

CAPINFO

Capinfo Company Limited

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

(Stock Code : 1075)



**Sheer Endeavor,
Crowning Glories**
2017 Annual Report



CONTENTS

2	Company Profile
3	Financial Highlights
4	Corporate Information
6	Shareholding Structure
7	Corporate Structure
8	Event Highlights
9	Honors and Qualifications
12	Chairman's Statement
15	Management Discussion and Analysis
27	Profiles of Directors, Supervisors and Senior Management
33	Directors' Report
48	Independent Non-executive Directors' Report
51	Supervisors' Report
54	Corporate Governance Report
83	Investors Relations
93	Auditors' Report
99	– Consolidated Balance Sheet
102	– Consolidated Income Statement
104	– Consolidated Cash Flows Statement
106	– Consolidated Statement of Changes in Equity
107	– Notes to the Financial Statements
231	Definition
232	Feedback on Annual Report

COMPANY PROFILE

Founded in January 1998, Capinfo Company Limited (“Capinfo” or “the Company”) is a state-owned IT company whose controlling shareholder is BSAM. Capinfo was listed on the GEM of the Hong Kong Stock Exchange in December 2001, and transferred its listing to the Main Board of the Hong Kong Stock Exchange in January 2011.

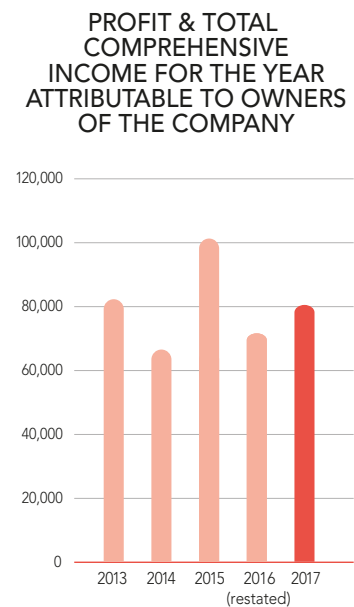
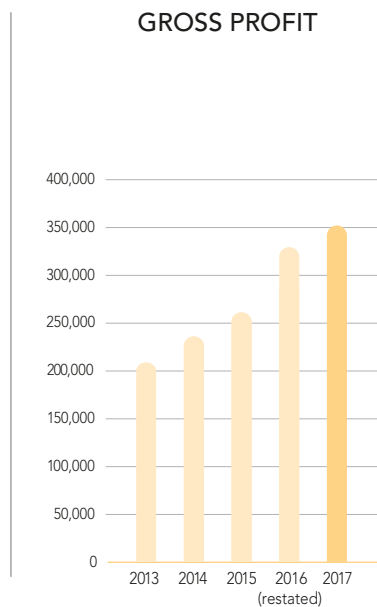
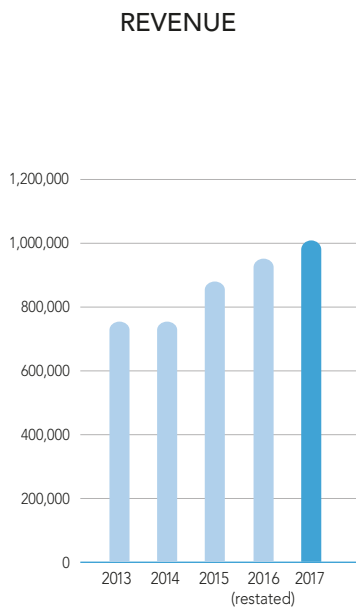
Capinfo has, through its professional IT service capability and high level of social responsibility, contracted the construction, operation and maintenance of various national key information technology application projects and livelihood projects. This form an IT service mode with unique features, with the businesses of integrated network platform of government affairs, Capinfo Cloud Platform and the innovative big-data service platform as the support. The Company will develop with its efforts in the five types of businesses, which are the smart government affair service, smart livelihood service, smart city management, smart medical and health service, and smart enterprise innovation. With “growing into a leading smart city service provider” as its goal, Capinfo will commit to achieve its corporate mission of realizing fully “innovative plant service, smarter city and easier life”.



FINANCIAL HIGHLIGHTS

Unit: RMB'000

	2013	2014	2015	2016	2017
				(Restated)	
During the Reporting Period					
Revenue	754,830	756,810	879,473	949,506	1,008,307
Gross profit	208,335	235,065	260,713	327,147	351,532
Profit and total comprehensive income for the year attributable to owners of the Company	81,433	66,993	101,542	71,642	81,130
Earnings per share (RMB cents)					
From continuing and discontinued operations					
– Basic	2.81	2.31	3.50	2.50	2.80
Dividends per share (RMB cents)					
– Interim dividend	–	–	–	–	–
– Final dividend	1.30	1.06	1.57	1.09	1.25
During the year					
Total assets	1,156,977	1,510,376	1,629,237	1,754,685	1,817,783
Net assets	816,895	846,218	917,042	1,008,320	1,061,884
Current liabilities	340,082	550,003	674,210	706,766	736,265
Financial Ratio					
Net gearing ratio (%)	0.44	2.68	0.20	0.09	0.08
Current ratio (times)	2.14	1.57	1.51	1.63	1.70



CORPORATE INFORMATION

MEMBERS OF THE BOARD

Executive Directors

Ms. Lin Yankun (*Party Secretary and
Chairman of the Board of Directors*)
Mr. Yu Donghui (*Chief Executive Officer*)

Non-executive Directors

Dr. Feng Haocheng
Mr. Cao Jun
Mr. Zhou Weihua
Mr. Shan Yuhu
Ms. An Lili

Independent Non-executive Directors

Mr. Yang Xiaohui
Mr. Gong Zhiqiang
Mr. Cheung, Wai Hung Boswell
Mr. Li He

AUDIT COMMITTEE

Mr. Yang Xiaohui (*Chairman*)
Mr. Gong Zhiqiang
Mr. Cheung, Wai Hung Boswell
Mr. Li He

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Gong Zhiqiang (*Chairman*)
Ms. Lin Yankun
Mr. Yang Xiaohui

NOMINATION COMMITTEE

Ms. Lin Yankun (*Chairman*)
Mr. Gong Zhiqiang
Mr. Cheung, Wai Hung Boswell

STRATEGY COMMITTEE

Ms. Lin Yankun (*Chairman*)
Mr. Yu Donghui
Dr. Feng Haocheng
Mr. Li He

BOARD OF SUPERVISORS

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

AUTHORISED REPRESENTATIVES

Ms. Lin Yankun
Mr. Yu Donghui

SECRETARY OF THE COMPANY

Mr. Lu Lei (*Vice President*)
Ms. Koo Ching Fan

SECRETARY OF THE BOARD

Mr. Lu Lei (*Vice President*)

LEGAL REPRESENTATIVE

Lin Yankun

COMPANY WEBSITE

www.capinfo.com.cn

H SHARE STOCK CODE

1075

REGISTERED ADDRESS

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

PRINCIPAL BANKERS

Bank of China

CORPORATE INFORMATION

LEGAL ADVISOR

PRC law advisor

Tian Yuan Law Firm

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

Hong Kong law advisor

Morrison & Foerster

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

SHARE REGISTRAR AND TRANSFER OFFICE

China Securities Depository and Clearing
Corporation Limited (Domestic Shares)

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

Post Code: 100033

Tel.: (8610) 59378888

Fax: (8610) 58598977

Hong Kong Registrars Limited (H Shares)

Address: Rooms 1712-1716, 17/F, Hopewell
Centre, 183 Queen's Road East, Wanchai,
Hong Kong, PRC

Tel.: (852) 28628523

Fax: (852) 28650990

CONTACTS

Principal Place of Business in the PRC

Address: 12th Floor, Quantum Silver Plaza, No.
23 Zhi Chun Road, Haidian District,
Beijing 100191 PRC

Tel.: (8610) 88511155

Fax: (8610) 82358550

Contact Place in Hong Kong

Address: Unit B, 1st Floor, Neich Tower,
128 Gloucester Road, Wanchai,
Hong Kong, PRC

Tel.: (852) 28200700

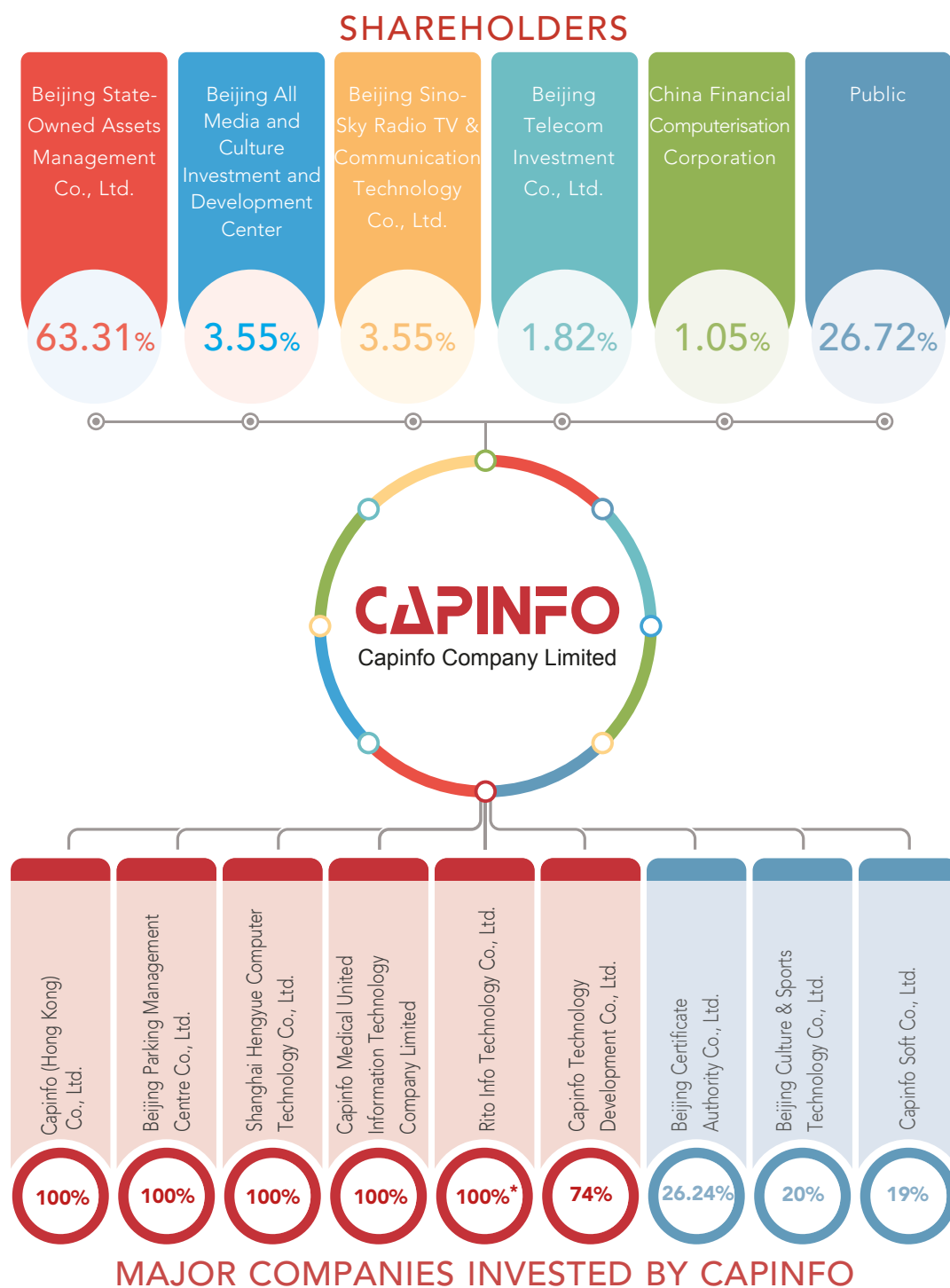
Fax: (852) 28274836

AUDITORS

Grant Thornton (special general partnership)

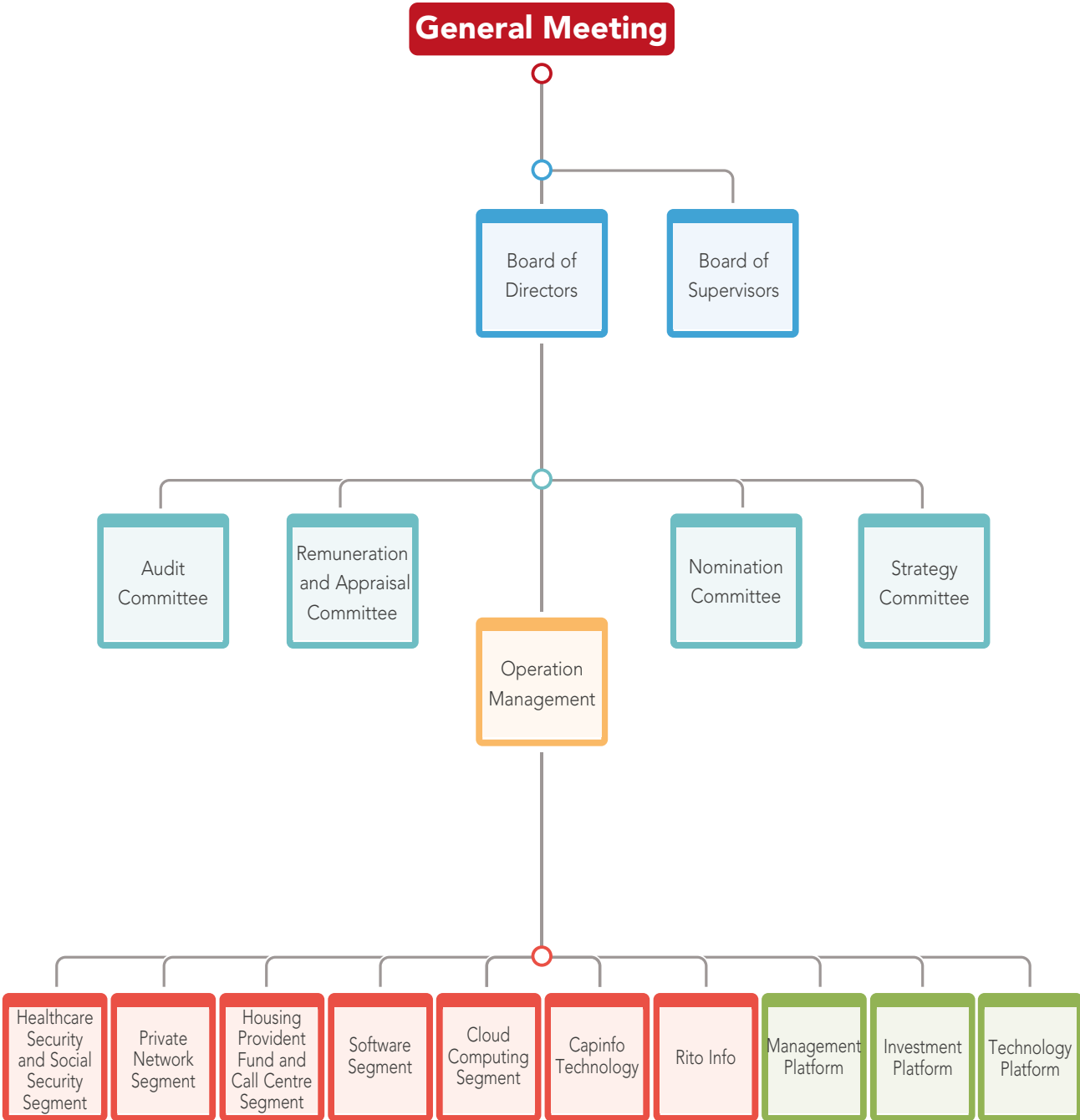
Address: 5th Floor, Scitech Place,
22 Jianguomen Wai Avenue,
Chaoyang District,
Beijing 100004 PRC

SHAREHOLDING STRUCTURE



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

CORPORATE STRUCTURE



EVENT HIGHLIGHTS



JANUARY

The Company won the bid for the project of the construction project of Beijing Points System for Household Registration.



FEBRUARY

The Party Secretary and the Chairman of the Board of Directors of BSAM Yue Peng visited the Company with his team for studies and research.



MARCH

The Capinfo Institute of the Company held a ceremony of renewing the employment of visiting professors, and 12 experts from San Jose University (聖荷塞大學) were employed as the visiting professors of the Capinfo Institute.



APRIL

The completion was followed by that the system development and testing related to the comprehensive reform of separation of clinic from pharmacy in Beijing were successfully put into operation, trainings and enhanced instructions and the system of the designated medical organizations were officially put into operation and covered for running the works in three phases.



JULY

Capinfo Technology won the bid for the project of the network construction project in the park areas of the Beijing Subsidiary City Center.



AUGUST

The Company held a signing ceremony for the "Jianbaolife Cooperation Agreement" with the Taikang Insurance Group.



JUNE

The Company held the signing ceremony of the "Capinfo Politics and Law Comprehensive Governance Network Operating and Maintenance Project" (首都政法綜合網運維項目) with the Beijing College of Politics and Law.



MAY

The Company successfully completed the protection works of the International "Belt and Road" Forum.



SEPTEMBER

The Company won the bid for the application demonstration project for the Network of Public Security Video Surveillance (公共安全視頻監控建設聯網) in the Dongcheng District.



OCTOBER

During the 19th National Congress, the Company successfully completed technical protection missions for various significant infrastructures and the information system such as the designated data networks of the government and the Internet of Things, the Medical Insurance System and the Social Security Card Project of Beijing, EBeijing, the Capinfo Enterprises Cloud and so on.



NOVEMBER

The Party Secretary and Chairman of the Board of Directors, Lin Yankun led a team to attend an exchange seminar of the Supreme People's Court.



DECEMBER

The Capinfo Hebei Xiongan Branch Company (首都信息河北雄安分公司) was incorporated.

HONORS AND QUALIFICATIONS

- The Company and the Party Secretary and Chairman Lin Yankun were respectively awarded the “Top 10 Leading Enterprises of IT service in China 2017” (「2017年中國IT服務十大領軍企業」) and “Top 10 Leading Persons of IT service in China 2017” (「2017年中國IT服務十大領軍人物」)
- The Company was ranked as one of the “China Top 100 Internet Enterprises 2017” (「2017年中國互聯網百強企業」)
- The Company was awarded the “Preferred Information Service Provider in China 2017” (「2017中國信息化首選服務商」)
- The Company was awarded the “Innovative Enterprise of Cloud Computing in China 2017” (「2017中國雲計算創新企業」)
- The Company was awarded the “Top 100 Enterprises with Overall Strength in Software and Information Service Industry in Beijing 2017” (「2017北京軟件和信息服務業綜合實力百強企業」)
- The Company was awarded the “Beijing Innovative and Extraordinary Employer of the Year 2017” (「2017北京年度創新非凡僱主」)
- The Company was presented the “WAPI Standard Award for Industry Promotion in 2017” (「2017年度WAPI標準產業促進獎」)
- The Company was ranked as one of the “China Top 100 Solution Providers in 2017” (「2017年中國方案商百強」)
- The Company was presented the CMMI Level 5 Certificate (CMMI5級證書), which represents the highest maturity level
- The Company obtained the highest certification level (level 1) of Information Technology Service Standard (ITSS) (信息技術服務標準ITSS最高級1級認證)
- The Company obtained the Certificate for the Standard of ITSS Cloud Computing Service Capability (ITSS雲計算服務能力標準證書) (public cloud and private cloud)
- Beijing-China Website (首都之窗) had won the first prize of the Provincial Government Website Performance Assessment (省級政府網站績效評估) for 11 consecutive years
- The website, <http://www.bj148.org/>(首都政法綜合網), built and operated by the Company was ranked as the Most Influential “Internet + Government and Legal Services” Platform in China 2017 (2017年度中國最具影響力「互聯網+政法服務」平台)





CHAIRMAN'S STATEMENT



DEAR SHAREHOLDERS,

On behalf of the Board of Directors, I hereby present to you the 2017 annual report of Capinfo Company Limited. In 2017, the 19th National Congress of the Communist Party of China was convened successfully, where the goals of fully establishing a prosperous society and beginning a new journey to fully form a modern socialist country were proposed. Capinfo enjoys favorable strategic opportunities as China has ushered in a new era and a new journey in the history of development. The past year was also an extraordinary one for Capinfo. The Group was in the middle of a major transformation while facing the complex and changing external environment, changes in the leadership and the increasingly fierce industry competition. In response to the

CHAIRMAN'S STATEMENT

complicated situation and various challenges, the Group encouraged all its staff to “liberate the mind and achieve outstanding performance”. Having a positive and motivated attitude, our united staff withstood pressure and overcame challenges. They directly confronted problems with enhanced confidence and determination, thereby accelerating the Group’s development towards a “leading service provider in smart city operation”. Various works had shown significant results. The Group as a whole has lifted itself to a new level and entered into a new phase. During the Reporting Period, the Group recorded a revenue of RMB1,008.31 million, representing an increase of 6.19% as compared with the corresponding period of last year. Profit attributable to owners of the Company amounted to RMB81.13 million, representing an increase of 13.24% as compared with the corresponding period of last year.

