	-	-	(45,500)	(45,500)	-	(45,500)
At 30 June 2016 (Unaudited)	289,809	254,079	64,243	286,709	894,840	30,737	925,577
At 1 January 2017 (Audited)	289,809	254,079	72,207	360,642	976,737	31,583	1,008,320
Profit and total comprehensive income for the period	-	-	-	19,557	19,557	254	19,811
Dividend recognised as distribution (note 11)	-	-	-	(31,589)	(31,589)	-	(31,589)
At 30 June 2017 (Unaudited)	289,809	254,079	72,207	348,610	964,705	31,837	996,542

CONDENSED CONSOLIDATED STATEMENT OF

CASH FLOWS <<<

For the six months ended 30 June 2017

	Six months ended	
	30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
Net cash (used in)/generated from operating activities	(2,742)	19,507
Investing activities		
Interest received	1,319	1,766
Cash paid for acquisition of financial assets at fair value through profit or loss	(19,000)	–
Cash received from redemption of financial assets at fair value through profit or loss	2,000	–
Dividend received from an associate	6,297	4,407
Proceeds from disposal of property, plant and equipment	10	99
Cash paid for acquisition of property, plant and equipment	(34,955)	(15,407)
Cash paid for acquisition of intangible assets	(4,556)	(3,573)
Deposits paid for acquisition of property, plant and equipment	(7,499)	(43,658)
Repayment from related parties	236	1,682
Cash advanced to related parties	(6,731)	(761)
Withdrawal from bank deposits	39,634	23,653
Placement of bank deposits	(12,347)	(18,993)
Net cash used in investing activities	(35,592)	(50,785)
Financing activities		
Interest paid	(8)	(23)
Proceeds from disposal of partial interest in a subsidiary	–	11,710
Net cash (used in)/generated from financing activities	(8)	11,687
Net decrease in cash and cash equivalents	(38,342)	(19,591)
Cash and cash equivalents at beginning of the period	510,063	498,559
Cash and cash equivalents at end of the period, represented by bank balances and cash	471,721	478,968

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

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 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.

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

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.

The interim financial report for the six months ended 30 June 2017 has been prepared in accordance with the same accounting policies adopted in the Group's consolidated financial statements for the year ended 31 December 2016.

In the current interim period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2017. The application of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's interim financial report and amounts reported for the current interim period and prior years.

The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective. The directors anticipate that the application of these new standards, amendments and interpretations will have no material impact on the interim financial report.

4. 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.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

4. SEGMENT INFORMATION (CONTINUED)

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 2017 are approximately RMB301,141,000 (six months ended 30 June 2016: RMB280,869,000) (note 23(v)). Other than this, the Group has no customer which contributes more than 10% of the Group's consolidated revenue for both periods.

5. REVENUE

Revenue represents revenue generated from sales of goods, and income from technology service contracts during the current interim period. An analysis of the Group's revenue for the current interim period is as follows:

	Six months ended	
	30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
<i>Income from technology service contracts</i>		
Operation and maintenance service	199,265	204,447
System integration service	88,664	93,466
Software development service	27,229	35,122
Consulting service	1,376	1,526
	316,534	334,561
<i>Sales of goods</i>	7,006	28
	323,540	334,589

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

6. OTHER INCOME

An analysis of the Group's other income for the current interim period is as follows:

	Six months ended	
	30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
Gross rental income from investment property	6,684	6,881
Interest income from bank deposits	1,319	1,766
Imputed interest income from Build-and-Transfer ("BT") projects	619	1,248
Government grants (note 18)	9,530	3,298
Others	29	179
	18,181	13,372

7. OTHER GAINS AND LOSSES

	Six months ended	
	30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
Impairment losses on trade and other receivables	(19,089)	(14,679)
Fair value (loss)/gain on financial assets at fair value through profit or loss (note 24)	(3,414)	2,447
Fair value changes of contingent consideration payable	-	(7,346)
Gain/(Loss) on disposal of property, plant and equipment	10	(2,501)
Exchange (losses)/gains, net	(1,501)	1,241
	(23,994)	(20,838)

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

8. FINANCE COSTS

	Six months ended	
	30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
Finance cost for loan wholly repayable within five years	8	23
Amortisation of imputed interest expenses from consideration payable (note 19)	2,857	–
	2,865	23

9. INCOME TAX (CREDIT)/EXPENSE

	Six months ended	
	30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
PRC Enterprise Income Tax		
– Current period	6,480	4,032
– (Over)/Under provision in prior periods, net	(5,547)	999
Deferred tax credit		
– Current period	(2,293)	(2,692)
– Effect of change in tax rate	–	(328)
Income tax (credit)/expense	(1,360)	2,011

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”).

9. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

The Company accomplished the recordation of preferential EIT policies applicable to key software enterprises in the national planning layout for the years 2015 and 2016 in June 2017. According to the provision under the Notice on Enterprise Income Tax Policy to Further Encourage the Development of the Software and Integrated Circuit Industries (Caishui [2012] No. 27) that "key software enterprises in the national planning layout that have not enjoyed tax-free concessions in the year will be levied EIT at a reduced tax rate of 10%", the Company was therefore retrospectively entitled to a preferential tax rate of 10% for years 2015 and 2016. Accordingly, overprovision of EIT amounting to RMB6,183,000 (based on a previously 15% preferential rate) has been reversed in the current interim period.

The Company's subsidiary, 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.

Rito Info was accredited as a HTE 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 from 2016 to 2018.

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 RMB18,385,000 (31 December 2016: RMB16,723,000) 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 2022.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

10. PROFIT FOR THE PERIOD

	Six months ended	
	30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
Profit for the period has been arrived at after charging the following items:		
Directors', chief executive's and supervisors' remuneration	821	470
Other staff costs	79,832	87,575
Other staff's retirement benefit scheme contributions	10,360	10,686
	91,013	98,731
Less: Staff costs included in		
– research and development costs	(9,624)	(9,478)
– cost of sales	(39,039)	(44,566)
	42,350	44,687
Depreciation of property, plant and equipment	25,255	25,688
Depreciation of investment property	1,886	1,887
Total depreciation	27,141	27,575
Less: Depreciation included in		
– research and development costs	(2,641)	(916)
– cost of sales	(17,790)	(19,464)
	6,710	7,195
Amortisation of intangible assets	7,809	8,915
Operating lease rentals in respect of		
– cable network and office premises	27,002	22,928
Less: Operating lease rentals included in		
– research and development costs	(941)	(1,067)
– cost of sales	(20,614)	(14,583)
	5,447	7,278
Cost of inventories recognised as expenses	48,421	44,432
Share of tax of associates (included in share of results of associates)	959	1,407

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

11. DIVIDENDS

During the current interim period, a final dividend of RMB1.09 cents (pre-tax) per share in respect of the year ended 31 December 2016 was approved at annual general meeting on 26 May 2017. The aggregate amount of the final dividend approved in the current interim period amounted to RMB31,589,000 (2015 final dividend approved during the six months ended 30 June 2016: RMB1.57 cents (pre-tax) per share and amounted to RMB45,500,000).

The directors of the Company do not recommend the payment of any interim dividend for the current interim period (six months ended 30 June 2016: nil).

12. 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:

	Six months ended	
	30 June 2017	30 June 2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	19,557	24,895

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

12. EARNINGS PER SHARE (CONTINUED)

	Six months ended	
	30 June 2017 (Unaudited)	30 June 2016 (Unaudited)
Number of shares		
Number of ordinary shares for the purposes of basic and diluted earnings per share	2,898,086,091	2,898,086,091

Diluted earnings per share for the current interim period is the same as the basic earnings per share as there are no potential ordinary shares outstanding during the current interim period.

13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the current interim period, the Group incurred approximately RMB35,128,000 (six months ended 30 June 2016: RMB15,960,000) on the acquisition of property, plant and equipment.

As at 30 June 2017, the ownership title certificate of the Group's investment property with the carrying amount of RMB43,397,000 (31 December 2016: RMB45,283,000) had not been issued. In the opinion of the directors, the Group is entitled to lawfully and validly occupy and use the above-mentioned properties without incurring significant additional cost in obtaining the title certificate.

14. INTANGIBLE ASSETS

During the current interim period, the Group incurred approximately RMB4,556,000 (six months ended 30 June 2016: RMB3,573,000) on the addition of intangible assets.