In the past year, the new generation of our smart information infrastructure achieved higher levels of security and reliability, with remarkable results in the business segments of smart government affair service, smart livelihood service, smart city management, smart medical and health service, and smart enterprise innovation. Having won the bid for the construction project of Beijing Sub-center administration office network, Capinfo made further achievement in the core market of the E-governance sector. The Group provided the total integration service of public security surveillance in Dongcheng District, strengthening and expanding itself in terms of the security and prevention area of Smart City Management. The Group undertook the informatization work of various major projects and was recognized for its outstanding performance, which included the points-based household registration management of Beijing, the comprehensive reform for separation of medicine and pharmacy, the “five certificates-in-one” system transformation, the unification and reform for the new medical care business of urban and rural residents, the settlement of interprovincial medical treatment, etc. Capitalizing on the opportunities, the Group made the decision to establish a branch in Xiong’an, Hebei, which laid a foundation for contributing to the national strategy for Xiong’an New Area in Hebei. In addition, the Group studied the possibility for setting up Capinfo Medical United Information Technology Company Limited, with a view to establishing presence in the blue ocean of the smart medical and health service sector. With a focus on brand promotion, the Group stepped up marketing efforts. The Group successively received various awards and recognitions, such as Leading Enterprise and Leading Person of IT Service in China 2017, Preferred Information Service Provider in China, Innovative Enterprise of Cloud Computing Technology in China, China Top 100 Internet Enterprises, Top 100 Enterprises with Overall Strength in Software and Information Service Industry in Beijing, etc. The Group was also awarded Level 5 International Certification for Software Maturity (CMMI) and Level 1 Certification for Information Technology Service Standard (ITSS), both of which were the highest certification levels.

CHAIRMAN'S STATEMENT

During the Reporting Period, the Group placed emphasis on the implementation of strategic goals, systematically adjusting the organizational structure to meet the needs of strategic development. With a focus on the integration and enhancement of technological capability, the Group established its overall technological platform which included product research and development, software delivery, etc. The Group spared no effort to maximize profit by increasing the investment in audit, strengthening project management and enhancing financial management and control. The Group also aimed to raise staff morale and expand the market by actively carrying out reforms to improve performance and the remuneration system. Based on the principle of "fair reward and punishment", an incentive program was formulated for the quantitative evaluation of market business expansion, boosting the motivation and determination of all our staff to expand the market. The outsourcing system was optimized to enhance the management level of outsourcing and further prevent corruption risks. Through a series of measures for adjusting and reforming the systems and mechanisms, the overall management level of the Group was raised with its overall competitive edges strengthened.

2018 is the 20th anniversary of Capinfo's establishment. Setting footing on the new and historical starting point during the 20th anniversary, the Group will pass on its constructive mission of "Digital Beijing" to polish the brand of smart city services. The Group is committed to create the integrated network platform of government affairs, Capinfo Cloud Platform and the city's data center which follow closely the clients' needs. The Group will build a new generation of smart infrastructure specially featured by Capinfo. Basing at the capital city, the Group devotes its efforts to the five highlighted business segments, i.e. smart government affair service, smart livelihood service, smart city management, smart medical and health service, and smart enterprise innovation. This will lead to the refinement and promotion of the generally-applied products and services available to the smart city and will establish a national development layout. All staff members of the Group persisted in working hand in hand to make Capinfo a leading service provider in smart city operation. A new era with new achievements has begun!

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

By order of the Board of Directors

Ms. Lin Yankun
Chairman

Beijing, the PRC
28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2017, China intensively implemented the strategies of “Prosper Country via Internet”, “Digital China” and “Smart Society” and promoted the thorough integration of internet, big data, artificial intelligence and real economy. The informatization of Beijing achieved the full upgrade from “Digital Beijing” to “Smart Beijing”, bringing the city to a new phase of smart development. With numerous favorable opportunities for the development of the software and information technology industries, the management, guided by “13th Five-Year” strategic development plan, planned and prepared for the reform in institutional mechanism in view of the Company’s forthcoming 20th anniversary. Remarkable results were obtained again thanks to the close cooperation of all staff members. While building a new generation of smart infrastructure to adapt to the smart city market, the Group focused on the innovative development of the five business segments, i.e. smart government affair service, smart city management, smart medical and health service, smart livelihood service and smart enterprise innovation, to establish a national presence. The Group achieved healthy business development and made a new step in transformation and innovation. During the Reporting Period, the Group recorded an operating revenue of RMB1,008.31 million, representing an increase of 6.19% as compared with the corresponding period of last year; and profit attributable to owners of the Company of RMB81.13 million, representing an increase of 13.24% as compared with the corresponding period of last year.

During the Reporting Period, the Group maintained growth in overall revenue and profit. The overall scale of revenue of core businesses reduced as compared with the same period of last year, mainly attributable to the delay in the relevant project service schedule, which led to a decrease in revenue in the current period. The faster growth rate of the new businesses is mainly due to the relatively smooth operation of the market businesses. Cost and administrative expense of main businesses was well controlled with a growth rate lower than that of revenue, thus enhancing the Group’s overall performance.



Smart Infrastructure Service

During the Reporting Period, the integrated network platform of government affairs provided important support and protection. The steady operation of E-governance network successfully provided information technology support and protection for the 19th National Congress of the Communist Party of China and the "One Belt, One Road" Summit Forum. The Internet of Things data website of government affairs undertook over 70 wireless applications including city management, major event protection, emergency handling and livelihood service. Having won the bid for the construction project of Beijing Sub-center administration office network, Capinfo made contribution to the construction of Beijing Sub-center. Capinfo Cloud Platform provided



service for Supreme People’s Court, Beijing High People’s Court, Beijing Municipal Bureau of Press, Publication, Radio, Film and Television, etc. through hybrid cloud service assessment which combined the ITSS public cloud and the private cloud. The construction of cloud platform for state-owned enterprises was completed, which was supported by the “Innovative Cloud Platform in Beijing, Tianjin and Hebei” project of State-owned Assets Supervision and Administration Commission of Beijing. The application project of medical insurance big data was kick-started to achieve real-time monitoring of medical insurance business, multi-dimensional data analysis, macro support for decision-making and other business objectives. The experimental use of big data technology was gradually turned into actual application.

The establishment of the company level technology platform CAPINFO EA V2.0 was completed, and its application to provident fund sector, cloud sector and software sector obtained good results. The next step will be promoting its application to various sectors in order to achieve cost reduction and efficiency enhancement, thereby improving the overall technological capability of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Smart Government Affair Service

Ranked first in the national government website rating for 11 consecutive years, Beijing-China Website Clusters made the Company one of “China Top 100 Internet Enterprises”. The business of government affair service in the ministry, commission and national level was further developed. While the construction of the national civil servant data center was completed, systematic training was given to national ministries and commissions as well as provinces and cities including the United Front Work Department, the Ministry of Public Security, Beijing and Guizhou, which established a channel for the managing business of national personnel information. The software product of “Process Management System for Smart Government Affairs” was developed and quickly applied to the project of “Yihaotong” (一 號 通) livelihood service platform in Zhongwei, Ningxia. The implementation process of the project was shifted from customization to productization. The international energy project of Xinhua News Agency was checked and accepted, which became the first comprehensive, complete and timely big data service platform built in China for the energy industry.

Smart City Management

During the Reporting Period, the Group won the bid for the total integration service of public security surveillance in Dongcheng District, making substantial progress in city security and protection. With continuous efforts in the environmental business, the Group undertook the information operation and maintenance service project and the fundamental data management service project of soil monitoring for the Environmental Monitoring Center. The Group successfully entered into service agreements with eight districts in Beijing in relation to the municipal QR code management system. Such service adopted a new business model where the Group provided the “Internet + Smart City” facilities management software free of charge and the government purchased the collection and management service of municipal facilities information. The Group also helped Beijing Municipal Commission of City Management to implement the transport management system of construction waste collection vehicles, which would be fully monitored in an automated and delicate manner. By doing so, the production of PM2.5 was effectively controlled, and air quality and environment amenity were thus improved.





Smart Medical and Health Service

Medical insurance business plays an important role in social welfare, reform and protection. During the Reporting Period, the medical insurance system and the social security card system operated safely and stably with an increasing number of urban and rural residents becoming cardholders. The total number of social security cards issued reached 21 million. The completed transformation of the medical insurance system supported the adjustments in municipal medical service fees and the catalogue for diagnosis and treatment, with a view to ensuring the smooth implementation of the comprehensive reform for separation of medicine and pharmacy in Beijing. The “five-in-one” system transformation was completed, combining the social insurance registration certificate number and the organization code of the participating enterprises in Beijing into a unified social credit code. The unification of the medical insurance systems of urban and rural residents was also completed. The Group carried out various works in an organized manner regarding the settlement of interprovincial medical treatment with the integrated testing completed, covering the medical cases in and out of Beijing from 23 provinces and 53 cities and to 19 provinces and cities.

MANAGEMENT DISCUSSION AND ANALYSIS

The business model of commercial insurance settlement platform achieved breakthroughs. Focused on software, the platform provided operational service based on the “one platform for multiple clients” model. It charged clients fees depending on data traffic, which offered a new revenue model for commercial development. The business of Beijing hospital medical card ran steadily with 11.45 million cards issued in total and 35 hospitals covered, 261 pharmacies with the service of establishing information systems.

Smart Livelihood Service

During the Reporting Period, the Group entered into agreements in respect of the core business system development project of provident fund in Shanghai as well as the upgrade and transformation projects of provident fund in Nanning and Baise, making new progress in the national industrialized development of provident fund. The steady operation of “Beijing Provident Fund Cloud” firmly secured the operation and testing of the new system. By using face recognition, provident fund business in Guangzhou and Nanning enabled the handling of provident fund-related matters through the WeChat public account and the mobile application. The maintenance work of provident fund system in Chongqing and Yichang was completed; and in Chongqing, the comprehensive management system of provident fund was being built as planned. Points-based household registration of Beijing and other livelihood businesses were pushed forward smoothly. Credit platform was established and put into operation in Beijing and pilot credit programs were carried out in the three districts of Mentougou, Tongzhou and Shunyi. The Group completed relevant work to provide technical support for the various examinations and appraisals of civil servants, including recruitment examination, qualification examination, occupational skill assessment, title appraisal, etc. The Group also completed the transformation of the online public service platform as required by the Beijing Municipal Human Resources and Social Security Bureau, which facilitated the implementation of “Internet + human resources and social security” in the area of employment service.

Smart Enterprise Innovation

The cloud business for state-owned enterprises was further developed. A cloud communication platform of state-owned assets was established to meet the requirements of State-owned Assets Supervision and Administration Commission of Beijing as well as the business needs for “information to be reported in the three levels of county, city and province” of 56 first-class municipal enterprises and 32 enterprises under central and local administrations during the sensitive period of the 19th National Congress. The Group entered into strategic cooperation agreements with Tong Ren Tang Group, One Light Group and International Cooperation Center in respect of the provision of a variety of turnkey informatization, consultation and cloud services, which facilitated the strategic transformation of the enterprises towards “internet + industry”. With Guangdong Tobacco as the pilot, the Group promoted third-party payment business and received commission from inter-bank payment, expanding into the business of corporate fintech service system.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group initiated four patent applications which were accepted by the State Intellectual Property Office. As of 31 December 2017, the Group was authorized seven patents as accumulated. During the Reporting Period, the Group registered 268 software copyright items in total as accumulated.

The Group Management and Control

During the Reporting Period, the Group further standardized the systems of equity investment management, subsidiary management and financing management, as well as strengthening the control of the parent company over subsidiaries. With a view to meeting the future development needs of the Company, the Articles of Association were amended and Chinese accounting standards were consistently applied. A subsidiary engaged in medical information business was established to accelerate the penetration into the medical and health information market. A branch was established in Xiong'an to serve Xiong'an New Area in the construction of information infrastructure for government affairs. The liquidation of the subsidiary, Capinfo Hangyuan, was completed, which lightened the historical burden and streamlined the operation.

Looking Forward

2018 is the 20th anniversary of Capinfo's establishment. Setting footing on the new and historical starting point during the 20th anniversary, the Group will pass on its constructive mission of "Digital Beijing" to polish the brand of smart city services. The Group is committed to create the integrated network platform of government affairs, Capinfo Cloud Platform and the city's data center which follow closely the clients' needs. The Group will build a new generation of smart infrastructure specially featured by Capinfo. Basing at the capital city, the Group devotes its efforts to the five highlighted business segments, i.e. smart government affair service, smart livelihood service, smart city management, smart medical and health service, and smart enterprise innovation. This will lead to the refinement and promotion of the generally-applied products and services available to the smart city and will establish a national development layout.

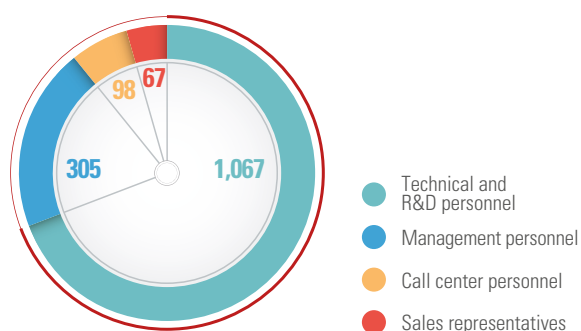
Human Resources

As of 31 December 2017, the Group had 1,537 employees (2016: 1,508 employees), including 1,067 technology and research and development employees (2016: 981 employees), 305 function management personnel at all levels (2016: 329 employees), 98 call center representatives (2016: 114 employees), and 67 sales staff (2016: 84 employees). Expense of the Group's employees was approximately RMB309.66 million (2016: RMB274.6 million).

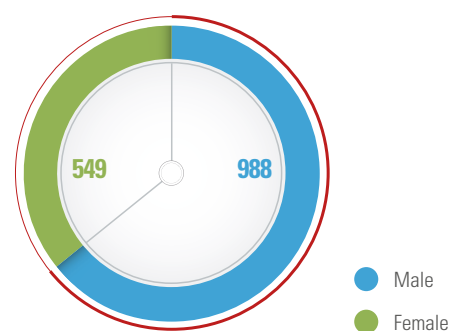
To secure the implementation of the "13th Five-Year" strategic plan, the Group carefully studied the adjustment plan of organizational structure and remuneration system. While actively recruiting top-notch technology experts and talents, the Group formulated an incentive program for the expansion of all businesses to promote the development of new markets, new clients and new projects. Meanwhile, with a focus on the quantitative evaluation of expansion results, the Group offered positive incentives based on responsibilities and results, creating a fair system of reward and punishment.

MANAGEMENT DISCUSSION AND ANALYSIS

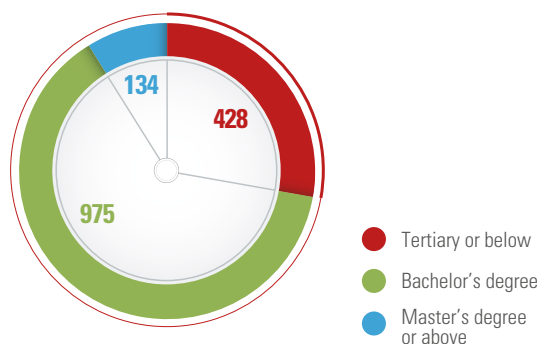
Statistical distribution chart of employees by functions



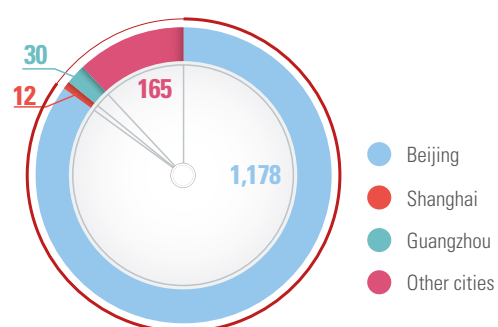
Statistical distribution chart by sex



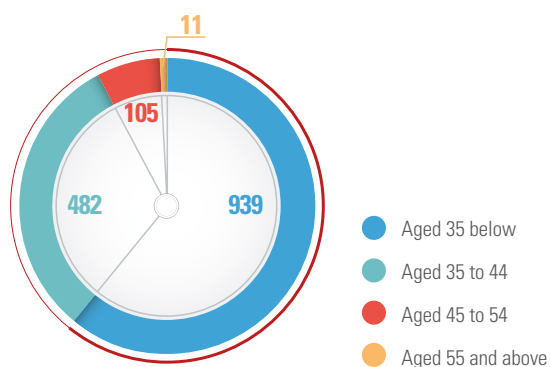
Statistical distribution chart by education



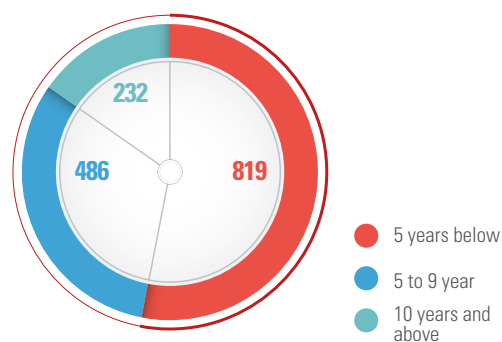
Statistical distribution chart by geographical areas



Statistical distribution chart by age



Statistical distribution chart by service years



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2017, the Group recorded an operating revenue of RMB1,008.31 million, representing an increase of 6.19% as compared with the same period of last year. The Group recorded a gross profit of RMB351.53 million, representing an increase of 7.45% as compared with the same period of last year, and profit attributable to the shareholders of RMB81.13 million, representing an increase of 13.24% as compared with the same period of last year.

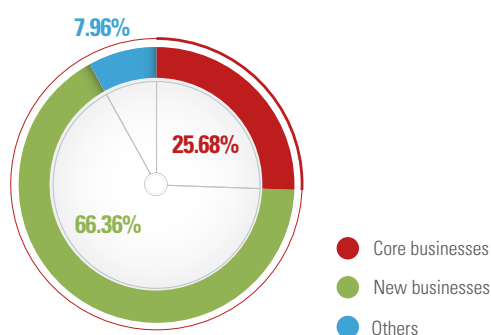
In 2017, the core business of the Group accumulated an operating revenue of RMB258.92 million, representing a decrease of 17.98% as compared with the corresponding period of last year, accounting for 25.68% (2016: 33.25%) of the total operating revenue of the Group; costs of core business was RMB203.74 million, representing a decrease of 12.57% as compared with the corresponding period of last year, accounting for 31.02% (2016: 37.44%) of the total costs of the Group. The core businesses of the Group mainly include government projects for smart city businesses constructed on the basis of various government projects the E-Governance network and the Internet of Things platform, the smart livelihood businesses such as the Beijing Medical Insurance Information System and projects such as the Beijing Social Security Card System as well as the Beijing-China website clusters and community service information system. In addition, an operating revenue derived from the core businesses for market expansion amounted to RMB669.16 million, representing an increase of 26.26% over the corresponding period of last year, accounting for 66.36% (2016: 55.82%) of the total operating revenue of the Group. In 2017, revenue of other principal businesses of the Group amounted to RMB62.09 million, representing a decrease of 29.90% over the corresponding period of last year, accounting for 6.16% of the total operating revenue of the Group (2016: 9.33%); costs of other principal businesses was RMB27.72 million, representing a decrease of 33.59% over the corresponding period of last year, accounting for 4.22% of the total costs of the Group (2016: 6.71%).

MANAGEMENT DISCUSSION AND ANALYSIS

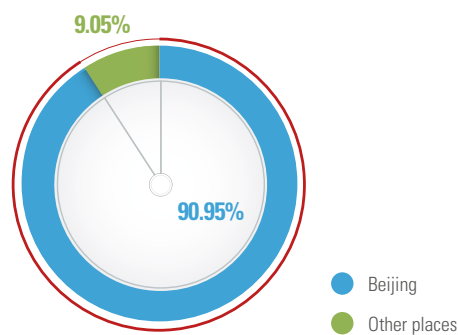
Other income of the Group amounted to RMB18.12 million, representing an increase of 18.78% over the corresponding period of last year, mainly due to the income from project research and development and property rent, where income from project research and development was RMB4.44 million, representing an increase of 44.71% over the corresponding period of last year. Digital Beijing Building's rental income was RMB13.56 million, representing an increase of 12.12% over the corresponding period of last year.

In the current year, the profit or loss from fair-value changes of the Group amounted to a loss of RMB3.56 million, representing a decrease of gains of RMB4.80 million compared to the corresponding period of last year, mainly attributable to the fair-value changes in the Series of C-2 Stock held. During the current year, the investment revenue amounted to RMB63.18 million, representing an increase of RMB42.20 million compared to the corresponding period of last year, mainly attributable to the payment of income tax of RMB40.81 million arising from the disposal of PayEase's equities with the amounts set aside by Capinfo Hong Kong of this year as well as the investment income of RMB40.81 million recognized at the same time; in the current year, the impairment loss of the assets amounted to RMB33.73 million, representing an increase of impairment provision of RMB4.63 million compared to the corresponding period of last year.

Composition of income



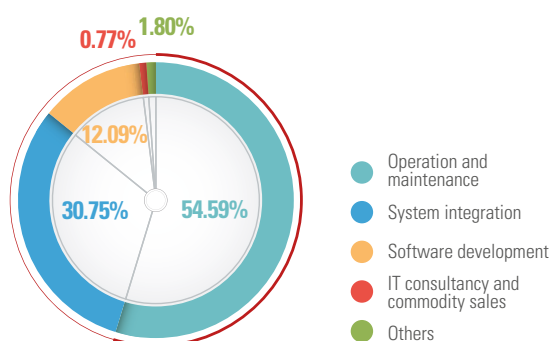
Geographical distribution of source of income



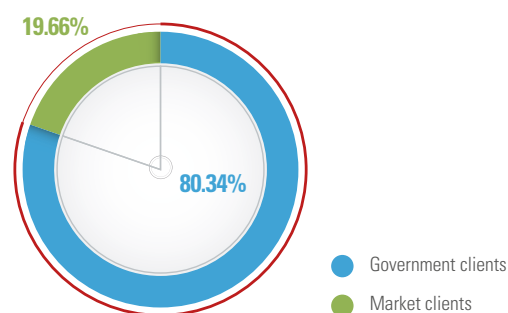
MANAGEMENT DISCUSSION AND ANALYSIS

In respect of the Group's business model, the main businesses included operation and maintenance, system integration, software development, IT consultancy and sales of goods, of which revenue from operation and maintenance amounted to RMB550.48 million, representing an increase of 9.57% as compared with the corresponding period of last year and accounting for 54.59% (2016: 52.91%) of the total operating revenue of the Group; revenue from system integration amounted to RMB310.06 million, maintaining stable as compared with the corresponding period of last year and accounting for 30.75% (2016: 32.90%) of the total operating revenue of the Group; revenue from software development amounted to RMB121.88 million, representing an increase of 2.05% as compared with the corresponding period of last year and accounting for 12.09% (2016: 12.58%) of the total operating revenue of the Group; revenue from IT consultancy and sales of goods totaled RMB7.76 million, and accounting for 0.77% of the total operating revenue of the Group. In addition, in respect of the classification of industries which the clients of the Company are engaged in, government clients of the Group accounted for the largest share, with 80.34% (2016: 86.83%) of clients being the government clients. In respect of regions of business distribution, the operating revenue of the Group was still derived mainly from the Beijing region currently, which accounted for 90.95% (2016: 87.57%) of the total operating revenue.

Business model



Customer distribution



MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditure, Liquidity and Financial Resources

As of 31 December 2017, the Group had total assets amounting to RMB1,817.78 million, representing an increase of 3.60% as compared with the corresponding period of last year. Equity attributable to shareholders of the parent company amounted to RMB1,026.26 million, representing an increase of 5.07% as compared with the corresponding period of last year. The Group's current ratio, defined as total current assets over total current liabilities, was 1.70, maintaining stable as compared with the corresponding period of last year; while the net gearing ratio, defined as total borrowings over net assets, stayed at a relatively low level of less than 3%. For the year ended 31 December 2017, the Group had no pledged assets.

The Group's unsecured loan from government of RMB0.90 million was applied for construction of the Group's E-commercial platform from Beijing Finance Bureau in 2002, bearing an average annualized interest rate of 1.8%. Bank deposits, bank balance and cash of the Group amounted to RMB676.52 million, representing an increase of 18.44% over the corresponding period of last year. The fund was mainly derived from the net inflow of cash flow realized in the ordinary market businesses which made rapid progress in market expansion.

Equity Investments

In 2017, the Group's share of results of associates was RMB22.20 million, representing an increase of 5.85% over the corresponding period of last year, which was mainly due to the contribution from BJCA.

Income Tax

In 2017, the Company has been recognized as a key software enterprise in the national planning layout to enjoy a tax preference. The Enterprise income tax of the Company was imposed at a reduced rate of 10%. In the current year, the payable income tax expenses amounted to RMB55.11 million, representing an increase of RMB44.45 million compared to the corresponding period of last year, mainly attributable to the increase in the operating profit and the payment of income tax of RMB40.81 million arising from the disposal of PayEase's equities with the amounts set aside by Capinfo Hong Kong during the current year.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Lin YanKun

Party Secretary and Chairman



Yu Donghui

Chief Executive Officer

Ms. Lin Yankun (Party Secretary and Chairman), aged 43, was appointed as executive director, member of Remuneration and Appraisal Committee in January 2017. She has been recommended and elected to be the Chairman of the Board of Directors of the Company on October 2017, and she is also serving as the Chairman of the Strategy Committee and the Nomination Committee and a director of Capinfo Hong Kong, a wholly owned subsidiary, in charge of leading the Board and ensure the Board to operate efficiently under the best interests of the Company as a whole. In November 2016, she joined the Company as Party Secretary. Prior to joining the Company, Ms. Lin served as the minister of disciplinary inspection supervision in BSAM. Ms. Lin also held various positions in Beijing Municipal Committee Office, including deputy director of the research department and the Secretary of The League Committee. Ms. Lin has a wealth of business management experience. Ms. Lin graduated from Peking University in 2006 with a master's degree in civil and commercial law.

Mr. Yu Donghui (Chief Executive Officer), aged 45, was appointed as executive director and member of the Strategy Committee in January 2017. In November 2016, he was promoted to Chief Executive Officer of the Company. He also served as Chairman of Capinfo Technology, a subsidiary, and executive director of the Parking Management, a wholly owned subsidiary, responsible for the overall operation and management, the implementation of the policies and operation objectives established by the Board of Directors. Mr. Yu graduated from Tsinghua University in 1999 with a master degree in materials processing engineering and joined the Company in the same year. He previously served as general manager of the network technology service center, business director and vice president of the Company with extensive experience in enterprise and technique management.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Feng Haocheng

Non-Executive Director



Cao Jun

Non-Executive Director



Zhou Weihua

Non-Executive Director

Dr. Feng Haocheng, aged 32, was appointed as non-executive Director since January 2016. Dr. Feng is also a member of the Strategy Committee. He currently serves as assistant to the general manager of Beijing Industrial Development Investment Management Co., Ltd. (北京工業發展投資管理有限公司). Dr. Feng worked for the technology and modern manufacturing industry investment division of BSAM and China Aerospace Investment Holdings Ltd.. Dr. Feng graduated from Beihang University and majored in freight vehicle design with a doctorate degree in 2012.

Mr. Cao Jun, aged 47, was appointed as non-executive Director since January 2016, and served as non-executive Director during January 2009 to December 2011. Mr. Cao is currently the deputy director of the business management department of Beijing Radio and Television. He worked for the Beijing City Business School, Beijing Municipal Bureau of Media Network, Beijing BAMC Entertainment Group, Beijing Media Network and "Support Tibet Command in Beijing" (北京援藏指揮部). Mr. Cao graduated from University of Political Science & Law in 1992 with a bachelor degree in laws.

Mr. Zhou Weihua, aged 56, a professional senior engineer, was appointed as non-executive Director since June 2015. He is currently the chairman and general manager of Beijing Sino-Sky Radio TV & Communication Technology Co. Ltd., the sponsor shareholder of the Company and had served as the director and deputy chief engineer of the Research Department in Aerial Design of the Radio, Film & TV Design and Research Institute and engaged in development, design and management of antenna of radio and television communications for many years. He graduated from Peking University Guanghua School of Management in July 2005 where he received a management master's degree.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Shan Yuhu

Non-Executive Director



An Lili

Non-Executive Director



Yang Xiaohui

Non-Executive Director

Mr. Shan Yuhu, aged 56, senior accountant, was appointed as non-executive Director since June 2015. He is currently the general manager and director of Beijing Telecom Investment Co., Ltd., the sponsor shareholder of the Company and had served as the head of Financial Department of the Beijing Telegraph Bureau (北京電報局財務科), head of the Financial Department of the Beijing Long Distance Telephone Bureau (北京長途電話局財務處), the chief accountant of Beijing Suburban Telecommunication Bureau (北京市郊區電信局) and deputy general manager of the Financial Department of China Unicom, Beijing branch.

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

Mr. Yang Xiaohui, aged 50, is a senior accountant, certified public accountant, certified tax agent, and certified public valuer (non-practicing member), appointed as an independent non-executive director, Chairman of the Audit Committee and members of the Remuneration And Appraisal Committee in November 2016. He is now the partner of the Ruihua Certified Public Accountants and holds concurrent position as independent non-executive director of Beijing Jingcheng Machinery Electric Company Limited, a company listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange. He was a teacher of North China University of Technology, department manager of Zhonghengxin Certified Public Accountants, partner of RSM China Certified Public Accountants. He has extensive experience in auditing and financial management. Mr. Yang graduated from the North China University of Technology with a bachelor degree in Accountancy in 1991.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Gong Zhiqiang

Independent Non-Executive Director

Mr. Gong Zhiqiang, aged 46, was appointed as independent non-executive Director since June 2009 and is also the chairman of the Remuneration and Appraisal Committee of the Company and a member of the Audit Committee and Nomination Committee. Mr. Gong is currently a managing partner of Beijing S&P Law Firm and independent director of Beijing Municipal Road and Bridge Group Co., Ltd. (北京市政路橋集團有限公司). Mr. Gong previously worked in the Intermediate People's Court of Handan Municipality, Hebei Province and Beijing Hylands Law Firm. He has extensive experience in control of corporate legal risks. Mr. Gong graduated from Hebei University with a master degree in laws in 1995.



Cheung Wai Hung

Independent Non-Executive Director

Mr. Cheung, Wai Hung Boswell, aged 48, a non-practicing member of the HKICPA, a qualified accountant of the CPA Australia. Mr. Cheung was appointed as the independent non-executive director in June 2015, and is a member of the Audit Committee and Nomination Committee. Mr. Cheung is currently the Chief Financial Officer of K. Wah Real Estates Co., LTD and an audit committee member of Agora Hospitality Group Co., Ltd. (a company listed on the Tokyo Stock Exchange). Mr. Cheung once served as the Chief Financial Officer of Far East Consortium International Limited (a company listed on the Hong Kong Stock Exchange), the chief operating officer and company secretary of Integrated Waste Solutions Group Holdings Limited, senior advisor of China Pacific Insurance (Group) Co., Ltd., and also held audit posts in Deloitte Touche Tohmatsu and Ernst & Young. Mr. Cheung graduated from the University of Leicester, UK with an MBA degree in 1995, and obtained a master's degree in professional accounting from the Southern Cross University, Australia in 2007.



Li He

Independent Non-Executive Director

Mr. Li He, aged 45, was appointed as independent non-executive director, members of the Audit Committee and the Strategy Committee of the Company in May 2016. Mr. Li is currently the global vice president of ISSI Beijing. He was once the deputy general manager of Synopsys, Inc. (China region) and an officer of CAD centre in Beijing Institute of Control Engineering. Mr. Li graduated from Tsinghua University and obtained a bachelor's degree in Precision Instrument and Mechanism in 1996, and graduated from China Academy of Space Technology and obtained a master's degree in Computer Application in 1999.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Di Guojun

Chairman to the Board of Supervisors



Liang Xianjun

Supervisor



Lang Jianjun

Supervisor

Mr. Di Guojun, aged 56, was appointed as supervisor representing Shareholders since June 2012 and was elected by supervisors as Chairman to the Board of Supervisors. Mr. Di is currently the external chief financial controller of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. Mr. Di was the manager of the Financial Department of China Merchants International Travel Corporation, manager of the Financial Department and assistant to general manager of China Merchants International Tourism Administration Corporation, and general manager of the Finance and Audit Department and financial director of BSAM. Mr. Di graduated from Northwest University in 1986 where he received a bachelor degree in tourism economics.

Mr. Liang Xianjun, aged 41, was appointed as Supervisor representing Shareholders since June 2014. Mr. Liang is currently the general manager of the audit division of BSAM. Mr. Liang previously served as the accountant of Beijing Automotive Research Institute, the financial executive of the capital of finance division of China Oceanwide Holdings Co., Ltd. (中國泛海建設控股股份有限公司) and deputy general manager of Beijing Artists Management Corp., Ltd. He has gained extensive experience in financial management. Mr. Liang graduated from the Accounting Department of Beijing Jiaotong University in 2001 and obtained bachelor degree.

Mr. Lang Jianjun, aged 48, acted as supervisor elected by staff representatives in June 2015 and is currently the manager of the medical insurance business department of the network technology service center of the Company. Prior to joining the Company, Mr. Lang had served for Electronic Technology Intelligence Institution of the Ministry of Information Industry (信息產業部電子科技情報所). Mr. Lang graduated from Xian University with a master degree in Computer Organisation and Architecture in 1995.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



Gong Chengliang

Senior Management



Lu Lei

Senior Management

Mr. Gong Chengliang, aged 46, joined the Company in April 1999, is currently the vice-president and also the chairman of Rito Info Technology Co., Ltd., being a wholly owned subsidiary of the Company, mainly responsible for the coordination and management of product research, IT planning and advisory, cloud service, housing information and enterprise informatization and in charge of the quality management works of the Company, and has extensive experience in technology and project management. Mr. Gong graduated from the Department of Precision Instruments and Mechanology of Tsinghua University with a master degree in 1999 and joined the Company in the same year. He previously held various positions in the Company including general manager of the technical support center and technical director.

Mr. Lu Lei, aged 38, joined the Company in June 2014 and was appointed as joint company secretary in December 2017. He is currently the vice president and the secretary of the Board, and also an executive director of our wholly-owned company, Capinfo Medical United Information Technology Company Limited, and a director of Beijing Certificate Authority Co., Ltd. He is responsible for equity investment and management, capital management, information disclosure, maintaining investor's relationship, auditing, and other related works. Before joining the Company, he worked as planning manager of Beida Jade Bird Huayu International Information Technology Training Centre, project manager of Beijing Dayue Consulting Co., Ltd. and senior project manager of the Investment Department of technology and modern manufacturing industry investment division of BSAM. Mr. Lu was appointed as non-executive Director since June 2012 to June 2015 and also executive Director since June 2015 to January 2017. Mr. Lu received a bachelor degree in mathematics and applied mathematics from Fudan University in 2003, and master degree of the Business School of Nankai University in 2016.

DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

A discussion on the business development and prospect of the Group during the Year are provided in the "Chairman's Statement" on pages 12 to 14 and "Management Discussion and Analysis" on pages 15 to 26 of this annual report respectively. A description of the major risks factors and uncertainties that the Group may be facing and the financial risk management objectives and policies are provided in note 8 to the financial statements. An analysis of the Group's performance during the Year using financial key performance indicators is provided on page 3 of "Financial Highlights" of this annual report. In addition, compliance with relevant laws and regulations which have a significant impact on the Group and the relationships with its stakeholders are contained on pages 54 to 82 of "Corporate Governance Report" and pages 83 to 92 of "Investors Relations" of this annual report respectively. The Group acts in a manner responsible for the environment, trying to comply with laws and regulations concerning environmental protection, and take effective measures to achieve efficient use of resources, energy conservation and waste reduction. Further details will be disclosed in the Environmental, Social and Governance Report of 2017 of the Company.

RESULTS AND DIVIDEND APPROPRIATION

The results of the Group for the year ended 31 December 2017 are set out in the Consolidated Income Statement on pages 102 and 103 of this annual report.

The Directors recommend the payment of a final dividend of RMB1.25 cents (2016: RMB1.09 cents) per share with the dividend payment amount totalling RMB36.2 million in respect of the year ended 31 December 2017 (2016: RMB31.6 million).

During the Reporting Period, the Directors do not recommend the payment of any interim dividend (2016: Nil).

DIRECTORS' REPORT

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in item 32 under note V to the financial statements on page 191 of this annual report.

FINANCIAL HIGHLIGHTS

A summary of the results and the assets and liabilities of the Group for the year ended 31 December 2017 and the past four financial years is set out in "Financial Highlights" on page 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment acquired by the Group during the Reporting Period are set out in item 15 and 16 under note V to the financial statements on page 181 to 182 of this annual report.

INVESTMENT PROPERTY

The investment property owned by the Group is situated at No. 12 Beichen West Road, Chaoyang District, Beijing, which is the office property on the fifth and sixth floor of Block A of Digital Beijing Building, with a gross floor area of approximately 5,386 sqm. The property is currently leased out. Pursuant to the committed tenancy agreement, for the period from 20 December 2015 to 19 April 2018, the leased area is 5,386 sqm, and it will be 2,693 sqm from 20 April 2018 to 19 April 2020. Details of the movements of the investment property of the Group during the Reporting Period are set out in item 14 under note V to the financial statements on page 180 of this annual report.

SHARE OPTIONS

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

EQUITY-LINKED AGREEMENTS

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

MEMBERS OF THE BOARD

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

Executive Directors

Ms. Lin Yankun (*Chairman, appointed as an Executive Director in January 2017, and elected as the Chairman in October 2017*)

Mr. Yu Donghui (*Chief Executive Officer, appointed in January 2017 as executive director*)

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

Non-executive Directors

Dr. Feng Haocheng

Mr. Cao Jun

Mr. Zhou Weihua

Mr. Shan Yuhu

Ms. An Lili

Mr. Xu Zhe (*resigned in October 2017*)

Independent Non-executive Directors

Mr. Yang Xiaohui

Mr. Gong Zhiqiang

Mr. Cheung, Wai Hung Boswell

Mr. Li He

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

INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

As of 31 December 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 ("SFO") (Cap. 571 of the Laws of Hong Kong)) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred in Appendix 10 of the Listing Rules.

DIRECTORS' REPORT

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

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

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

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

INTEREST OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors are not aware of any other interests and short positions in shares and underlying shares of the Company of any person (other than Directors or chief executive of the Company) as recorded in the register required to be kept under section 336 of the SFO as at 31 December 2017:

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

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, the aggregate purchases attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total purchases. The aggregate revenue attributable to the Group's five largest customers accounted for approximately 43.30% of the Group's total revenue, among which, the largest customer attributed approximately 37.96% of the Group's total revenue.

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

COMPETING INTERESTS

None of the Directors or the management shareholders (as defined in the Listing Rules) of the Company and their respective associates had any interest in a business which competes with the Company or may compete with the business of the Group.

MATERIAL LITIGATION AND ARBITRATION

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

PERMITTED INDEMNITY PROVISION

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

CONNECTED TRANSACTIONS

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

I. Continuing connected transactions exempted from independent shareholders' approval

Unit: RMB million

No.	Description of transactions	Counterparty	Type	Annual Cap	Transaction amount for the year
1	Provision of network system operation and relevant operation and maintenance services	Capnet Company Limited	Income	11.3	11.3
2	Purchase of hardware and related services		Expenses	8.0	0.09
3	Provision of network system operation and relevant operation and maintenance services	Beijing Certificate Authority Co., Ltd.	Income	6.0	2.3
4	Lease of office premises	Beijing IC Design Park Co., Ltd.	Expenses	11.5	11.5

DIRECTORS' REPORT

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

1. Continuing Connected Transactions between Capinfo Technology and Capnet

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

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

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

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

2. Continuing Connected Transactions between the Company and Capnet

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

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

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

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

3. Consolidation

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

DIRECTORS' REPORT

(II) Continuing connected transaction for hardware and related services purchase

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

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

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

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

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

As approved at the 14th meeting of the sixth session of the Board of the Company, the Company and BJCA extended the term of the existing Technical Services Framework Agreement on 7 February 2017 to re-engage BJCA to assist in developing network security system and products and to provide related technical services with a term expire on 31 December 2019. The Board of Directors approved that each annual caps for the year from 2017 to 2019 was RMB15.0 million, RMB10.0 million and RMB9.0 million.

In the same year, as approved at the 19th meeting of the sixth session of the Board of the Company, on 30 August 2017, the Company and BJCA signed a Supplemental Agreement on the basis of the Technical Services Framework Agreement to provide network technical services and products with a term expire on 31 December 2019. The Board of Directors approved that each annual cap for the year from 2017 to 2019 was RMB6.0 million. The transaction was exempt from the independent shareholders' approval. The Company had complied with the reporting and announcement requirements under the Listing Rules and the relevant announcement of which was posted on the websites of the Stock Exchange and the Company.

Connected relationship:	The Company and its controlling shareholder BSAM held approximately 26.24% and 26.24% interests in BJCA, respectively.
Transaction background:	BJCA is principally engaged in the electronic certification business and technology development and related services in respect of information security, having obtained an outstanding business scale in the industry. To ensure the provision of a more stable, secure and efficient services for their clients, the Company is engaged to provide network technical services and products.
Voting:	None of the Directors (including the Independent Non-executive Directors) had any material interest in the above transaction. Moreover, the Directors were of the view that the transaction was carried out in the ordinary course of business of the Company on normal commercial terms, and the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole. On the Board resolution date, the Directors who are employees of BSAM, a related party had abstained from voting on the resolution.

DIRECTORS' REPORT

(IV) Continuing connected transaction for the office lease

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

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

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

Connected relationship:	BIDP is a wholly-owned subsidiary of the Company's controlling shareholder, BSAM.
Transaction background:	BIDP is the National IC Design Beijing Industrial Base recognized by the Ministry of Science and Technology of China, providing comprehensive services to IC enterprises including professional technical service, training, financial support and office lease. BIDP is located in a centre of technology companies in Haidian District, Beijing with convenient transportation, high quality of building and reasonable rent level.
Voting:	None of the Directors (including the Independent Non-executive Directors) had any material interest in the above transactions. Moreover, the Directors were of the view that the transaction was carried out in the ordinary course of business of the Company on normal commercial terms, and the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole. On the above respective board resolution dates, the Directors who are employees of BSAM, a related party had abstained from voting on the resolution.

II. Continuing connected transaction required independent shareholders' approval

Unit: RMB million

Description of transactions	Counterparty	Type	Annual Cap	Transaction amount for the year
Purchase of network security system and services	Beijing Certificate Authority Co., Ltd.	Expenses	55.0	3.4

As approved at the 14th meeting of the sixth session of the Board of the Company, the Company and BJCA extended the term of the Technical Services Framework Agreement on 7 February 2017 to re-engage BJCA to assist in developing network security system and products and to provide related technical services with a term expire on 31 December 2019. The Board of Directors approved that each annual cap for the year from 2017 to 2019 was RMB15.0 million, RMB10.0 million and RMB9.0 million.