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Current portion	10,256	7,373
Non-current portion	18,182	25,322
	28,438	32,695

Prepaid lease payments represent prepayments made by the Group for the rental of premises for a period from 1 to 6 years (31 December 2016: 1 to 7 years) for installation of wireless equipment for the government network projects.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Unlisted investments:		
<i>Non-current</i>		
Designated as at fair value through profit or loss – Equity securities (note a)	151	3,565
<i>Current</i>		
Designated as at fair value through profit or loss – Financial investment products and private investment fund (note b)	17,000	–
	17,151	3,565

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Note:

- (a) The above unlisted investment represents 2,771,484 shares (31 December 2016: 2,771,484 shares) of Series C-2 preferred stock of Mozido Inc. ("C-2 Stock") held by the Group. The fair value measurements information of the above unlisted investment is set out in note 24.
- (b) During the current interim period, the Group (i) invested RMB14,000,000 in financial investment products (the "Financial Products") managed by a bank in PRC of which RMB2,000,000 was redeemed and (ii) invested RMB5,000,000 in a private investment fund (the "Fund") managed by an independent fund company. As at 30 June 2017, the remaining balances of the Financial Products and the Fund amounted RMB12,000,000 (31 December 2016: nil) and RMB5,000,000 (31 December 2016: nil) approximate to their fair value.

Approximately 60%, 22% and 18% of the Financial Products with carrying amount of RMB5,000,000 were invested in assets management plans, debentures and interbank borrowings. Approximately 37%, 28% and 35% of the Financial Products with carrying amount of RMB7,000,000 were invested in debentures, assets management plans and reverse purchases respectively. The expected maximum annualised rate of return was 5.30%.

The Fund invested not less than 90% in a private equity fund managed by the independent fund company and the remaining portions were invested in bank deposits and fixed income products. The return of investment in the Fund is variable and will be determined by the performance of such private equity fund, and the interest rates of bank deposits and fixed income products.

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

17. TRADE AND OTHER RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Total trade receivables	434,132	375,423
Less: Impairment losses	(77,532)	(58,433)
	356,600	316,990
Less: Non-current portion which is shown in non-current assets	(5,763)	(25,123)
	350,837	291,867
Other receivables and prepayments	26,974	28,898
Deposits for technology service contracts	54,698	54,847
Less: Impairment losses	(812)	(822)
	80,860	82,923
Trade and other receivables shown in current assets	431,697	374,790

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 30 June 2017 and 31 December 2016, presented based on the date of delivery of goods or the billing date of contract works and net of impairment losses:

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Age		
0 to 6 months	131,513	184,821
7 to 12 months	161,850	54,439
Over 1 year	63,237	77,730
	356,600	316,990
Less: Non-current portion	(5,763)	(25,123)
	350,837	291,867

18. TRADE AND OTHER PAYABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade payables	80,107	106,569
Deferred income arising from government grants (note)	20,831	28,250
Other payables	55,834	51,147
Accrued expenses	89,682	96,750
Payroll and welfare payables	38,813	66,227
Dividends payable to shareholders other than ultimate holding company	11,590	–
Advance from customers	11,335	10,420
	308,192	359,363

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

18. TRADE AND OTHER PAYABLES (CONTINUED)

Note:

The balance represents the balance of government grants received. The Group received government grants of RMB2,111,000 (six months ended 30 June 2016: RMB8,249,000) during the current interim period for certain technology research activities and recognised RMB9,530,000 (six months ended 30 June 2016: RMB3,298,000) (note 6) in other income in the current interim period.

The following is an aging analysis of trade payables at 30 June 2017 and 31 December 2016, which is presented based on the date of material or service received or the billing date of contract works:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Age		
1 year	42,520	63,953
1 to 2 years	11,839	16,846
2 to 3 years	4,010	4,050
Over 3 years	21,738	21,720
	80,107	106,569

Included in trade payables are retention payables of RMB791,000 (31 December 2016: 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.

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

19. OTHER FINANCIAL LIABILITIES

	Balance of consideration payable RMB'000	Contingent consideration payable RMB'000	Total RMB'000
At 1 January 2016 (Audited)	–	119,693	119,693
Fair value changes of contingent consideration payable	–	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 (Audited)	40,230	–	40,230
Amortisation of imputed interest expenses (note 8)	2,857	–	2,857
At 30 June 2017 (Unaudited)	43,087	–	43,087

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Amount due within one year included under current liabilities	32,491	30,336
Amount due after one year included under non-current liabilities	10,596	9,894
	43,087	40,230

On 12 November 2014, the Group acquired 100% issued capital of Rito Info. As at 30 June 2017, the balance payable of undiscounted amount of all future payments that the Group could be required to pay under this arrangement is RMB45,440,000 (31 December 2016: RMB45,440,000).