In the same year, as approved at the 19th meeting of the sixth session of the Board of the Company and at the extraordinary general meeting convened on 22 December 2017, the Company and BJCA adjusted the annual cap for the year 2017 to RMB55.0 million under the Technical Services Framework Agreement.

Pursuant to which, each approved annual cap for the year from 2017 to 2019 was RMB55.0 million, RMB10.0 million and RMB9.0 million, respectively. The Company had complied with the reporting, announcement and independent shareholder's approval requirements under the Listing Rules and the relevant information of which was posted on the websites of the Stock Exchange and the Company.

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

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

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

DIRECTORS' REPORT

INDEPENDENT AUDITOR'S CONCLUSION ON THE CONTINUING CONNECTED TRANSACTIONS

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

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

III. Connected transactions exempted from independent shareholders' approval

Unit: RMB million

No.	Description of transactions	Counterparty	Type	Contract amount	Transaction amount for the year
1	Provision of mailing system upgrading, server hosting, cloud-based computer support platform network upgrading	China Beijing Equity Exchange Co., Ltd. Beijing QYT Pay Sci-tech Co., Ltd.	Income	3.9	3.9
2	Project cooperation	Beijing Certificate Authority Co., Ltd. Beijing Anxintianxing Science Co., Ltd.	Cooperation	12.0	-

(I) Connected Transactions for Provision of Mailing System Upgrading, Server Hosting, Cloud-based Computer Support Platform Network Upgrading

As approved at the 18th meeting of the sixth session of the Board of the Company, the Company and China Beijing Equity Exchange entered into the Cloud-based Computer Support Platform Network Upgrading Agreement on 28 July 2017 at the contract amount of RMB1.9 million. Within 12 months before the execution of such agreement, the Company entered into the Mailing System Upgrading Agreement with China Beijing Equity Exchange at the contract amount of RMB0.4 million; and entered into the Server Hosting Agreement with Beijing QYT Pay Sci-tech* at the contract amount of RMB1.6 million. According to relevant regulations under the Listing Rules, the transactions above shall be calculated on a consolidation basis. The total amount was RMB3.9 million. The transaction was exempt from the independent shareholders' approval. The Company had complied with the reporting and announcement requirements under the Listing Rules and the relevant announcement of which was posted on the websites of the Stock Exchange and the Company.

Connected relationship:	China Beijing Equity Exchange is a subsidiary with 48.70% of equity interests controlled by BSAM, the controlling shareholder of the Company. Beijing QYT Pay Sci-tech* is a wholly-owned subsidiary of China Beijing Equity Exchange.
Transaction background:	Both China Beijing Equity Exchange and Beijing QYT Pay Sci-tech* are companies established in the PRC with limited liability. The relevant projects are awarded after bidding or arm's length negotiation with reference to the prevailing market price for similar products and services and the estimated cost to be incurred for the provision of the corresponding services.
Voting:	None of the Directors (including the Independent Non-executive Directors) had any material interest in the above transaction. Moreover, the Directors were of the view that the transaction was carried out in the ordinary course of business of the Company on normal commercial terms, and the terms of the transaction were fair and reasonable and in the interests of the shareholders of the Company as a whole. On the board resolution date, the directors who are employees of BSAM, a related party had abstained from voting on the resolution.

DIRECTORS' REPORT

(II) Connected Transactions under Project Cooperation

As approved at the 18th meeting of the sixth session of the Board of the Company, the Company and BJCA, Beijing Anxintianxing and six independent third parties entered into the Project Cooperation Agreement on 28 July 2017 to cooperate jointly for the project of "Service certification and key certification technology based on stated-developed cryptographic algorithm". The research expenses paid during the contract period was RMB12.0 million. The transaction was exempt from the independent shareholders' approval. The Company had complied with the reporting and announcement requirements under the Listing Rules and the relevant announcement of which was posted on the websites of the Stock Exchange and the Company.

Connected relationship: The Company and its controlling shareholder BSAM held approximately 26.24% and 26.24% interests in BJCA, respectively. Beijing Anxintianxing is a wholly-owned subsidiary of BJCA.

Transaction background: BJCA is principally engaged in the electronic certification business and technology development and related services in respect of information security, having obtained an outstanding business services scale in the industry. Beijing Anxintianxing is principally engaged in the provision of security system integration and software development. The Company and BJCA, Beijing Anxintianxing and six independent third parties entered into the Project Cooperation Agreement on normal commercial terms after arm's length negotiation.

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

CORPORATE GOVERNANCE

The corporate governance policies and practices of the Company are set out in "Corporate Governance Report" on pages 54 to 82 of this annual report.

AUDITORS

At the extraordinary general meeting of the Company held on 22 December 2017, the Shareholders approved the termination of the appointment of Grant Thornton Hong Kong Limited as the overseas auditor of the Company. Grant Thornton (Special General Partnership) has become the only auditor auditing the Company's financial statements in accordance with the China Accounting Standards for Business Enterprises and undertaken the role of overseas auditor in compliance with the Listing Rules.

Grant Thornton (Special General Partnership) will retire at the end of the forthcoming annual general meeting, and be eligible for re-appointment.

By Order of the Board

Ms. Lin Yankun
Chairman

Beijing, the PRC
28 March 2018

INDEPENDENT NON-EXECUTIVE DIRECTORS' REPORT

In 2017, as the independent non-executive directors of the Company (hereinafter referred to as "INEDs"), we participated in the operation and development of the Company with a work attitude of integrity, prudence, diligence and dedication. During the Board's decision-making process of the operation, we strictly comply with the requirements set out by the laws and regulations, the Articles of Association and the Articles of Independent Non-executive Directors. Performing our duties seriously, we safeguard the interests of the Company and the shareholders as a whole, especially those of the minority shareholders.

Our performance of duties in 2017 is reported as follows, which will also be reported to shareholders at the Annual General Meeting of the Company.

I. BASIC INFORMATION OF INEDS

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

II. PERFORMANCE OF DUTIES DURING THE YEAR

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

During the Reporting Period, we actively attended shareholders' general meetings and meetings of the Board, and had not raised any objection to the resolutions proposed on such meetings. At the shareholders' general meetings, we listened carefully to the questions and opinions raised by the participating shareholders on the operation of the Company, and paid attention to the voting for the resolutions concerning the legitimate interests of the minority shareholders and their subsequent implementation. On the meetings of the Board, we carefully considered each proposal and ensured that the voting for the resolutions complied with the principles of independence, fairness and objectivity with a view to safeguarding the continuous healthy development of the Company.

(ii) Operation of the professional committees under the Board

The Board has four professional committees, namely the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Strategy Committee. These committees are authorized to discuss and study in depth the major matters related to the development of the Company within the scope of responsibilities in accordance with respective Detailed Working Rules. On the meetings of the professional committees of the Board, leveraging the advantages of professional strengths, we provide professional advice in respect of the key issues over the areas such as strategies, finance and human resources of the Company. This serves as an important support for the Board to perform efficient decision-making.

III. MAJOR CONCERNS IN THE PERFORMANCE OF DUTIES BY INEDS

(i) Connected transactions and disclosure of information

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

(ii) External guarantees and appropriation of capital

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

(iii) Nomination and remuneration of directors

During the Reporting Period, based on the performance of the Company and with reference to relevant standards of remuneration for senior executives in the industry and specific performance of the Company's senior management, the Remuneration and Appraisal Committee made confirmation on the overall implementation of the Company's remuneration policies in 2016, and approved the bonus distribution proposal for senior management of the year 2016 and the basic annual salary proposal for senior management of the year 2017.

(iv) Appointment of auditor

During the Reporting Period, the Company's Board approved the termination of the appointment of Grant Thornton Hong Kong Limited as the overseas auditor of the Company; and Grant Thornton (Special General Partnership) shall be the only auditor performing the auditing of the Company's financial statements in accordance with the Accounting Standard for Enterprises of the PRC, which has been compliant with the Listing Rules to assume the responsibilities of an overseas auditor. The aforesaid had been submitted to the shareholders' general meetings for deliberation. The procedure of deliberation was compliant with the requirements of the laws and regulations and the "Articles of Association of the Company".

INDEPENDENT NON-EXECUTIVE DIRECTORS' REPORT

(v) Cash dividends and other returns to investors

The Company has continuously distributed cash dividends since 2008 with an accumulated amount of RMB402.6 million (including tax). The Company puts great emphasis on generating investment return for its shareholder, and will adhere to long-term and stable dividend policy.

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

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

In terms of compliant operation of business and effective corporate governance, during the year 2017, the Company had complied with applicable requirements of relevant laws, regulations and other normative documents promulgated by national governmental authorities. The INEDs did not raise any objection to the proposals put forward to the meetings of the Board and the meetings of their specialized committees. Entering into a new year, we expect the Company to implement innovative development, transformation and upgrade with efforts, and strengthen standardization, productization and popularization across the country, as well as expanding the market proactively, thereby creating splendid results.

Mr. Gong Zhiqiang, Mr. Cheung, Wai Hung Boswell, Mr. Li He and Mr. Yang Xiaohui
Independent Non-executive Directors

Beijing, the PRC
28 March 2018

SUPERVISORS' REPORT

In 2017, with an aim to substantially safeguard the interests of the Company and all shareholders, the Board of Supervisors duly and honestly performed its duties, according to the Companies Law of the People's Republic of China, relevant regulations and the requirements under the Articles of Association, to oversee the long-term corporate development planning, significant development projects, the Company's production and operation, financial conditions and the performance of duties of the Director and senior management for promoting the standardized operation and sound development of the Company. Details of our duty performance in the last year are set out as below:

I. MEETINGS OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Supervisory Committee signed meeting documents two times in the form of circulation, to take an effective supervision over the Board and the compliance of operation management of the Company. The Supervisory Committee reviewed the Report on the Continuing Connected Transaction for 2016, Supervisors' Report for 2016, 2016 Independent Auditor's Report and 2017 Interim Independent Review Report and Financial and Operation Analysis Report, and confirmed the information contained therein.

II. OPERATION OF THE BOARD OF SUPERVISORS

During the Reporting Period, the Supervisors' Report of 2016 proposed was approved at the AGM. Meanwhile, the Supervisors of the Company attended all board Meetings, and made no objection to each report and contents proposed on the Meeting for consideration.

III. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS

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

(I) Lawful Operation of the Company

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

SUPERVISORS' REPORT

(II) Authenticity of Financial Statements

During the Reporting Period, the Board of Supervisors carefully examined the 2016 Independent Auditor's Report and 2017 Interim Independent Review Report and Financial and Operation Analysis Report, and supervised and inspected the Company's implementation of relevant financial policies and legislation as well as details on the Company's assets, financial income and expenditure. It is of the opinion of the Board of Supervisors that the financial reports of the Company gives a true and fair presentation of the financial position and operating results of the Company, the preparation procedure for the reports and decision-making and approval procedures are in compliance with the requirements of the laws and regulations, the Listing Rules and the Company's internal management system.

(III) Implementation of Resolutions Passed at the General Meetings

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

(IV) Information Disclosure and Connected Transaction

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

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

(V) Internal Control and Risk Management

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

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

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

By Order of the Board of Supervisors

Mr. Di Guojun

Chairman of the Board of Supervisors

Beijing, the PRC

28 March 2018

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

Good corporate governance serves as a foundation for the Company to improve its management. The Company pursues sound corporate governance and believes that good corporate governance is in the interests of the Company, shareholders and stakeholders. The Company considers excellent corporate governance as an important goal. With an aim to continuously improve its corporate governance level, the Company constantly improves its corporate governance practices and procedures, with a standardized and improved corporate governance structure established. It also strictly complies with the state laws and regulations, relevant regulatory requirements and provisions of Listing Rules as well as closely observes trends in regulatory changes in China and abroad. The corporate governance has been enhanced continuously. During the Reporting Period, the Company has adopted the code provisions of the “Corporate Governance Code” as set out in Appendix 14 to the Listing Rules as its own corporate governance code. Up to the date of this report, the Company has complied with all code provisions under the Corporate Governance Code, except for the following deviation:

In accordance with the requirement as set out in the Code Provision A.5.2(a) of the Corporate Governance Code, the Nomination Committee shall at least annually review the Board’s structure, size and composition (including the aspects of skills, knowledge and experiences), make recommendations in respect of the changes made by the Board in coordination with the corporate strategies of the issuers. The changes of Directors in January 2017 had been considered and approved by the Nomination Committee’s meeting convened in December 2016. Apart from this, there had not been any changes in the Board members of the Company; and no meetings had been convened by the Nomination Committee to discuss the structure, size and composition of the Board for the year 2017.

CORPORATE GOVERNANCE FRAMEWORK

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

REGULATORY DOCUMENTS OF CORPORATE GOVERNANCE

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

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

CORPORATE GOVERNANCE REPORT

EXCEEDING THE REQUIREMENTS OF CORPORATE GOVERNANCE

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

SHAREHOLDERS' RIGHTS AND GENERAL MEETINGS

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

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

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

CORPORATE GOVERNANCE REPORT

PROCEDURES FOR CONVENING GENERAL MEETINGS AND SUBMITTING PROPOSALS

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

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

General meetings convened during the Reporting Period are set out in the section headed Investors Relations on page 90 of this annual report.

BOARD OF DIRECTORS

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

COMPOSITION OF BOARD OF DIRECTORS

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

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

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

Biographies of the Directors are set out in the section headed Profiles of Directors, Supervisors and Senior Management on pages 27 to 30 of this annual report.

RESPONSIBILITIES OF BOARD OF DIRECTORS

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

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

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

CORPORATE GOVERNANCE REPORT

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

NOMINATION AND APPOINTMENT OF DIRECTORS

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

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

TERM OF APPOINTMENT OF DIRECTORS

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

SERVICE CONTRACTS OF THE DIRECTORS

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

DIRECTORS' TRAINING

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

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

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT PARTICIPATED BY DIRECTORS

Name	Reading regulatory updates New information	Attending seminars/ conferences relevant to the Directors' duties	Receiving shareholders' visit
Executive Directors			
Ms. Lin Yankun (Chairman) ¹	✓	✓	✓
Mr. Yu Donghui (Chief Executive Officer) ²	✓	✓	✓
Non-executive Directors			
Dr. Feng Haocheng	✓	✓	✓
Mr. Cao Jun	✓	✓	✓
Mr. Zhou Weihua	✓	✓	✓
Mr. Shan Yuhu	✓	✓	✓
Ms. An Lili	✓	✓	✓
Independent Non-executive Directors			
Mr. Yang Xiaohui	✓	✓	✓
Mr. Gong Zhiqiang	✓	✓	✓
Mr. Cheung, Wai Hung Boswell	✓	✓	✓
Mr. Li He	✓	✓	✓
Resigned or retired Directors			
Mr. Xu Zhe (Chairman)	✓	✓	✓
Mr. Lu Lei (Executive Director)	✓	✓	✓

Notes:

- Ms. Lin Yankun was appointed as Executive Director in January 2017, and was elected to replace Mr. Xu Zhe as the Chairman in October 2017.
- Mr. Yu Donghui was appointed to replace Mr. Lu Lei as Executive Director in January 2017.

DIRECTORS' LIABILITY INSURANCE

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

DIRECTORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors are responsible for supervising the preparation of accounts for the year which shall present a true and fair view of the state of affairs, results of operations and cash flow of the Group during the Year. In preparing the financial statements for the year ended 31 December 2017, the Directors had selected and consistently applied suitable accounting policies; made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors ensure that the preparation of the consolidated financial statements of the Group is in accordance with statutory requirements and applicable accounting standards. The Company's independent auditor's reporting responsibilities on the Group's accounts are set out in the Auditors' Report on pages 93 to 230 of this annual report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a Code of Securities Transactions regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, all Directors confirm that they have complied with the required standard of dealings and the Company's Code of Securities Transactions regarding securities transactions by the Directors throughout the year ended 31 December 2017.

BOARD MEETING

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

During the Reporting Period, the Board of Directors held four on-the-spot meetings, and signed meeting documents four times in the form of circulation. Details on the convening of meetings of the members of the Board of Directors set out in the "Records of Attendance of Meetings of the Board and its Subordinate Specialized Committees" on page 74 of this annual report.

CORPORATE GOVERNANCE REPORT

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

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

SUPPLY OF AND ACCESS TO INFORMATION OF THE BOARD

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

SPECIALIZED COMMITTEES UNDER THE BOARD

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

AUDIT COMMITTEE

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

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

The main authorities and duties of the Audit Committee include:

- to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, to approve the remuneration and the terms of engagement of external auditor;
- to develop and implement policies on the engagement of an external auditor to provide non-audit services;

CORPORATE GOVERNANCE REPORT

- to monitor the independent auditor's independence and objectivity and the effectiveness of the audit process;
- to meet at least twice a year with the external auditors, review the external auditor's explanatory statement to the management on its audit or review, discuss with the auditors about any issues or doubt appears during the audit of the annual accounts and review of interim accounts;
- to monitor the financial, accounting policies and practices of the Company;
- to supervise the setting up of comprehensive internal audit, review system, and to review and monitor any significant connected transactions;
- to conduct regular assessment on the performance of the financial and audit departments of the Company and the performance of the responsible staff in charge of these departments;
- to discuss with the management the internal control and risk management systems and ensure that the management has discharged its duties to establish an effective internal control and risk management systems;
- to raise concern and take appropriate action towards and request the Company to undertake a fair and independent investigation over the matters with regard to the financial report, internal control of the Company or other matters with respect to any misconduct exists which are reported or raised by the staff; and
- to perform other duties as delegated by the Board of the Company.

Convening of Audit Committee Meetings:

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

- 2016 Independent Auditor's Report and 2017 Interim Independent Review Report of the Group, the Financial and Operation Analysis Report of the Group for the first quarter and third quarter of 2017, and re-appointed Grant Thornton Hong Kong Limited as the independent auditor of the Company;
- Seven copies of Internal Audit Report and six copies of Audit Follow-up Report of the Group; and
- The report on internal audit for the year 2016 and the plan on internal audit for the year 2017.

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

Details of the convening of meetings of the members of the Audit Committee set out in "Records of Attendance of Meetings of the Board and its Subordinate Specialized Committees" on page 74 of this annual report.

CORPORATE GOVERNANCE REPORT

REMUNERATION AND APPRAISAL COMMITTEE

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

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

Notes*: Ms. Lin Yankun was appointed to replace Dr. Feng Haocheng as a member of the Remuneration and Appraisal Committee in January 2017.

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

- according to the operation objectives and goals of the Company, propose to the Board the entire remuneration policies, structures and appraisal criteria for the Directors, Supervisors and senior management of the Company;
- to make recommendations to the Board of the remuneration packages for individual Executive Director and senior management, including benefits in kind, pension right and compensation payment;
- to ensure that no Directors, Supervisors or any of their associates is involved determining their own remuneration;
- to vote on the service contracts of the Directors and the supervisors before submitting to the shareholders for approval;

CORPORATE GOVERNANCE REPORT

- to make recommendations to the Board on the remuneration of the Non-executive Directors and supervisors;
- to monitor the implementation of the remuneration system of the Company and propose any amendment thereto if needed; and
- to perform other duties as delegated by the Board.

Convening of meetings of Remuneration and Appraisal Committee:

During the Reporting Period, the Remuneration and Appraisal Committee signed meeting documents once in the form of circulation. The committee members confirmed the overall implementation of remuneration of the employees of the Company in 2016 according to the performance of the Company and the remuneration level of senior management of peer companies as well as the specific performance, and reviewed the proposal on distribution of bonus of 2016 as well as the basic annual salary scheme to the senior management in 2017, and submitted to the Board for consideration and approval.

Details of the convening of meetings of the members of the Remuneration and Appraisal Committee set out in "Records of Attendance of Meetings of the Board and its Subordinate Specialized Committees" on page 74 of this annual report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' REMUNERATION

Unit: RMB'000

Name	Fees	Salaries, allowances and retirement benefit scheme contributions	Audit committee	Remuneration and appraisal committee	Nomination committee	Strategy committee	Total
Executive Directors							
Ms. Lin Yankun (Chairman) ¹	-	1,099.5	-	-	-	-	1,099.5
Mr. Yu Donghui (President) ²	-	1,099.5	-	-	-	-	1,099.5
Non-executive Directors							
Dr. Feng Haocheng ³	-	-	-	-	-	-	-
Mr. Cao Jun	-	-	-	-	-	-	-
Mr. Zhou Weihua	-	-	-	-	-	-	-
Mr. Shan Yuhu	-	-	-	-	-	-	-
Ms. An Lili	-	-	-	-	-	-	-
Independent Non-executive Directors							
Mr. Yang Xiaohui	50.0	-	10.0	5.0	-	-	65.0
Mr. Gong Zhiqiang	50.0	-	5.0	10.0	5.0	-	70.0
Mr. Cheung, Wai Hung Boswell	50.0	-	5.0	-	5.0	-	60.0
Mr. Li He	50.0	-	5.0	-	-	5.0	60.0
Resigned or retired Directors							
Mr. Xu Zhe (Chairman) ⁴	-	-	-	-	-	-	-
Mr. Lu Lei (Executive Director) ⁵	-	-	-	-	-	-	-

Notes:

- Ms. Lin Yankun was appointed as Executive Director to replace Dr. Feng Haocheng as a member of the Remuneration and Appraisal Committee in January 2017, and was elected to replace Mr. Xu Zhe as Chairman, and was appointed as Chairman of Strategy Committee and Nomination Committee in October 2017.
- Mr. Yu Donghui was appointed to replace Mr. Lu Lei as Executive Director and a member of the Strategy Committee in January 2017.
- Dr. Feng Haocheng was appointed as a member of the Strategy Committee in January 2017 and resigned as a member of the Remuneration and Appraisal Committee at the same time.
- Mr. Xu Zhe resigned as Chairman, Non-executive Director, Chairman of Nomination Committee and Strategy Committee due to work arrangement in October 2017.
- Mr. Lu Lei resigned as Executive Director, a member of Strategy Committee due to work arrangement in January 2017. The total remuneration for the role of Vice President and Secretary of the Board was approximately RMB955,100.