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

20. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid RMB'000
	Domestic shares	H shares	
Balance of share capital of RMB0.10 each per share at 1 January 2016, 31 December 2016 and 30 June 2017	2,123,588,091	774,498,000	289,809

21. CAPITAL COMMITMENTS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment		
Contracted but not provided for	11,882	9,495
Authorised but not contracted for	35,208	33,120
	47,090	42,615

»»» NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

22. DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

On 3 May 2016, the Company entered into an agreement with 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 continued to be consolidated in the Company’s consolidated financial statements and the Disposal was accounted for as an equity transaction.

The difference between the consideration of approximately RMB29,276,000 and the carrying amount of non-controlling interests of RMB30,734,000 was recorded in retained profits.

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

23. RELATED PARTY DISCLOSURES

(i) Transactions with fellow subsidiaries

Fellow subsidiary	Nature of transactions	Note	Six months ended	
			30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
Capnet	Income earned by the Group for providing the network system and related maintenance services	(a)	5,330	5,222
Beijing IC Design Park Co., Ltd. ("BIDP")	Rental expenses for office premises	(b)	5,335	5,748
Beijing Petroleum Exchange Co., Ltd. ("Beijing Petroleum Exchange")	Income earned by the Group for providing hardware, software and related equipment management service	(c)	-	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	(d)	-	1,095

»»» NOTESTO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

23. RELATED PARTY DISCLOSURES (CONTINUED)

(i) Transactions with fellow subsidiaries (Continued)

Note:

(a) On 30 December 2015, the Company and Capnet, and Capinfo Technology and Capnet entered into a comprehensive services agreement and a network service agreement respectively for a term of three years from 1 January 2016. The service income of RMB5,330,000 (six months ended 30 June 2016: RMB5,222,000) was recognised during the current interim period.

(b) 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 RMB5,335,000 (six months ended 30 June 2016: RMB5,748,000) have been recognised during the current interim period.

(c) 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. No service income (six months ended 30 June 2016: RMB66,000) was recognised during the current interim period.

(d) 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 no income (six months ended 30 June 2016: RMB1,095,000) was recognised during the current interim period.

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

23. RELATED PARTY DISCLOSURES (CONTINUED)

(ii) Transactions with an associate

An associate	Nature of transactions	Six months ended	
		30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
Beijing Certificate Authority Co., Ltd.	Software development and providing related technical services to the Group	465	573
	Income earned by the Group for sales of products and provision of services	157	–

(iii) Transactions with ultimate holding

Ultimate holding	Nature of transactions	Six months ended	
		30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)
BSAM	Income earned by the Group for providing information technology operation and maintenance services	142	–

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

23. RELATED PARTY DISCLOSURES (CONTINUED)

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Amounts due from related parties:		
Trading in nature:		
Fellow subsidiaries	13,424	26,688
Associates	–	54
	13,424	26,742
Non-trading in nature:		
Fellow subsidiaries	12,354	10,117
Associates	191	191
Ultimate holding	100	100
	12,645	10,408
	26,069	37,150

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

23. RELATED PARTY DISCLOSURES (CONTINUED)

(iv) Amounts due from related parties and amounts due to related parties (Continued)

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Amounts due to related parties:		
Trading in nature:		
Fellow subsidiaries	14,681	14,728
Associates	1,832	1,688
	16,513	16,416
Non-trading in nature:		
Fellow subsidiaries	249	13
Associates	2	2,172
Ultimate holding	20,016	2,341
	20,267	4,526
	36,780	20,942

Non-trading balances with related parties are unsecured, non-interest bearing and repayable on demand.

The Group allows the same credit period to related parties as other trade customers. As of 30 June 2017, the amounts due from related parties with trading in nature of RMB1,667,000 are aged over 180 days (31 December 2016: RMB6,811,000).

As of 30 June 2017, no amounts due to related parties with trading in nature are aged over one year (31 December 2016: nil).

»»» NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

23. RELATED PARTY DISCLOSURES (CONTINUED)

(v) 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 provided E-Government technology services of approximately RMB301,141,000 (six months ended 30 June 2016: RMB280,869,000) (note 4) to other government-related entities and the PRC government for the current interim period. 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 30 June 2017, loan from government of RMB900,000 (31 December 2016: RMB900,000) was borrowed from the Financial Bureau of Beijing which is unsecured, repayable on demand and bears interest at annual interest rate of 1.80% (31 December 2016: 1.80%), and the Group has incurred interest expenses of approximately RMB8,000 (six months ended 30 June 2016: RMB23,000) in the current interim period.