SENIOR MANAGEMENT'S EMOLUMENTS

The annual emoluments of the senior management of the Company fall within RMB1.5 million, and four of the five highest paid employees are senior management of the Company. Details on the five highest paid individuals are set out in item 4(7) under note XIII to the financial statements on page 224 of this annual report.

NOMINATION COMMITTEE

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

Name	Director Type	Position
Ms. Lin Yankun*	Executive Director (Chairman)	Chairman
Mr. Gong Zhiqiang	Independent Non-executive Director	Member
Mr. Cheung, Wai Hung Boswell	Independent Non-executive Director	Member

Note*: Ms. Lin Yankun was approved by the Board to replace Mr. Xu Zhe to act as Chairman of Nomination Committee in October 2017.

The main authorities and duties of the Nomination Committee include:

- to make recommendations to the Board in relation to the scale and composition of the Board, including the rational number of the Board, gender, age, cultural and educational background and diversity of professional experience of the Board;
- to examine the implementation of diversity policy of the members of the Board;
- to review and assess the independence of the Independent Non-executive Directors;
- to make recommendations to the Board on the appointment or re-appointment or succession of Directors;
- to study the selection criteria and procedures of Directors, and make recommendations to the Board;

CORPORATE GOVERNANCE REPORT

- to identify qualified candidates for directorship in an extensive scale;
- to conduct appraisals on the candidates for directorship and make recommendations; and
- to perform other duties as delegated by the Board.

Convening of meetings of Nomination Committee:

During the Reporting Period, the Nomination Committee did not convene any meetings.

STRATEGY COMMITTEE

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

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

Notes:

1. Ms. Lin Yankun was appointed to replace Mr. Xu Zhe to act as Chairman of Strategy Committee in October 2017.
2. Mr. Yu Donghui was appointed to replace Mr. Lu Lei to act as a member of Strategy Committee in January 2017.
3. Dr. Feng Haocheng was appointed to act as a member of Strategy Committee in January 2017.

CORPORATE GOVERNANCE REPORT

The main authorities and duties of the Strategy Committee include:

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

Convening of meetings of Strategy Committee:

During the Reporting Period, the Strategy Committee signed meeting documents once in the form of circulation. Each member of the committee has reviewed Administrative Measures on Development Strategic and Planning in light of the development trend of the national macro-economy and industry, and to be implemented after the deliberation and approval of the Board. The attendance to the meetings by respective members of Strategy Committee is set out in the table below:

CORPORATE GOVERNANCE REPORT

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

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

Notes:

- The Board held four on-the-spot meetings and signed meeting documents four times in the form of circulation.
- The Audit Committee held two on-the-spot meetings, one phone meeting and signed meeting documents once in the form of circulation.
- The Remuneration and Appraisal Committee did not hold any meeting, but signed meeting documents once in the form of circulation.
- The Nomination Committee did not hold any meetings.
- The Strategy Committee did not hold any on-the-spot meeting, but signed meeting documents once in the form of circulation.
- Ms. Lin Yankun was approved by the Board and the Extraordinary General Meeting to be an Executive Director and act as a member of the Remuneration and Appraisal Committee in January 2017, and was elected by the Board to be the Chairman of the Company and was appointed as Chairman of the Nomination Committee and the Strategy Committee in October 2017.
- Mr. Yu Donghui was approved by the Board and the Extraordinary General Meeting to replace Mr. Lu Lei to be an Executive Director and act as a member of the Strategy Committee in January 2017.
- Dr. Feng Haocheng was appointed as a member of the Strategy Committee in January 2017 and resigned as a member of the Remuneration and Appraisal Committee at the same time.
- Mr. Xu Zhe resigned as Chairman, Non-executive Director, Chairman of Nomination Committee and Strategy Committee due to work arrangement in October 2017.
- Mr. Lu Lei resigned as Executive Director, a member of Strategy Committee due to work arrangement in January 2017.

JOINT COMPANY SECRETARIES

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

Mr. Lu Lei is a full-time employee of the Company, serving as the Vice President, Joint Company Secretary and the Secretary of the Board. The profile of Mr. Lu Lei is set out on page 32 of the session headed "Profiles of Directors, Supervisors and Senior Management" of this annual report. Ms. Koo Ching Fan was appointed as joint secretary of the Company since January 2012. She is serving at Fair Wind Secretarial Services Limited in Hong Kong instead of a full-time employee of the Company. Ms. Koo graduated from the Hong Kong Polytechnic University with a master degree in professional accounting in 2002 and successively obtained the qualification as an associate member of each of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators, U.K. and a fellow member of the Association of Chartered Certified Accountants. She has rich working experience in company secretarial work.

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

CORPORATE GOVERNANCE REPORT

BOARD OF SUPERVISORS

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

Name	Supervisor Type	Position
Mr. Di Guojun	Shareholder Representative	Chairman to the Board of Supervisors
Mr. Liang Xianjun	Shareholder Representative	Supervisor
Mr. Lang Jianjun	Staff Representative Supervisor	Supervisor

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

The Company has entered into supervisor service contracts with each of the members of the sixth session of the Board of Supervisors. Save as disclosed above, none of the supervisors has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation. Biographies of the above-mentioned existing supervisors are set out in the section under the title of "Profiles of Directors, Supervisors and Senior Management" on page 31 of this annual report.

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

- to raise proposals to the general meeting and to convene extraordinary general meeting;
- to attend the general meetings of the Company upon being invited, and to supervise and investigate into the implementation of the resolutions of the general meetings;
- to attend the meetings of the Board of the Company upon being invited. So to supervise the matters, including the legality of the procedures of the convening of the meetings of the Board of the Company, the abstention of Directors as connected persons from voting and whether or not the contents of the resolutions of the meeting of the Board conform to the requirements of the laws, regulations and the Articles of Association and meet the actual needs of the Company;
- to attend the meetings, including the work meetings of the President that involve material operating activities of the Company;

CORPORATE GOVERNANCE REPORT

- to supervise the acts of the Directors, President and other senior management of the Company in their performance of the company duties, that are in violation of the laws, administrative rules and regulations or the Articles of Association;
- to represent the Company in negotiation with, or bring legal actions against, the Directors;
- to examine the finance of the Company; and
- such other powers and duties as stipulated in relevant laws and regulations, regulatory documents or the Articles of Association and as delegated by the general meetings.

Convening of meetings of the Board of Supervisors:

During the Reporting Period, details of the convening of meetings of the Board of Supervisors set out in "Supervisors' Report" on pages 51 to 53 of this annual report.

Participation of trainings by supervisors:

During the Reporting Period, all supervisors have participated in various forms of learning and education activities during their tenure to develop and refresh their knowledge and skills. The forms of learning taken by the supervisors include on-the-spot training organised by The Hong Kong Institute of Chartered Secretaries covering the topic of corporate governance etc., and reading books and online studies relating to laws and regulations, finance and commerce, internal control of risks. Meanwhile, the Company also sends a duplicate of "Monthly Report to Directors" (provided to Directors) to supervisors so as to update them the latest developments in the business and finance of the Group in a timely manner. During the Reporting Period, the supervisors provided their training records to the Company regularly.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

The Company established a comprehensive and systematic risk management and internal control system, made the internal control manual and commenced the internal control assessment work according to the relevant requirements set out by the "Interim Measures of the Internal Control Assessment Work*" ("《内部控制評價工作暫行辦法》") set out in the internal control manual. During the Reporting Period, the Auditing Department of the Company had carried out effective internal control supervision and completed the assessment work of the assigned matters of the internal control. The Company has also commenced comprehensive assessment work of internal control in 2018, which reasonably ensures the legitimacy and compliance of the Company's operation and management, safety of assets, financial reporting as well as the accuracy and completeness of relevant information. This has raised the operational efficiency and has facilitated the Company to achieve development strategies.

Risk Management and Internal Control System

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

CORPORATE GOVERNANCE REPORT

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

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

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

CORPORATE GOVERNANCE REPORT

Effectiveness of Risk Management and Internal Control

The audit department and the management of the Company regularly discussed the effectiveness of the Group's risk management and internal control and reported to the Board after reviewed by Audit Committee. As of 31 December 2017, the Board was of the view that the Company did a fruitful job in risk management and internal control during the Reporting Period, and no significant events which may affect the shareholders were identified.

INSIDE INFORMATION MANAGEMENT

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

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

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

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

INTERNAL AUDIT

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

During the Reporting Period, the Company implemented risk-oriented and value adding-targeted audit activities according to the development strategy of the Company, and fully accomplished the annual audit plan, including 7 copies of Internal Audit Reports, 6 copies of Audit Follow-up Reports and 2 copies of Leaving/Transferring Post Audit Reports. Thus, the Company has performed its audit supervision and evaluation duties in a more effective way.

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

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

CORPORATE GOVERNANCE REPORT

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

Reporting Period	Number of Audit Reports	Number of Audit Follow-up Reports	Number of Leaving/Transferring Post Audit Reports
Year 2016	2	2	0
First quarter of 2017	1	2	0
Second quarter of 2017	1	1	2
Third quarter of 2017	3	1	0
Total	7	6	2

INDEPENDENT AUDITORS

Grant Thornton (Special General Partnership) (“Grant Thornton”) have written to the Audit Committee confirming that they are independent to the Company and that there is no relationship between Grant Thornton and the Company which may affect their independence. During the Reporting Period, Grant Thornton provided the Company with the following services:

Unit: RMB'000

Services	2017	2016
Audit service	1,122	1,122
Non-audit service	303	333
Total	1,425	1,455

CONTINUOUS IMPROVEMENT

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

INVESTORS RELATIONS

In 2017, in an honest and pragmatic manner and with an active and open attitude, the Company maintained effective communication with the investors, and took continuous efforts in improving investors' recognition of the Company's value. As of 31 December 2017, the market capitalization of the Company amounted to HK\$1,449.0 million.

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

CLASS OF SHAREHOLDERS AND PUBLIC FLOAT

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

RECEPTION ACTIVITIES BY WAY OF RESEARCH

In 2017, the Company positively enhanced interaction with capital market, and conducted positive and frank communication with the investors and analysts through various channels such as annual general meeting, company visits and teleconference to update the investors information on the macro-economic environment, the industry prospect and the operation of the Company, further strengthening their understanding of the industry and the Company and enabling them to accurately evaluate the Company's investment value. In communicating with the investors, the Company earnestly listened to the advice or opinions of the investors and timely reported the questions raised by the investors to the management, with an aim to constantly improve the quality of our work.

INVESTORS RELATIONS

INFORMATION DISCLOSURE

The Company firmly believes that information disclosure is not only the responsibility and obligation to protect investors' interest in accordance with the regulatory provisions for the listed companies, but also an important means to improve transparency, enhance the understanding of the Company by the capital market and establish a smooth communication channel. Since its listing, the Company has strictly complied with the information disclosure requirements under the Listing Rules for listed companies and made information disclosure in a timely, just, fair and accurate manner. In 2017, the Company published 47 corporate communications such as announcements and circulars. Such publications have objectively and comprehensively disclosed information regarding the Company's results, operating performance, financial information, dividend payment, connected transaction, poll results of general meetings.

The Company's website (www.capinfo.com.cn) is one of the important disclosure channel for corporation information, and also an important platform for investors to access information of the Company. In 2017, the Company published the following information through the websites of the Stock Exchange and the Company pursuant to the Listing Rules:

No.	Events	Publish Date
1	Monthly Return on Movements in Securities for December 2016	4 January 2017
2	Poll Results of Extraordinary General Meeting and Changes of Executive Directors, Member Of Strategy Committee And Remuneration And Appraisal Committee	20 January 2017
3	List of Board of Directors and Their Roles and Functions	20 January 2017
4	Monthly Return on Movements in Securities for January 2017	3 February 2017
5	Continuing Connected Transactions	7 February 2017
6	Monthly Return on Movements in Securities for February 2017	6 March 2017
7	Notice of Board Meeting	14 March 2017
8	Consolidated Results for the Year Ended 31 December 2016	24 March 2017
9	Monthly Return on Movements in Securities for March 2017	5 April 2017
10	2016 Annual Report	7 April 2017
11	Notice of the Annual General Meeting	7 April 2017
12	Form of Proxy	7 April 2017
13	Reply Slip	7 April 2017
14	Monthly Return on Movements in Securities for April 2017	2 May 2017
15	Poll Results of the Annual General Meeting	26 May 2017
16	Connected Transaction	31 May 2017
17	2016 Environmental, Social and Governance Report	31 May 2017
18	Monthly Return on Movements in Securities for May 2017	5 June 2017
19	Monthly Return on Movements in Securities for June 2017	4 July 2017
20	Connected Transactions	28 July 2017
21	Connected Transactions	28 July 2017
22	Monthly Return on Movements in Securities for July 2017	4 August 2017
23	Notice of Board Meeting	18 August 2017
24	Inside Information	24 August 2017

INVESTORS RELATIONS

No.	Events	Publish Date
25	Interim Results for the 6 Months Ended 30 June 2017	30 August 2017
26	Continuing Connected Transactions (1) The Revised 2017 Annual Cap; And (2) The 2017 Supplemental Agreement	30 August 2017
27	Monthly Return on Movements in Securities for August 2017	4 September 2017
28	2017 Interim Report	13 September 2017
29	Continuing Connected Transactions In Relation To The Revised 2017 Annual Cap	20 September 2017
30	Resignation Of Chairman, Non-Executive Director And Chairman Of Nomination Committee And Strategy Committee	26 September 2017
31	Monthly Return on Movements in Securities for September 2017	9 October 2017
32	Change Of Chairman And Chairman Of Nomination Committee And Strategy Committee	10 October 2017
33	List of Board Members and Their Roles and Functions	10 October 2017
34	Continuing Connected Transactions The Revised 2017 Annual Cap And Notice Of Extraordinary General Meeting	19 October 2017
35	Notice of Extraordinary General Meeting	19 October 2017
36	Proxy Form	19 October 2017
37	Reply Slip	19 October 2017
38	Monthly Return on Movements in Securities for October 2017	2 November 2017
39	Inside Information (1) Proposed Change Of Accounting Standard; (2) Proposed Amendments To The Articles Of Association; And (3) Proposed Cessation Of Appointment Of Overseas Auditor	24 November 2017
40	Continuing Connected Transactions	24 November 2017
41	Monthly Return on Movements in Securities for November 2017	4 December 2017
42	(1) Proposed Amendments To The Articles Of Association; (2) Proposed Cessation Of Appointment Of Overseas Auditor; And (3) Supplemental Notice Of Extraordinary General Meeting	6 December 2017
43	Supplemental Notice Of Extraordinary General Meeting	6 December 2017
44	Supplemental Proxy Form	6 December 2017
45	Poll Results Of Extraordinary General Meeting	22 December 2017
46	Articles of Association	22 December 2017
47	Appointment Of Joint Company Secretary And Waiver From Strict Compliance With Rules 3.28 And 8.17 Of The Listing Rules	29 December 2017

SHARE PRICE PERFORMANCE

As at 21 December 2001, the H shares issued by the Company were listed on the Hong Kong Stock Exchange at the allotment price of HK\$0.48 per share. Since listing, the Company's performance increased stably. According to the data from Wind Information, during the period from the listing date to 31 December 2017, the closing price of the H share of the Company increased from HK\$0.44 that recorded on the first listing date to HK\$0.50, increased by 13.64%. In 2017, the closing price of the shares of the Company decreased from HK\$0.73 that recorded at the beginning of the year to HK\$0.50. The market value of the Company amounted to approximately HK\$1,449.0 million in aggregate calculated at the closing price of HK\$0.50 as at 29 December 2017.

INVESTORS RELATIONS

SHARE PRICE PERFORMANCE FROM LISTING

2001/12/21-2017/12/29



SHARE PRICE PERFORMANCE OF 2017

2017/1/3-2017/12/29



DIVIDEND POLICY

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

PROFIT DISTRIBUTION PLAN IN THE REPORTING PERIOD

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

- I. Pursuant to article 137 of the Articles of Association, the financial statements are prepared under the accounting standards and regulations of PRC. As confirmed after the and if, during the Reporting Period, profit attributable to owners of the Company amounted to approximately RMB81.13 million respectively and the basic earnings per share amounted to RMB2.80 cents. The Board of the Company proposed a payment of final dividend of RMB1.25 cents (approximately HK\$1.55 cents, tax inclusive), per share for the year 2017, totaling approximately RMB36.23 million (tax inclusive). The 2017 annual general meeting will be held on Tuesday, 19 June 2018 to consider and approve the proposed payment of final dividend for the year 2017 by the Board.
- II. In accordance with the provisions of Article 146 and 147 of the Articles of Association, dividends shall be declared and denominated in RMB. Dividends payable to holders of domestic shares shall be paid in RMB while dividends payable to holders of H shares shall be paid in Hong Kong Dollars. In paying dividends in Hong Kong Dollars, the applicable exchange rate shall be the average of the median price for conversion of RMB to Hong Kong Dollar as announced by the People's Bank of China for the calendar week preceding to the date on which such dividends are declared.

INVESTORS RELATIONS

- III. Pursuant to the Law on Corporate Income Tax of the People's Republic of China and its implementation rules which came into effect on 1 January 2008, the Company is required to withhold and pay corporate income tax at the rate of 10% before distributing the final dividends to non-resident corporate shareholders whose names appear on the H share register of members of the Company. Any H shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be deemed as shares held by non-resident corporate shareholders, therefore the dividends payable on such shares will be subject to the withholding of the corporate income tax. After receipt of the dividends, a non-resident corporate shareholder may, in person or through an agent, apply to the competent tax authorities for preferential treatment under the taxation treaties (arrangements) to enjoy tax refund at the presence of evidence in support of its status as a beneficial owner as defined in the taxation treaties (arrangements).
- IV. Pursuant to the regulation promulgated by the State Administration of Taxation of the PRC (Guo Shui Han [2011] No. 348), the Company is required to withhold and pay the individual income tax for its individual holders of H shares ("Individual H Shareholders") and the Individual H Shareholders are entitled to certain tax preferential treatments according to the tax treaties between those countries where the Individual H Shareholders are residents and China and the provisions in respect of tax arrangements between mainland China and Hong Kong (Macau). The Company will withhold and pay the individual income tax at the tax rate of 10% on behalf of the Individual H Shareholders who are Hong Kong residents, Macau residents or residents of those countries having agreements with China for an individual income tax rate in respect of dividend of 10%. For Individual H Shareholders who are residents of those countries having agreements with China for an individual income tax rate in respect of dividend of lower than 10%, the Company will make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知》(國稅發 [2009] 124號)). For Individual H Shareholders who are residents of those countries having agreements with China for an individual income tax rate in respect of dividend of higher than 10% but lower than 20%, the Company will withhold and pay the individual income tax at the agreed effective tax rate. For Individual H Shareholders who are residents of those countries without any taxation agreements with China or having agreements with China for an individual income tax in respect of dividend of 20% or under other situations, the Company will withhold and pay the individual income tax at the tax rate of 20%.

INVESTORS RELATIONS

The Company will determine the country of domicile of the Individual H Shareholders based on the registered address as recorded in the H share register of members of the Company at 4:30 p.m. on Tuesday, 3 July 2018 and will accordingly withhold and pay the individual income tax. If the country of domicile of the Individual H Shareholder is not the same as the registered address, the Individual H Shareholder shall notify the share registrar of the Company's H shares, Hong Kong Registrars Limited, and provide relevant supporting documents before 4:30 p.m. on Tuesday, 3 July 2018 (address: Unit 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong).

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

DIVIDEND DISTRIBUTION INFORMATION FOR PREVIOUS YEARS

Year of distribution	Declaration date	Payment date**	Dividend per share before tax		Total amount of cash dividend paid RMB million	Net profit attributable to the shareholders of the parent company RMB million	Percentage of dividend to net profit attributable to the shareholders of the parent company
			RMB cent	HK\$ cent			
Final dividend for 2007	20 March 2008	15 July 2008	1.40	1.54	40.6	47.1	86.13%
Final dividend for 2008	23 March 2009	16 July 2009	0.52	0.59	15.1	53.2	28.32%
Interim dividend for 2010	12 August 2010	5 November 2010	2.05	2.35	59.4	76.8*	77.35%
Final dividend for 2010	21 March 2011	9 August 2011	1.15	1.36	33.3	73.7	45.22%
Final dividend for 2011	23 March 2012	13 August 2012	1.20	1.48	34.8	69.1	50.36%
Final dividend for 2012	22 March 2013	24 September 2013	1.30	1.61	37.7	81.4	46.31%
Final dividend for 2013	21 March 2014	23 September 2014	1.30	1.65	37.7	81.4	46.29%
Final dividend for 2014	27 March 2015	24 September 2015	1.06	1.34	30.7	67.0	45.83%
Final dividend for 2015	24 March 2016	23 September 2016	1.57	1.88	45.5	101.5	44.81%
Final dividend for 2016	24 March 2017	29 September 2017	1.09	1.23	31.6	109.2	28.92%
Final dividend for 2017	28 March 2018	28 September 2018	1.25	1.55	36.2	81.1	44.64%

Notes:

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

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

INVESTORS RELATIONS

CONVENING OF SHAREHOLDER'S GENERAL MEETINGS

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

	2017 First Extraordinary General Meeting	2016 Annual General Meeting	2017 Second Extraordinary General Meeting
Date of meeting	20 January 2017	26 May 2016	22 December 2017
Place of meeting	Beijing	Beijing	Beijing
Issues	Ordinary resolution 1. To elect Ms. Lin Yankun as Executive Director of the 6th session of the Board of Directors, and to authorize the Board to enter into a service contract or letter of appointment with her. 2. To elect Mr. Yu Donghui as Executive Director of the 6th session of the Board of Directors, and to authorize the Board to enter into a service contract or letter of appointment with him.	Ordinary resolutions 1. The audited consolidated financial statements of the Group and the Directors' and independent auditor's reports for the year ended 31 December 2016 2. The supervisors' report for the year 2016 3. The independent directors' report for the year 2016 4. The re-appointment of Grant Thornton Hong Kong as auditor and to authorize the Board of Directors of the Company to fix their remuneration 5. Declaration of the final dividend of RMB1.09 cents (i.e. HK1.23 cents) per share for the year ended 31 December 2016 Special resolution 6. Authorize the Board to approve the general mandate of issuance of additional H shares of the Company	Ordinary resolution 1. To revise the 2017 Annual Cap of the continuing connected transaction between BJCA and the Company. 2. The termination of the appointment of Grant Thornton Hong Kong Limited as the overseas auditor of the Company. Special resolutions 3. To revise the Articles of Association.
Number of shareholders or authorized representatives present at the meeting	6	9	6
Total number of representing shares	2,123,858,091	2,126,486,091	2,124,258,091
Of total share capital	73.28%	73.38%	73.30%
For	100%	Ordinary resolutions 100%, Special resolution 99.97%	100%
Against	Nil	Ordinary resolutions Nil, Special resolution 0.03%	Nil

Note*: BSAM, as a connected shareholder, had abstained from voting on the 2017 Second Extraordinary General Meeting in respect of the second issue about continuing connected transaction.

ATTENDANCE OF GENERAL MEETINGS OF THE DIRECTORS

Name	2017 First Extraordinary General Meeting	2016 Annual General Meeting	2017 Second Extraordinary General Meeting
Executive Directors			
Ms. Lin Yankun (Chairman) ¹	N/A	✓	✓
Mr. Yu Donghui (Chief Executive Officer) ²	N/A	✓	
Non-executive Directors			
Dr. Feng Haocheng	✓		
Mr. Cao Jun	✓	✓	✓
Mr. Zhou Weihua	✓	✓	
Mr. Shan Yuhu	✓	✓	
Ms. An Lili			✓
Independent Non-executive Directors			
Mr. Yang Xiaohui	✓	✓	✓
Mr. Gong Zhiqiang	✓	✓	
Mr. Cheung, Wai Hung Boswell			
Mr. Li He	✓		✓
Resigned or retired Director			
Mr. Xu Zhe (Chairman)	✓		N/A
Mr. Lu Lei (Executive Director)	✓	N/A	N/A

Notes:

- Ms. Lin Yankun was appointed as executive director in January 2017, replacing Dr. Feng Haocheng as a member of the Remuneration and Appraisal Committee. She was elected as the Chairman and was appointed as the chairman of the Strategy Committee and the Nomination Committee in October 2017, replacing Mr. Xu Zhe.
- Mr. Yu Donghui was appointed as executive director and a member of the Strategy Committee in January 2017, replacing Mr. Lu Lei.

VOTE BY WAY OF POLL

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

AMENDMENTS TO ARTICLES OF ASSOCIATION

In light of the business development needs of the Company, Articles 137 and 138 of the Articles of Association were revised at the Extraordinary General Meeting convened on 22 December 2017. The revised terms of the Articles of Association are as follows:

Article 137: the Company's financial statements shall be prepared in accordance with the accounting standards and regulations of the PRC.

INVESTORS RELATIONS

Article 138: any interim results or financial information published or disclosed by the Company shall be prepared in accordance with the accounting standards and regulations of the PRC.

The above amendments were approved and given effect by a special resolution in a general meeting according to Article 72 of the Articles of Association. The Company has also carried out the relevant registration and filing required by the laws and regulations of the place of listing and the PRC.

INVESTORS CALENDAR

Date	Issue
28 March 2018	Announcement of annual results for the year ended 31 December 2017
30 April 2018	Dispatch of 2017 Annual Report, 2017 Notice of Annual General Meeting, Proxy Form and Reply Slip
20 May to 19 June 2018	Closure of register of members (both days inclusive) to ascertain the entitlement of shareholders to attend the general meeting
19 June 2018	Convention of 2017 Annual General Meeting*
21 June 2018	Ex-dividend date
4:30 p.m. 22 June 2018	Closing time for registration for 2017 final dividend
25 June to 3 July 2018	Closure of register of members (both days inclusive) to ascertain the entitlement to the dividend
4:30 p.m. 3 July 2018	Registered Shareholders are eligible for dividends
August 2018	Announcement of interim Results for the six months ended 30 June 2018
28 September 2018	Payment of final dividend of 2017

Notes*:

The reply slip for the annual general meeting must be lodged in person or by mail with the Company's H share registrar and transfer office, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, the PRC or the registered office of the Company at 12th Floor, Quantum Silver Plaza, 23 Zhichun Road, Haidian District, Beijing, the PRC (for holders of domestic shares) on or before Wednesday, 30 May 2018.

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

SHAREHOLDER SERVICES

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



Zhi Tong Shen Zi (2018) No.110ZA3165

All Shareholders of Capinfo Company Limited

I. OPINION

We have audited the financial statements of Capinfo Company Limited (the "Company"), which comprise the consolidated and company balance sheet as at 31 December 2017, the consolidated and company income statement, the consolidated and company cash flow statement, the consolidated and company statement of changes in owners' equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanied financial statements present fairly, in all material respects, the consolidated and company financial position as at 31 December 2017, and the consolidated and company financial performance and the consolidated and company cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

II. BASIS FOR OPINION

We conducted our audit in accordance with Auditing Standards for the Certified Public Accountants of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the China Code of Ethics for Certified Public Accountants (the "Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. KEY AUDIT MATTERS

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

Auditors' report

III. KEY AUDIT MATTERS (CONTINUED)

(I) Application of percentage of completion method in income recognition of system integration

Refer to Note III.25 and Note V.36 to the financial statements.

1. Description

Income from the Company's system integration was recognised based on the percentage of completion method. During the current period, income from system integration amounted to RMB310,060,700, accounting for 30.75% of the total operating income for the period. We identified the application of percentage of completion method in income recognition of system integration as a key audit matter because income from system integration was material to the financial statements of the Company, and the completion and total estimated cost relied on the significant estimation and judgment of the management ("management") in applying the percentage completion method in income recognition of system integration.

2. Audit procedures

Our audit procedures to the application of percentage completion in system integration income recognition mainly included the following aspects:

- (1) understand and assess the design of the internal control in connection with the income and cost from system integration, and test the key internal control.
- (2) discuss the approve budget preparation and completion with those in charge with the engagement, compare the cost incurred by the completed projects and the total estimated cost determined by the management on sampling basis, and assess the accuracy of the cost estimated by the management.
- (3) analyse the gross margin of major contracts to determine the rationality of changes in operating income and gross profit.
- (4) sample and check the relevant documents to verify the contractual cost incurred, and implement cut-off tests to check whether the contractual cost has been recorded properly during the accounting period.
- (5) re-calculate the completion percentage based on the cost incurred and the total estimated contractual cost, and test the completion of system integration contracts determined by the management on sampling basis; examine the main terms in the relevant engagement contracts with the supporting documents, such as acceptance bills issued by the customers, and completion statistics, and carry out confirmation procedures for the contractual amount and the amounts recognised.

III. KEY AUDIT MATTERS (CONTINUED)

(II) Test on goodwill impairment

Refer to Note III.21 and Note V.19 to the financial statements.

1. Description

The original carrying amount of goodwill of the Company as at 31 December 2017 was RMB184,597,700 arising from the acquisition of Xiamen Rongtong Information Technology Company Limited. In accordance with the Accounting Standards of Business Enterprises, the Company is required to conduct test on goodwill impairment annually. As of 31 December 2017, the amount of provision for impairment of goodwill was RMB6,622,100, and the book value of goodwill was RMB177,975,700. We identified test on goodwill impairment as a key audit matter because the net carrying amount of goodwill was material, the judgement made by the management on whether the goodwill was impaired was subjective, and there was inherent uncertainty in estimating future cash flows.

2. Audit procedures

Our audit procedures to test on goodwill impairment mainly included the following:

- (1) understand and test the key internal control in connection with goodwill impairment, including the adoption of key assumptions, and review and approval of the provision for impairment.
- (2) Obtain the assessment report issued by the independent valuation expert, evaluate the competence, professional quality and objectivity of these experts, and review the impairment test models and key assumptions involved in the assessment report.
- (3) Test the calculation of the discounted cash flow model to determine the accuracy of the present value of the future cash flow.
- (4) Evaluate whether the cash flow forecast prepared by the management is appropriate by comparing the forecasted income, cost and other expenses prepared by the management and the related data in the financial budget approved by the board;
- (5) assess the reasonableness of the impairment test methods, growth rate, and discounted rate used by the management.

Auditors' report

IV. OTHER INFORMATION

The management of Capinfo Company Limited is responsible for the other information. The other information comprises all the information included in the 2017 annual report, other than the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

V. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those in charge with governance are discharging their responsibilities for overseeing the Company's financial reporting process.

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that an audit conducted in accordance with audit standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with audit standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

Auditors' report

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

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

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

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

Grant Thornton LLP

Certified Public Accountants Registered in
the People's Republic of China
(Engagement partner)

Ren Yiyou

Certified Public Accountants Registered in
the People's Republic of China

Liang Yinan

Beijing, China

28 March 2018

Consolidated Balance Sheet

31 December 2017

Prepared by: Capinfo Company Limited

Unit: RMB

Items	Note	Balance at end of period	Opening Balance
Current assets:			
Monetary fund	Note V.1	676,515,880.90	571,198,722.39
Financial assets at fair value through profit or loss	Note V.2	–	3,564,709.74
Derivative financial assets		–	–
Notes receivables	Note V.3	281,000.00	–
Trade receivables	Note V.4	310,650,313.68	292,533,671.37
Prepayments	Note V.5	37,548,374.84	47,356,332.34
Interest receivables		–	–
Dividend receivables	Note V.6	6,296,524.20	–
Other receivables	Note V.7	84,977,407.39	79,281,718.86
Inventories	Note V.8	95,562,424.08	129,206,845.59
Assets held for sale		–	–
Non-current assets due within one year	Note V.9	26,237,343.74	26,237,343.74
Other current assets	Note V.10	10,944,826.34	1,119,241.42
Total current assets		1,249,014,095.17	1,150,498,585.45
Non-current assets:			
Available-for-sale financial assets	Note V.11	971,326.53	971,326.53
Held-to-maturity investments		–	–
Long-term receivables	Note V.12	3,947,515.56	25,123,235.23
Long-term equity investments	Note V.13	146,041,160.68	130,134,003.49
Investment properties	Note V.14	41,510,260.28	45,283,920.32
Fixed assets, at original price	Note V.15	526,483,416.48	453,282,050.48
Less: Accumulated depreciation	Note V.15	435,879,864.99	388,893,236.00
Net value of fixed assets		90,603,551.49	64,388,814.48
Less: Provision for the impairment of fixed assets		–	–
Net fixed assets		90,603,551.49	64,388,814.48
Construction in progress	Note V.16	–	46,372,914.53
Construction materials		–	–
Disposal of fixed assets		–	–
Productive biological assets		–	–
Oil and gas assets		–	–
Intangible assets	Note V.17	33,768,634.98	34,328,584.68
Development expenditures	Note V.18	6,780,034.80	–
Goodwill	Note V.19	177,975,650.76	184,597,722.06
Long-term deferred expenses	Note V.20	42,749,741.57	44,248,843.70
Deferred income tax assets	Note V.21	24,421,326.12	28,737,023.49
Other non-current assets		–	–
Total non-current assets		568,769,202.77	604,186,388.51
Total assets		1,817,783,297.94	1,754,684,973.96

Consolidated Balance Sheet

31 December 2017

Items	Note	Balance at end of period	Opening Balance
Current Liabilities:			
Short-term borrowings		-	-
Financial liabilities at fair value through profit or loss		-	-
Derivative financial liabilities		-	-
Notes payables		-	-
Accounts payables	Note V.22	154,040,442.83	119,367,727.94
Advances received	Note V.23	266,544,654.84	313,704,417.28
Payroll payables	Note V.24	69,169,720.93	66,226,603.78
Tax payables	Note V.25	48,507,732.42	36,101,752.93
Interest payables		-	-
Dividend payables		-	-
Other payables	Note V.26	151,105,460.14	141,584,394.61
Liabilities held for sale		-	-
Non-current liabilities due within one year	Note V.27	46,897,051.31	29,781,028.61
Other current liabilities		-	-
Total current liabilities		736,265,062.47	706,765,925.15
Non-current Liabilities:			
Long-term borrowings	Note V.28	-	-
Bonds payables		-	-
Long-term payables	Note V.29	-	11,348,605.23
Long-term payroll payables		-	-
Specific payables		-	-
Accrued liabilities		-	-
Deferred income	Note V.30	4,122,171.81	9,057,662.94
Deferred income tax liabilities	Note V.21	-	-
Other non-current liabilities	Note V.31	15,512,453.80	19,192,689.60
Total non-current liabilities		19,634,625.61	39,598,957.77
Total liabilities		755,899,688.08	746,364,882.92

Consolidated Balance Sheet

31 December 2017

Items	Note	Balance at end of period	Opening Balance
Owners' equity (or shareholders' equity):			
Paid-in capital (share capital)	Note V.32	289,808,609.10	289,808,609.10
Other equity instruments		-	-
Including: Preferred shares		-	-
Perpetual debts		-	-
Capital reserves	Note V.33	291,670,666.40	291,670,666.40
Less: Treasury stock		-	-
Other comprehensive income		-	-
Including: Translation reserves		-	-
Special reserves		-	-
Surplus reserves	Note V.34	81,662,603.60	72,207,069.12
Unallocated profits	Note V.35	363,118,724.87	323,050,270.86
Total equity attributable to owners of the parent		1,026,260,603.97	976,736,615.48
Minority interests		35,623,005.89	31,583,475.56
Total owners' equity (or shareholders' equity)		1,061,883,609.86	1,008,320,091.04
Total liabilities and owners' equity (or shareholders' equity)		1,817,783,297.94	1,754,684,973.96

Person-in-charge
of the Company: Lin Yankun

Person in charge
of accounting: Yu Donghui

Person in charge of the
accounting department: Lu Hehui

Consolidated Income Statement

Year 2017

Prepared by: Capinfo Company Limited

Unit: RMB

Items	Notes	Amount for current period	Amount for last period
I. Total operating income		1,008,306,555.42	949,506,041.62
Including: Operating income	Note V.36	1,008,306,555.42	949,506,041.62
II. Total operating costs		934,876,337.50	886,118,208.63
Including: Operating costs	Note V.36	656,774,995.41	622,359,412.49
Business tax and surcharges		5,851,997.21	6,462,151.50
Selling expenses	Note V.37	95,144,287.24	94,599,584.79
Administrative expenses	Note V.38	138,335,396.24	129,852,227.69
Financial expenses	Note V.39	5,039,245.34	3,748,965.62
Impairment losses of assets	Note V.40	33,730,416.06	29,095,866.54
Add: Gain on changes in fair value (loss is marked by "-")	Note V.41	-3,564,709.74	1,232,985.78
Investment gain (loss is marked by "-")	Note V.42	63,178,239.10	20,974,846.58
Income from disposal of assets (loss is marked by "-")	Note V.43	29,236.21	-240,415.62
Other income	Note V.44	7,468,583.83	-
III. Operating profit (loss is marked by "-")		140,541,567.32	85,355,249.73
Add: Non-operating income	Note V.45	8,312.65	998,519.37
Less: Non-operating expenses	Note V.46	563,052.17	3,349,069.13
IV. Total profit (total loss is marked by "-")		139,986,827.80	83,004,699.97
Less: Income tax expenses	Note V.47	55,108,021.83	10,653,468.17
V. Net profit (net loss is marked by "-")		84,878,805.97	72,351,231.80
(I) Items classified by continued operations			
1. Net profit from continued operations (net loss is marked by "-")		84,878,805.97	72,351,231.80
2. Net profit from discontinued operation (net loss is marked by "-")		-	-
(II) Items classified by attribution of ownership			
1. Minority interests		3,748,330.33	709,169.73
2. Net profit attributable to owners of the parent		81,130,475.64	71,642,062.07

Consolidated Income Statement

Year 2017

Items	Notes	Amount for current period	Amount for last period
VI. Other comprehensive income after taxation		-	-
Other comprehensive income after taxation attributable to the owners of parent		-	-
(I) Other comprehensive income not subject to reclassification to profit or loss in future		-	-
Including:			
1. Changes in net indebtedness or net assets after re-measurement of defined benefit plans		-	-
2. Share in the other comprehensive income not to be reclassified into the profit or loss by the investee under the equity method		-	-
(II) Other comprehensive income to be reclassified to profits and loss in future		-	-
Including:			
1. Share in the other comprehensive income to be reclassified into the profit or loss by the investee under the equity method		-	-
2. Profits or losses from change in fair value of financial assets available for sale		-	-
3. Profits or losses from held-to-maturity investment reclassified as available-for-sale financial assets		-	-
4. Effective part of profits or losses on cash flow hedge		-	-
5. Conversion difference of foreign currency statement		-	-
* Other comprehensive income after taxation attributable to the minority shareholders		-	-
VII. Total comprehensive income		84,878,805.97	72,351,231.80
Total comprehensive income attributable to the owners of parent		81,130,475.64	71,642,062.07
* Total comprehensive income attributable to the minority shareholders		3,748,330.33	709,169.73
VIII. Earnings per share			
Basic earnings per share		0.028	0.025
Diluted earnings per share		0.028	0.025

Person-in-charge
of the Company: Lin Yankun

Person in charge
of accounting: Yu Donghui

Person in charge of the
accounting department: Lu Hehui

Consolidated Cash Flows Statement

Year 2017

Prepared by: Capinfo Company Limited

Unit: RMB

Items	Notes	Amount for current period	Amount for last period
I. Cash flows from operating activities:			
Cash received from sales of goods and provision of labor services		1,021,694,612.41	1,000,892,204.45
Tax refunds received		-	-
Cash received relating to other operating activities		33,871,794.21	22,154,743.79
Sub-total of cash inflows from operating activities		1,055,566,406.62	1,023,046,948.24
Cash paid for purchase of goods and engagement of labor services		418,931,536.24	485,571,064.07
Cash paid to and on behalf of employees		293,764,009.26	269,825,965.49
Payments of all types of taxes		39,567,768.25	41,744,575.64
Cash paid relating to other operating activities		71,899,297.04	76,585,872.66
Sub-total of cash outflows from operating activities		824,162,610.79	873,727,477.86
Net cash flows from operating activities		231,403,795.83	149,319,470.38
II. Cash flows from investing activities:			
Cash received from return of investment		23,000,000.00	-
Cash received from investment gain		455,268.47	4,407,566.94
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		39,954.87	119,852.40
Net cash received from disposal of subsidiaries and other operating units		-	-
Cash received relating to other investing activities		-	-
Sub-total of cash inflows from investing activities		23,495,223.34	4,527,419.34
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		69,453,157.47	79,375,246.18
Cash paid for investment		33,000,000.00	-
Net cash paid for acquisition of subsidiaries and other operating units		-	88,635,427.96
Cash paid relating to other investing activities		-	-
Sub-total of cash outflows from investing activities		102,453,157.47	168,010,674.14
Net cash flows from investing activities		-78,957,934.13	-163,483,254.80

Consolidated Cash Flows Statement

Year 2017

Items	Notes	Amount for current period	Amount for last period
III. Cash flows from financing activities:			
Cash received from investors		-	-
Including: Cash received from absorbing minority shareholders' investment by subsidiaries		-	-
Cash received from obtaining borrowings		-	-
Cash received relating to other financing activities		-	30,440,107.90
Sub-total of cash inflows from financing activities		-	30,440,107.90
Cash paid for repayment of debts		-	910,000.00
Cash paid for distribution of dividends, profits or payment of interests		31,268,611.47	45,558,416.66
Including: Dividend and profit paid to minority shareholders by subsidiaries		-	-
Cash paid relating to other financing activities		-	-
Sub-total of cash outflows from financing activities		31,268,611.47	46,468,416.66
Net cash flows from financing activities		-31,268,611.47	-16,028,308.76
IV. Effect of changes in exchange rate on cash and cash equivalents			
		-3,653,127.83	3,682,758.27
V. Net increase in cash and cash equivalents	Note V.48	117,524,122.40	-26,509,334.91
Add: Cash and cash equivalents at beginning of period	Note V.48	535,062,062.24	561,571,397.15
VI. Cash and cash equivalents at end of period	Note V.48	652,586,184.64	535,062,062.24