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.

23. RELATED PARTY DISCLOSURES (CONTINUED)

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

Except for trade and other receivables of approximately RMB302,154,000 (31 December 2016: RMB269,332,000), amounts due from customers for contract works of approximately RMB66,957,000 (31 December 2016: RMB80,275,810), amounts due to customers for contract works of approximately RMB283,793,000 (31 December 2016: RMB217,390,000) as at 30 June 2017, those transactions as disclosed above, and certain balances disclosed in respective notes to the interim financial report, the directors of the Company are of the opinion that transactions and balances with these government-related entities are not significant to the Group's operations.

(vi) Compensation of key management personnel

The short-term benefits paid or payable by the Group to directors of the Company and other members of key management during the six months ended 30 June 2017 are approximately RMB2,372,000 (six months ended 30 June 2016: RMB2,127,000).

The post-employment benefits paid or payable by the Group to directors of the Company and other members of key management during the six months ended 30 June 2017 are approximately RMB285,000 (six months ended 30 June 2016: RMB230,000).

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities measured at fair value in the condensed 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.

The level in the fair value hierarchy within which the recurring fair value measurement of financial asset or financial 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 30 June 2017				
Financial assets				
Financial assets at fair value through profit or loss (note 16)	–	17,000	151	17,151
As at 31 December 2016				
Financial assets				
Financial assets at fair value through profit or loss (note 16)	–	–	3,565	3,565

During the six months ended 30 June 2017 and year ended 31 December 2016, there were no transfers between Level 1, 2 and 3.

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Information about Level 2 financial assets' fair value measurements

The valuation technique of the Financial Products for the fair value measurement of financial assets at fair value through profit or loss is by referring to the price quotation from a bank in the PRC, which is determined with reference to the prices quote of debentures, asset management plans and reverse purchases, and interest rates of interbank borrowing managed by the bank in the PRC.

The valuation technique of the Fund for the fair value measurement of financial assets at fair value through profit or loss is by referring to the price quotation from an independent fund company, which is determined with reference to the interest rates of bank deposits and fixed income products, and price quote of a private equity fund managed by the independent fund company.

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:

	Financial assets at fair value through profit or loss RMB'000
Fair value at 1 January 2016	6,659
Changes in fair value	(3,094)
Fair value at 31 December 2016 and 1 January 2017	3,565
Changes in fair value (note 7)	(3,414)
Fair value at 30 June 2017	151

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (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 7.28 times (31 December 2016: 7.12 times)	The higher of the multiplier, the higher of the fair value, and vice versa
	Discount for 25% (31 December 2016: 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 27.06% (31 December 2016: 24.89%)	The higher of the volatility, the higher of the fair value, and vice versa
	Risk free rate of 1.54% (31 December 2016: 1.45%)	The higher of the risk free rate, the higher of the fair value, and vice versa

NOTES TO THE INTERIM FINANCIAL REPORT <<<

For the six months ended 30 June 2017

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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:

	Contingent consideration payable RMB'000
Fair value at 1 January 2016	119,693
Settled during the year	(88,635)
Changes in fair value	9,172
Reclassified to amortised costs	(40,230)
Fair value at 31 December 2016	-

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

DEFINITIONS

Abbreviation	Full name
Group	the Company and its subsidiaries
Capinfo/Company/the Company	Capinfo Company Limited
Capinfo Hong Kong	Capinfo (Hong Kong) Co., Ltd.
Capinfo Technology	Capinfo Technology Development Co., Ltd.
Rito Info	Rito Info Technology Co., Ltd.
BJCA	Beijing Certificate Authority Co., Ltd.
BSAM	Beijing State-owned Assets Management Co., Ltd.
Capnet	Capnet Company Limited
BIDP	Beijing IC Design Park Co., Ltd.
Beijing Petroleum Exchange	Beijing Petroleum Exchange Co., Ltd.
Guotong Xintai	Beijing Guotong Xintai Investment Management Company Limited
Aiyuhua Hospital	Beijing Aiyuhua Hospital for Children and Women
Hong Kong Registrars	Hong Kong Registrars Limited
CSDCC	China Securities Depository and Clearing Corporation Limited
Grant Thornton	Grant Thornton Hong Kong 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
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
the Stock Exchange	The Stock Exchange of Hong Kong Limited
INED	Independent Non-executive Director
Reporting Period	the period from 1 January 2017 to 30 June 2017



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