Person-in-charge
of the Company: Lin Yankun

Person in charge
of accounting: Yu Donghui

Person in charge of the
accounting department: Lu Hehui

Consolidated Statement of Changes in Equity

Year 2017

Prepared by: Capinfo Company Limited

Unit: RMB

Items	Amount for current year					Minority interests	Total shareholders' equity
	Equity attributable to shareholders of the parent						
	Share capital	Capital reserves	Surplus reserves	Unallocated profits	Sub-total		
I. Closing balance of last year	289,808,609.10	291,670,666.40	72,207,069.12	360,642,012.74	1,014,328,357.36	31,583,475.56	1,045,911,832.92
Add: Increase/decrease due to changes in accounting policies	-	-	-	-37,591,741.88	-37,591,741.88	-	-37,591,741.88
II. Opening balance of current year	289,808,609.10	291,670,666.40	72,207,069.12	323,050,270.86	976,736,615.48	31,583,475.56	1,008,320,091.04
III. Increase/decrease for current year ("-" for decrease)	-	-	9,455,534.48	40,068,454.01	49,523,988.49	4,039,530.33	53,563,518.82
(I) Total comprehensive income	-	-	-	81,130,475.64	81,130,475.64	3,748,330.33	84,878,805.97
(II) Shareholder's contributions and withdrawals of capital	-	-	-	-	-	291,200.00	291,200.00
Others	-	-	-	-	-	291,200.00	291,200.00
(III) Profits distribution	-	-	9,455,534.48	-41,062,021.63	-31,606,487.15	-	-31,606,487.15
1. Appropriation to surplus reserves	-	-	9,455,534.48	-9,455,534.48	-	-	-
2. Distributions to shareholders	-	-	-	-31,606,487.15	-31,606,487.15	-	-31,606,487.15
IV. Closing balance of current year	289,808,609.10	291,670,666.40	81,662,603.60	363,118,724.87	1,026,260,603.97	35,623,005.89	1,061,883,609.86

Unit: RMB

Items	Amount for last year					Minority interests	Total shareholders' equity
	Equity attributable to shareholders of the parent						
	Share capital	Capital reserves	Surplus reserves	Unallocated profits	Sub-total		
I. Closing balance of last year	289,808,609.10	254,078,924.52	64,242,877.44	304,872,400.47	913,002,811.53	139,581.33	913,142,392.86
Add: Increase/decrease due to changes in accounting policies	-	-	-	-	-	-	-
II. Opening balance of current year	289,808,609.10	254,078,924.52	64,242,877.44	304,872,400.47	913,002,811.53	139,581.33	913,142,392.86
III. Increase/decrease for current year ("-" for decrease)	-	37,591,741.88	7,964,191.68	18,177,870.39	63,733,803.95	31,443,894.23	95,177,698.18
(I) Total comprehensive income	-	-	-	71,642,062.07	71,642,062.07	709,169.73	72,351,231.80
(II) Shareholder's contributions and withdrawals of capital	-	37,591,741.88	-	-	37,591,741.88	30,734,724.50	68,326,466.38
1. Common stock contributed by shareholders	-	-	-	-	-	13,000,000.00	13,000,000.00
2. Others	-	37,591,741.88	-	-	37,591,741.88	17,734,724.50	55,326,466.38
(III) Profits distribution	-	-	7,964,191.68	-53,464,191.68	-45,500,000.00	-	-45,500,000.00
1. Appropriation to surplus reserves	-	-	7,964,191.68	-7,964,191.68	-	-	-
2. Distributions to shareholders	-	-	-	-45,500,000.00	-45,500,000.00	-	-45,500,000.00
IV. Closing balance of current year	289,808,609.10	291,670,666.40	72,207,069.12	323,050,270.86	976,736,615.48	31,583,475.56	1,008,320,091.04

Person-in-charge
of the Company: Lin Yankun

Person in charge
of accounting: Yu Donghui

Person in charge of the
accounting department: Lu Hehui

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

I. COMPANY GENERAL INFORMATION

1. Company Profile

Capinfo Company Limited (hereinafter referred to as the "Company") is a joint stock limited company incorporated in Beijing, approved by the "Notice on Approval of Establishment of Capinfo Company Limited" of the Beijing Municipal People's Government (J.Z.H.Z. (2000) No.74) and approved to register with Beijing Administration for Industry and Commerce on 14 July 2000. The corporate business license registration number is 110000005123441. All H shares issued by the Company have been listed for trading on Hong Kong Stock Exchange. The Company is headquartered at No. 11 Xi San Huan Zhong Road, Haidian District (The north gate of the central television tower), Beijing.

The Company's registered capital is RMB289,808,609.10 and the total share capital is 2,898,086,100 shares, of which, 2,123,588,091.00 are domestic shares and 774,498,000.00 are overseas listed foreign invested shares. The par value is RMB0.10 per share.

The Company has established the corporate governance structure consisting of General Meeting, Board of Directors and Supervisory Committee. Nowadays, we have six business segments including Healthcare Security and Social Security Segment, Private Network Segment, Software and Corporate Information Segment, Cloud Computing Segment, Housing Provident Fund and Call Centre Segment and Capinfo Technology Segment, two technology centres including Consulting and IT Planning Service Centre and Product R&D Centre, and functional departments including Administration Department, Human Resources Department, Financial Management Department, Quality Management Department and Planning Management Department. There is a business centre under each business segment. We have four branches of which Guangzhou Branch and Chongqing Branch are affiliated to Housing Provident Fund and Call Centre Segment, Yanqing Branch is affiliated to Capinfo Technology Segment and Xiongan Branch is newly established in the current period, respectively.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

I. COMPANY GENERAL INFORMATION (CONTINUED)

1. Company Profile (Continued)

The Company and its subsidiaries (hereinafter referred to as the “Group”) belong to software industry and are principally engaged in online application service and system integration. The business scope includes the provision of information source service, e-commerce service, technical development, technical consulting, technical service and technical training of inter-networking, computer equipment and hardware and software, communication hardware and software products, integration and agency of information and network system, sales of computer peripheral equipment, proprietary and agency of all kinds of goods and technologies import and export business (excluding those restricted or prohibited by the state from import and export) and professional contracting. (Enterprises can independently choose their own business projects and carry out business activities under the laws; for the above items subject to the administrative approval, relevant approval must be obtained prior to operation; enterprises shall not carry out business activities prohibited and restricted by the city’s industrial policy.)

The financial statements and notes to the financial statements have been approved on 28 March 2018 at the 25th meeting of the sixth session of board of directors of the Company.

2. Scope of consolidation of the financial statements

During the period, there are aggregately six accounting units consolidated into financial statements, including the Company, Capinfo (Hong Kong) Co., Ltd (hereinafter referred to as “Capinfo Hong Kong”), Capinfo Technology Development Co., Ltd (hereinafter referred to as “Capinfo Technology”), Beijing Parking Management Centre Co., Ltd (hereinafter referred to as “Parking Management”), Shanghai Hengyue Computer Technology Co., Ltd (hereinafter referred to as “Shanghai Hengyue”) and Xiamen Rito Info Technology Co. Ltd (hereinafter referred to as “Rito Info”). Details are set out in Note VII. Disclosure of interests in other entities.

Beijing Capinfo Hangyuan Technology Co., Ltd (hereinafter referred to as “Capinfo Hangyuan”) was not consolidated into financial statements in the period due to liquidation and cancellation. For details, please see Note VI. Changes in the scope of consolidation.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

II. PREPARATION BASIS FOR FINANCIAL STATEMENTS

The financial statements are prepared in accordance with the “China Accounting Standards for Business Enterprises” and their application guidelines, interpretations and other relevant requirements (collectively, CASBE) issued by the Ministry of Finance of the PRC (“MOF”).

The financial report of the Group for last year disclosed on the Main Board of The Stock Exchange of Hong Kong Limited were prepared in accordance with Hong Kong Financial Reporting Standards. According to the resolution approved by the Group’s Board of Directors on 24 November 2017, the Group has implemented the CASBE since 1 January 2017. On the first application date of the CASBE, for the differences in the conversion of Hong Kong Financial Reporting Standards to the CASBE, please refer to Note 14. Supplementary Information.

The financial statements are presented on a going concern basis.

The Group’s accounting is measured on an accrual accounting basis. Except for certain financial instruments, the financial statements are measured based on historical cost. In case of asset impairment, impairment provisions shall be made accordingly under relevant regulations.

New Hong Kong Companies Ordinance took effect in 2015. The financial statements have been adjusted according to the requirements of the Hong Kong Companies Ordinance.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Declaration of compliance with the CASBE

The financial statements are in compliance with the requirement of CASBE, which gives a true and complete view of the consolidated and company financial position as at 31 December 2017, and the consolidated and company operating results and company cash flows for the year then ended.

2. Accounting period

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3. Operating cycle

The operating cycle of the Group is 12 months.

4. Functional currency

The Company and its domestic subsidiaries use RMB as its functional currency. All amounts in this report are expressed in RMB unless otherwise stated.

5. Accounting of business combinations involving entities under and not under common control

(1) Business combination involving entities under common control

For the business combination involving entities under common control, the assets and liabilities that are obtained in the business combination shall be measured at their original carrying amounts at the combination date as recorded by the combined party, except for the adjustments of different accounting policies. The difference between the carrying amount of the net assets obtained and the carrying amount of assets paid shall be adjusted to capital reserve, and if the capital reserve is not sufficient to absorb the difference, any excess difference shall be adjusted to the retained earnings.

Business combinations involving enterprises under common control and achieved in stages.

In the separate financial statements, the initial investment cost is calculated based on the shareholding portion of the assets and liabilities obtained and is measured at the carrying amounts as recorded by the combined enterprise at the combination date. The difference between the initial investment cost and the sum of the carrying amount of the original investment cost and the carrying amount of consideration paid for the combination is adjusted to the capital reserve, if the capital reserve is not sufficient to absorb the difference, the excess difference shall be adjusted to retained earnings.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Accounting of business combinations involving entities under and not under common control (Continued)

(1) Business combination involving entities under common control (Continued)

In the consolidated financial statements, the assets and liabilities obtained at the combination shall be measured at the carrying value as recorded by the enterprise at combination date, except for adjustments of different accounting policies. The difference between the sum of the carrying value from original shareholding portion and the new investment cost incurred at combination date and the carrying value of net assets obtained at combination date shall be adjusted to capital reserve, if the balance of capital reserve is not sufficient to absorb the differences, any excess is adjusted to retained earnings. The long-term investment held by the combination party, the recognized profit or loss, comprehensive income and other change of shareholding's equity at the closer date of the acquisition date and combination date under common control shall separately offset the opening balance of retained earnings and profit or loss during comparative statements.

(2) Business combination involving entities not under common control

For business combinations involving entities not under common control, the consideration for each combination is measured at the aggregate fair value at acquisition date, of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. At acquisition date, the acquired assets, liabilities or contingent liabilities of acquiree are measured at their fair value.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill, and measured on the basis of its cost minus accumulative impairment provision; where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized in profit or loss for the current period after reassessment.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Accounting of business combinations involving entities under and not under common control (Continued)

(2) Business combination involving entities not under common control (Continued)

The relevant contingent consideration is recorded into the combination costs at its fair value at the acquisition date, and the goodwill is adjusted if the new or additional evidences of adjustment to contingent considerations emerged within 12 months from the acquisition date.

Business combinations involving enterprises not under common control and achieved in stages.

In the separate financial statements, the initial investment cost of the investment is the sum of the carrying amount of the equity investment held by the entity prior to the acquisition date and the additional investment cost at the acquisition date. The disposal accounting policy of other comprehensive income related with equity investment prior to the purchase date recognized under equity method shall be compliance with the method when the acquire disposes the related assets or liabilities. Shareholder's equity due to the changes of other shareholder's equity other than the changes of net profit, other comprehensive income and profit distribution shall be transferred to profit or loss for current period when disposed. If the equity investment held by the entity prior to the acquisition date is measured at fair value, the cumulative changes in fair value recognized in other comprehensive income shall be transferred to profit or loss for current period when accounted for using cost method.

In the consolidation financial statements, the combination cost is the sum of consideration paid at acquisition date and fair value of the acquiree's equity investment held prior to acquisition date; the cost of equity of the acquiree held prior to acquisition date shall be re-measured at the fair value at acquisition date, the difference between the fair value and book value shall be recognized as investment income or loss for the current period. Other comprehensive income and changes of investment equity related with acquiree's equity held prior to acquisition date shall be transferred to investment profit or loss for current period at acquisition date, except for other comprehensive income from the changes of net assets or net liabilities due to the re-measurement of defined benefit plan.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Accounting of business combinations involving entities under and not under common control (Continued)

(3) Transaction fees attribution during the combination

The intermediary and other relevant administrative expenses such as audit, legal and valuation advisory for business combinations are recognized in profit or loss when incurred. Transaction costs of equity or debt securities issued as the considerations of business combination are included in the initial recognition amounts of equity or debt securities.

6. Method of preparing consolidated financial statements

(1) Scope of consolidation

The scope of consolidation of consolidated financial statements is on the basis of control. Control means that the Company has the power over the investee, enjoys variable returns by participating in relevant activities of the investee, and has the ability to use its power over the investee to influence the amount of its return. Control refers to the Company's right over the investee to enjoy variable returns through involvement in the investee and have the ability to exert the right to affect those returns. A subsidiary is the entity controlled by the Company (including enterprises, a divided part of investees and structured entities that are controlled by the Company).

(2) Method of preparing of consolidated financial statements

The consolidated financial statements are based on the financial statements of the Company and its subsidiaries, and are prepared by the Company in accordance with other relevant information. In preparing the consolidation financial statements, the Company and its subsidiaries are required to apply consistent accounting policy and accounting period, and intra-group transactions and balances shall be offset.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Method of preparing consolidated financial statements (Continued)

(2) Method of preparing of consolidated financial statements (Continued)

A subsidiary acquired through a business combination involving entities under common control in the reporting period shall be included in the scope of the consolidation from the beginning of the combination date, the subsidiary's income, expenses and profits are included in the consolidated income statement, and cash flows are included in the consolidated cash flow statement from the acquisition date.

A subsidiary acquired through a business combination involving entities not under common control in the reporting period, the subsidiary's income, expenses and profits are included in the consolidated income statement, and cash flows are included in the consolidated cash flow statement from the acquisition date to the end of the reporting date.

The portion of a subsidiary's equity not attributable to the parent is treated as minority interests and presented separately in the consolidated balance sheet within shareholders' equity. The portion of a subsidiary's profit or loss attributable to the minority interests presented in the consolidated statement of comprehensive income as "minority interests". The portion of a subsidiary's losses that exceeds to the beginning minority interests in the shareholders' equity, the remaining balance still offset the minority interests.

(3) Purchase of the minority interests in the subsidiary

The difference between the long-term equity investment costs acquired by the purchase of minority interests and the share of the net assets that the subsidiaries have to continue to calculate from the date of purchase or the date of consolidation in proportion to the new shareholding ratio is adjusted to the capital reserve in the consolidated balance sheet, if the capital reserve is not sufficient, any excess is adjusted to retained earning. The difference between the disposal of the equity investment without losing control over its subsidiary and the disposal of the long-term equity investment corresponding to the share of the net assets of the subsidiaries from the date of purchase or the date of consolidation is the same.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Method of preparing consolidated financial statements (Continued)

(4) Treatment of loss of control of subsidiaries

When an enterprise loses control over the investee due to disposing of part of equity investment or other reasons, the remaining part of the equity investment should be re-measured at fair value at the date when losing control over the investee; the cash received in disposal of the equity investment and the fair value of remaining part of the equity investment, deducting net assets proportion calculated by original share percentage since the acquisition date and goodwill should be recorded in profit or loss for current period of loss of control.

Other comprehensive income related with the acquiree's equity held prior to acquisition date shall be transferred to investment income or loss for current period at acquisition date, except for other comprehensive income from the changes of net assets or net liabilities due to the re-measurement of defined benefit plan.

(5) Treatment for disposal of subsidiaries in stages until the loss of control

If the clauses, conditions and economic impact of each transaction through disposal of subsidiaries in stages until the loss of control satisfy one or more following criteria, the Company will consider these transactions as a package deal for the accounting treatment:

- 1 These transactions are entered into simultaneously or after the effects on each other were considered;
- 2 All these transactions can only achieve one complete business result;
- 3 The occurrence of one transaction depends upon at least one of other transactions;
- 4 A transaction alone is not economical; however, it becomes economical when considered together with other transactions.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Method of preparing consolidated financial statements (Continued)

(5) Treatment for disposal of subsidiaries in stages until the loss of control (Continued)

In individual financial statements, where the transactions of disposal of equity investment in a subsidiary until control is lost do not constitute a package deal, the difference between the related long term equity investment for each disposal of equity interest and the consideration received are recognized in the investment income in the current period; where the transactions of disposal of equity investment in a subsidiary until the control is lost do constitute a package deal, the difference between the disposal before the loss of control and the carrying amount of the long-term equity investment is recognized as other comprehensive income first, and shall be transferred to the profit or loss for the current period when the control is lost.

In the consolidated financial statements, for the disposal subsidiaries in stages until the loss of control, the measurement of the remaining equity interest and treatment of the loss of disposal is conducted in accordance with "Treatment of loss of control of subsidiaries" as described above. The difference between the consideration received and the corresponding proportion of the subsidiary's net assets (subsequently measured since the acquisition date) in each transaction prior to the loss of control is recognized respectively in the following ways:

- 1 Belonging to a package deal: recognized in other comprehensive income. It is recognized in the profit or loss in the current period when the entity loses the control.
- 2 Not belonging to a package deal: recognized in capital reserve as equity. It shouldn't be recognized in the profit or loss in the current period when the entity loses the control.

7. Standard of determining cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily drawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Foreign currency transactions and translation of foreign currency statement

If foreign currency transactions of the Group occur, they are translated into the amount of functional currency by applying the spot exchange rate at the dates of the transactions.

On the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. Exchange differences arising from the differences between the spot exchange rate prevailing at the balance sheet date and those spot rates used on initial recognition or at the previous balance sheet date are recognized in profit or loss for the current period; foreign currency non-monetary items carried at historical cost continue to be measured at the amounts in functional currency translated using the spot exchange rates at the dates of the transactions; foreign currency non-monetary items at fair value are translated using the spot exchange rates at the date when the fair value was determined. Differences between the translated amount and the original amount of functional currency are included in profit or loss for the current period.

9. Financial instruments

A financial instrument is the contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(1) Recognition and Derecognition of financial instruments

A financial asset or financial liability is recognized when the Group becomes one party of financial instrument contracts.

If one of the following conditions is met, the financial assets are terminated:

- 1 The right of the contract to receive the cash flows of financial assets terminates;
- 2 The financial asset has been transferred and meet the following conditions for derecognition.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

(1) Recognition and Derecognition of financial instruments (Continued)

Where the current obligation of financial liability has been terminated entirely or partially, the financial liability or obligation shall be derecognized entirely or partially. Where the Group (debtor) signs an agreement with the creditor in which the existing financial liabilities are replaced by means of undertaking new financial liabilities and the contractual terms of the new financial liabilities and those for existing financial liabilities are inconsistent, the existing financial liabilities shall be derecognized and the new financial liabilities shall be recognized.

If the financial assets are traded regularly, they are recognized and derecognized at the transaction date.

(2) Classification and measurement of financial assets

The Group's financial assets are, upon initial recognition, classified into the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets. Financial assets are initially recognized at fair value. For financial assets at fair value through profit or loss, transaction costs are immediately recognised in profit or loss. For other financial assets, transaction costs are included in their initial recognised amounts.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include tradable financial assets and those designated as financial assets at fair value through profit or loss upon initial recognition. Such financial assets are subsequently measured at fair value, all gains and losses from changes in fair value and dividend and interest income related to these financial assets are recognized in profit or loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

(2) Classification and measurement of financial assets (Continued)

Investment held to maturity

The investment held to maturity refers to the non-derivative financial assets with fixed maturity, fixed or determinable recovery amount which the Group has definite intention and capacity to hold to maturity. The investment held to maturity is subsequently measured according to the amortized cost through effective interest method, and the profit or loss from its derecognition, impairment or amortization is recorded into the profit and loss for the current period.

Receivables

The receivables refer to the non-derivative financial assets with fixed or determinable recovery amount but no quotes available in the active market, including the account receivable and other receivables (Note III, 11). The receivables are subsequently measured according to the amortized cost using effective interest method, and the profit or loss from its recognition, impairment or amortization is recorded into the profit and loss for the current period.

Financial assets available for sale

The financial assets available for sale refer to the non-derivative financial assets defined as available for sale upon initial recognition, and the financial assets other than the aforesaid types. The financial assets available for sale are subsequently measured according to fair value, and its depreciation or premium is amortized using effective interest method and recognized as interest income. Except for the impairment loss and the exchange difference of the foreign currency-denominated financial assets, the change of fair value of the financial assets available for sale is recognized as other comprehensive income, and transferred out and recorded into the profit and loss for the current period upon the derecognition of the relevant financial assets. The dividend or interest income related to the financial assets available for sale is recorded into the profit and loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

(2) Classification and measurement of financial assets (Continued)

Financial assets available for sale (Continued)

The equity instrument investment which has no quote in the active market and whose fair value cannot be reliably measured and the derivative financial assets which are linked to the equity instrument and must be settled by delivering the equity instrument are measured at cost.

(3) Classification and measurement of financial liabilities

The financial liabilities of the Group are classified as the following upon initial recognition: Financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period, and other financial liabilities. For the financial liabilities not classified as the financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period, the relevant transaction expenses are charged to its initially recognized amount.

Financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period

The financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period include trading financial liabilities and the financial liabilities designated to be measured at fair value and whose movements are included in the profit and loss of the current period upon initial recognition. Such financial liabilities are subsequently measured according to fair value, and the profit or loss from the change of fair value and the dividend or interest expenditure related to the financial liabilities are recorded into the profit and loss of the current period.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

(3) Classification and measurement of financial liabilities (Continued)

Other financial assets

The derivative financial assets which are linked to the equity instrument that has no quote in the active market and whose fair value cannot be reliably measured and must be settled by delivering the equity instrument are subsequently measured at cost. Other financial liabilities are subsequently measured according to the amortized cost using effective interest method, and the profit or loss from its derecognition or amortization is recorded into the profit and loss for the current period.

Difference between financial liabilities and equity instruments

Financial liabilities refer to the liabilities meeting one of the following criteria:

- 1 The contractual obligation to pay cash or deliver other financial assets to other parties;
- 2 The contractual obligation to exchange financial assets or financial liabilities with other parties under potentially unfavorable conditions;
- 3 The non-derivative instrument contract which must or may be settled through the enterprise's own equity instrument and based on which the enterprise will deliver a variable quantity of its own equity instruments;
- 4 The derivative instrument contract which must or may be settled through the enterprise's own equity instrument, except for the derivative instrument contract based on which the enterprise exchange fixed amount of its own equity instruments for fixed amount cash or other financial assets.

Equity instrument refers to the contract that proves the ownership of the remaining equity in an enterprise's assets after netting of all the liabilities.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

(3) Classification and measurement of financial liabilities (Continued)

Difference between financial liabilities and equity instruments (Continued)

If the Group cannot unconditionally avoid the performance of a contractual obligation by paying cash or delivering other financial assets, the contractual obligation meets the definition of financial liabilities.

If a financial instrument must or may be settled with the Group's own equity instrument, it shall be taken into account whether the Group's own equity instrument used for settling the instrument is the substitute of cash or other financial assets, or is used to entitle the instrument holder with the remaining equity in the assets of the issuer after netting of all the liabilities. In the former case, this instrument is the financial liability of the Group, while in the latter case, it is the equity instrument of the Group.

(4) Derivative financial instruments and embedded derivatives

The derivative financial instruments include forward foreign exchange contract, currency swap contract, interest rate swap contract and foreign exchange option contract. It is initially measured at the fair value as at the signing date of the derivative transaction contract and subsequently measured according to its fair value. The derivative financial instrument with positive fair value is recognized as an asset, while the derivative financial instrument with negative fair value is recognized as a liability. The profit or loss from the change of fair value which does not comply with the hedging accounting rules is directly recorded into the profit and loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

(4) Derivative financial instruments and embedded derivatives (Continued)

For the hybrid instrument which includes embedded derivatives, if it is not designated as financial assets or financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period, there is no close relation between the embedded derivatives and the main contract in terms of economic features and risks, and the instrument that has the same condition with the embedded derivatives and exists independently meets the definition of derivatives, the embedded derivatives shall be separated from the hybrid instrument and treated as a separate derivative financial instrument. If it is unable to separately measure the embedded derivatives upon acquisition or on the subsequent balance sheet date, the hybrid instrument shall be entirely designated as the financial assets or financial liabilities measured at fair value and whose movements are included in the profit and loss of the current period.

(5) Fair value of the financial instrument

The methods for determining the fair value of the financial assets or financial liabilities are set out in Note III.10.

(6) Impairment of financial assets

Except for the financial assets measured at fair value and whose movements are included in the profit and loss of the current period, the Group will check the book value of other financial assets on the balance sheet date. If there is objective evidence to prove that the financial asset is impaired, impairment provision shall be made. The objective evidence indicating the impairment of the financial assets refers to the matters that actually occur after the initial recognition of the financial assets, have impact on the estimated future cash flow of the financial assets and whose impact can be reliably measured by the enterprise.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

The objective evidence indicating the impairment of the financial assets includes the following observable situations:

- 1 The issuer or debtor has severe financial difficulties;
- 2 The debtor breaches the contract terms, such as the default or delay in interest or principal payment;
- 3 The Group makes concession to the debtor with financial difficulties considering the economic or legal factors;
- 4 The debtor may go bankruptcy or conduct other financial reorganization;
- 5 Because the issuer has severe financial difficulties, the financial assets cannot be traded in the active market;
- 6 It is unable to identify if the cash flow of certain asset in a group of financial assets has been reduced, but it is detected after carrying overall evaluation according to the publically available data that the estimated future cash flow of the group of financial assets has been reduced since initial recognition and cannot be measured, including:
 - The payment capacity of the debtor of the group of financial assets is steadily worsened;
 - The country or jurisdiction of the debtor has such economic situation that may render the payment of the group of financial assets impossible;
- 7 The technical, market, economic or legal environment where the debtor operates in has material adverse change, and as a result, it may be unable for the equity instrument investor to recover the investment cost;

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

- 8 The fair value of the equity instrument investment has severe and non-temporal decline, for example, the fair value of the equity instrument on the balance sheet date is lower than 50% (inclusive) of its initial investment cost or is lower than the initial investment cost for consecutive 12 months or longer period.

“Being lower than the initial investment cost for consecutive 12 months or longer period” means the monthly average of the fair value of the equity instrument investment is lower than the initial investment cost for consecutive 12 months or longer period.

- 9 Other objective evidence indicating the impairment of the financial assets.

Financial assets measured at amortized cost

If there is objective evidence indicating the impairment of the financial asset, the book value of the financial asset will be written down to the current value of the estimated future cash flow (excluding the future credit loss that has not been incurred), with the written down amount recorded into the profit and loss for the current period. The current value of the estimated future cash flow is determined by discounting the financial asset according to the original effective interest rate, taking into account the value of the relevant collateral.

Impairment test will be conducted on the individual financial assets of significant amount. If there is objective evidence indicating its impairment, the impairment loss will be recognized and recorded into the profit and loss for the current period. The individual financial assets of insignificant amount will be subject to impairment test separately or included into the financial asset portfolio with similar credit risk features for impairment test. The financial assets (including individual financial assets of significant amount and individual financial assets of insignificant amount) for which impairment is not detected in the separate test will be included into the financial asset portfolio with similar credit risk features for impairment test again. The individual financial assets for which impairment loss has been recognized separately will not be included into the financial asset portfolio with similar credit risk features for impairment test.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

Financial assets measured at amortized cost (Continued)

After the Group recognizes the impairment loss for the financial asset measured at amortized cost, if there is objective evidence indicating the recovery of the value of the financial asset, and it is objectively related to the events occurring after the recognition of the loss, the recognized impairment loss will be reversed and recorded into the profit and loss for the current period, provided that the book value after reversal shall not exceed the amortized cost of the financial asset on the date of reversal if the impairment provision had not been made.

Financial assets available for sale

If there is objective evidence indicating the impairment of the financial asset, the accumulative loss resulting from the decline of fair value and directly charged to other comprehensive income will be transferred out and recorded into the profit and loss for the current period. The accumulative loss transferred out shall be the balance of the initial acquisition cost of the financial asset available for sale deducting the recovered principal and amortized amount, the current fair value and the impair loss previously recorded into the profit and loss.

For the debt instrument for which impairment loss has been recognized, if its fair value is increased in the subsequent accounting period, and it is objectively related to the events occurring after the recognition of the impairment loss, the recognized impairment loss will be reversed and recorded into the profit and loss for the current period. The impairment loss of the equity instrument investment available for sale will not be reversed through profit and loss.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

(6) Impairment of financial assets (Continued)

Financial assets measured at cost

When the equity instrument investment which has no quote in the active market and whose fair value cannot be reliably measured or the derivative financial asset which is linked to the equity instrument and must be settled by delivering the equity instrument is impaired, the difference between the book value of the financial asset and the cash value determined by discounting the future cash flow of the financial asset using the market return of similar financial assets at that time will be recognized as the impairment loss and recorded into the profit and loss for the current period. Once recognized, the impairment loss will not be reversed.

(7) Transfer of financial assets

Transfer of financial assets means to assign or deliver the financial assets to other party other than the financial assets issuer (the transferee).

If the Group has transferred substantially all the risks and returns of the financial asset ownership to the transferee, the financial asset will be derecognized; while if substantially all the risks and returns of the financial asset ownership are retained, the financial asset will not be derecognized.

If the Group neither transfers nor retains substantially all the risks and returns of the financial asset ownership, it shall be treated according to the following situations: if the Group gives up the control on the financial asset, the financial asset will be derecognized, and the resulting assets and liabilities will be recognized; if the Group does not give up the control on the financial asset, the relevant financial asset will be recognized according to its proportion of participation in the transferred financial asset, and the relevant liabilities will be recognized.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

(8) Set-off between financial assets and financial liabilities

If the Group has the legal right to set off the recognized financial assets and financial liabilities, and this legal right can be exercised currently, when the Group intends to settle in net amount or simultaneously realize the financial asset and settle financial liability, the financial asset and financial liability will be presented in the balance sheet in the amount after mutual set-off. Otherwise, the financial assets and financial liabilities will be presented separately in the balance sheet and will not be mutually set off.

10. Fair value measurement

Fair value refers to the price that can be received when disposing of an asset or it needs to be paid when transferring a liability in the orderly transaction made by the market participants on the measuring date.

The Group measures the relevant assets or liabilities through fair value, assuming that the orderly transactions for disposing of assets or transferring liabilities are conducted in the principal market of the relevant assets or liabilities. If there is no such principal market, the Group assumes that the transaction is conducted in the most favorable market of the relevant assets or liabilities. Principal market (or most favorable market) refers to the market that the Group can enter on the measuring date. The Group adopts the assumption used by the market participants to maximize their economic benefit when pricing the relevant asset or liability.

For the financial assets or financial liabilities with active market, the Group adopts the quote in the active market to determine their fair value. If there is no active market for the relevant financial asset, the Group determines its fair value through valuation technique.

When non-financial assets are measured at fair value, the ability of the market participants to use the asset in best application to generate economic benefit, or the ability to dispose of the asset to other market participants with best application to generate economic benefit will be taken into account.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Fair value measurement (Continued)

The Group adopts suitable valuation techniques with sufficient available data and information support and gives priority in use of the relevant observable input value. It will use the unobservable input value only when it is unable or impracticable to obtain the observable input value.

For the assets and liabilities measured or disclosed at fair value in the financial statement, the level of the fair value is determined according to the lowest level input values which are of significance to the fair value measurement entirely: level 1 input value is the unadjusted quote of the same asset or liability in the active market available on the measuring date; level 2 input value is the directly or indirectly observable input value of the relevant asset or liability other than the level 1 input value; level 3 input value is the unobservable input value of the relevant asset or liability.

The Group will reevaluate the assets and liabilities measured at fair value and recognized in the financial statement on each balance sheet date, in order to determine if there is any change to the fair value measuring levels.

11. Receivables

Receivables include account receivable and other receivables.

(1) Individual receivable of significant amount for which individual bad debt provision is made

Judgment basis and amount criteria for individual item of significant amount: any individual receivable whose closing balance accounts for above 10% of the receivables shall be considered as individual receivable of significant amount.

Bad debt provision made for individual receivable of significant amount: Individual receivable of significant amount shall be subject to separate impairment test. If there is objective evidence indicating the impairment, bad debt provision shall be made based on the difference between the current value of the future cash flow and the book value.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Receivables (Continued)

- (1) Individual receivable of significant amount for which individual bad debt provision is made (Continued)

The individual receivable of significant amount for which impairment is not detected in the separate test shall be included into relevant portfolio for bad debt provision.

- (2) Individual receivable of insignificant amount for which individual bad debt provision shall be made

Reason for making individual bad debt provision	Receivables involving litigation or deterioration of credit of customer
Method for individual bad debt provision	Bad debt provision shall be made based on the difference between the current value of the future cash flow and the book value

- (3) Receivables for which bad debt provision is made by portfolio

For the receivables for which impairment is not detected in the separate tests (including individual receivable of significant amount and individual receivable of insignificant amount) and the individual receivable of insignificant amount that has not been subject to separate test, bad debt provision shall be made according to portfolios with the following credit risk features:

Portfolio type	Basis for portfolio determination	Method for bad debt provision by portfolio
Aging portfolio	Aging status	Aging analysis method
Riskless portfolio	Other inter-company receivables, employee reserve, tender bond, performance bond within the contract term, and other receivables the recovery of which is proved by evidence included in the consolidated statement of Beijing State-Owned Assets Management Co., Ltd	No bad debt provision is made

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Receivables (Continued)

(3) Receivables for which bad debt provision is made by portfolio (Continued)

The proportions used in making bad debt provision for aging portfolio with aging analysis method are as follows

Age	Proportion of accrual	
	e-government	e-commerce
0-6 months	–	–
6 months – 1 year	10%	25%
1-2 years	25%	50%
2-3 years	50%	100%
Above 3 years	100%	100%

12. Inventory

(1) Inventory category

The inventory of the Group includes raw material, work-in-process, low-value consumables and finished products.

(2) Valuation method for released inventory

The inventory is valued according to the actual cost when it is acquired, and valued with individual valuation method when the inventory is released.

(3) Determination basis for realizable net value of the inventory and method for inventory impairment provision

The realizable net value of the inventory is the amount of the estimated sales price of the inventory deducting the cost incurred upon completion, the estimated sales expense and the relevant taxes. The realizable net value of the inventory is determined based on the available concrete evidence, with the purpose for holding the inventory and the impact of the events after balance sheet date taken into account.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Inventory (Continued)

- (3) Determination basis for realizable net value of the inventory and method for inventory impairment provision (Continued)

If the inventory cost is higher than the realizable net value on the balance sheet date, the inventory impairment provision shall be made. The Group generally makes inventory impairment provision for inventory items of individual categories. If the influence factor that caused the write-down of inventory value is eliminated on the balance sheet date, the inventory impairment provision shall be reversed in the incurred amount.

- (4) Inventory system

The Group adopts perpetual inventory system as its inventory system.

- (5) Amortization method for low-value consumables

The Group amortizes the low-value consumables with one-off write-off method at the time of consumption.

13. Assets held for sale and discontinued operations

- (1) Category and measurement of non-current assets held for sale or disposal groups

When the Group recovers the book value of a non-current asset or disposal group through disposal (including the non-monetary asset exchange of business nature) rather than continuous use, the non-current asset or disposal group will be classified into the held-for-sale type.

The aforesaid non-current asset does not include the investment property subsequently measured through fair value, the biological assets measured at the net amount of the fair value deducting the sales expense, the assets generated from payroll, financial assets, deferred income tax assets and rights from insurance contract.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Assets held for sale and discontinued operations (Continued)

(1) Category and measurement of non-current assets held for sale or disposal groups (Continued)

Disposal group refers to a group of assets that will be sold or otherwise disposed of as a whole in a transaction and the liabilities directly related to the assets transferred in the transaction. In certain situations, the disposal group includes the goodwill acquired in the corporate merger.

The non-current assets or disposal groups meeting all the following criteria will be classified into the held-for-sale type: The non-current asset or disposal group can be sold immediately in the current status according to the practices for the disposal of such non-current assets or disposal groups in similar transactions; the sale is probable to occur, that is, resolution has been made for a sale plan and definite purchase commitment has been obtained, and it is estimated the sale will be completed in a year. If the control over the subsidiary is lost due to the disposal of the investment in the subsidiary, no matter the Group retains some equity investment after the disposal or not, when the investment in the subsidiary proposed for disposal meets the classification criteria of the held-for-sale type, the investment in the subsidiary shall be classified into the held-for-sale type entirely in the individual financial statement, and all the assets and liabilities of the subsidiary shall be classified into the held-for-sale type in the consolidated financial statement.

The difference between the book value and the net amount of the fair value deducting the sales expense shall be recognized as the asset impairment loss upon initial measurement or when the non-current asset held for sale or disposal group is remeasured on the balance sheet date. To determine the asset impairment loss for the disposal group held for sale, the book value of the goodwill in the disposal group shall be deducted, and then its book value shall be deducted in proportion according to the percentages of the book value of the individual non-current assets in the disposal group.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Assets held for sale and discontinued operations (Continued)

(1) Category and measurement of non-current assets held for sale or disposal groups (Continued)

If the net amount of the fair value deducting the sales expense of the non-current asset held for sale and disposal group is increased on the subsequent balance sheet date, the previously written down amount shall be restored, and reversed in the asset impairment loss amount recognized after it was classified into the held-for-sale type, with the reversal amount recorded into the profit and loss for the current period, provided that the deducted book value of the goodwill shall not be reversed.

The non-current asset held for sale and the assets in the disposal group held for sale will not be subject to depreciation provision or amortization, while the interests and other expenses of the liabilities in the disposal group held for sale shall be recognized. As far as the investment in the joint venture and affiliate is concerned, for the part classified into the held-for-sale type, the accounting with equity method shall be stopped, while the remaining part (which is not classified into the held-for-sale type) shall still be accounted for using the equity method. When the Group loses the significant influence on the joint venture and affiliate due to the sale, the use of equity method shall be stopped.

When certain non-current asset or disposal group classified into the held-for-sale type no longer meets the classification criteria for held-for-sale type, the Group shall stop classifying it into the held-for-sale type and measure it according to the lower of the following two amounts:

- 1 The amount of book value of the asset of disposal group before it was classified into the held-for-sale type after being adjusted with the depreciation, amortization or impairment that should be recognized if it was not classified into the held-for-sale type;
- 2 the recoverable amount.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Assets held for sale and discontinued operations (Continued)

(2) Discontinued operation

Discontinued operation refers to the component meeting one of the following conditions that has been disposed of by the Group or classified by the Group into the held-for-sale type and can be identified separately:

- 1 The component represents an independent principal business or a separate principal business place.
- 2 The component is a part of the related plan for disposing of an independent principal business or a separate principal business place.
- 3 The component is a subsidiary acquired for resale.

(3) Presentation

The Group presents the non-current assets held for sale and the assets in the disposal group held for sale under "assets classified as held for sale", and the liabilities in the disposal group held for sale under "liabilities classified as held for sale" in the balance sheet.

The Group presents the profit and loss for continuing operation and profit and loss for discontinued operation in the income statement. The impairment loss and reversal amount and disposal profit and loss of the non-current assets held for sale and disposal group not meeting the definition of discontinued operation will be presented as the profit and loss of continuing operation. The operating profit and loss (such as impairment loss and reversal amount) and disposal profit and loss of the discontinued operation will be presented as the profit and loss of the discontinued operation.

The disposal group proposed for retirement rather than sale and meeting the condition about the relevant component in the definition of the discontinued operation will be presented as discontinued operation on and from the date of retirement.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Assets held for sale and discontinued operations (Continued)

(3) Presentation (Continued)

For the discontinued operation reported in the current period, the information formerly presented as profit and loss of continuing operation will be presented as the profit and loss of discontinued operation for the comparable accounting period in the financial statement of the current period. If the discontinued operation no longer meets the classification criteria for held-for-sale type, the information formerly presented as profit and loss of discontinued operation will be presented as the profit and loss of continuing operation for the comparable accounting period in the financial statement of the current period.

14. Long-term equity investment

The long-term equity investment includes the equity investment in the subsidiary, joint venture and affiliate. The investee over which the Group has significant influence is the joint venture of the Group.

(1) Determination of initial investment cost

The long-term equity investment resulting from corporate merger: For the long-term equity investment resulting from merger of companies under the same control, the book value of the ownership equity of the merged party obtained on the merger date presented in the consolidated financial statement of the final controlling party will be used as the investment cost. For the long-term equity investment resulting from merger of companies under different controls, the merger cost will be used as the investment cost of the long-term equity investment.

The long-term equity investment obtained by other means: For the long-term equity investment obtained by paying cash, the actually paid purchase price will be used as the initial investment cost. For the long-term equity investment obtained by issuing equity securities, the fair value of the issued equity securities will be used as the initial investment cost.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Long-term equity investment (Continued)

(2) Subsequent measurement and profit and loss recognition method

The investment in subsidiary will be accounted for using cost method, unless the investment meets the criteria of held-for-sale type. The investment in joint venture and affiliate will be accounted with equity method.

For the long-term equity investment accounted for using cost method, except for the price actually paid upon the investment or the cash dividend or profit in the consideration that has been declared but not released, the cash dividend or profit declared and distributed by the investee is recognized as the investment income and recorded into the profit and loss for the current period.

For the long-term equity investment accounted for using equity method, if the initial investment cost is higher than the fair value of the identifiable net assets of the investee attributable to the Group, the investment cost of the long-term equity investment will not be adjusted. If the initial investment cost is lower than the fair value of the identifiable net assets of the investee attributable to the Group, the investment cost of the long-term equity investment will be adjusted, with the difference recorded into the profit and loss for the current period of investment.

For long-term equity investment accounted for using equity method, return on investment and other comprehensive income are recognized separately according to the share in the investee's net profit/or loss and its other comprehensive income, with the book value adjusted for the long-term equity investment by the Group. Book value of the long-term equity investment will be deducted according to the announced profit to be distributed by the investee or the share of cash dividend. Changes to owner's equity other than net profit/or loss, other comprehensive and profit distribution cause book value of long-term equity investment to be adjusted, and taken into capital reserve (other capital reserve). Net profit of the investee is recognized after adjustment according to the accounting policy and accounting period of the Group on the basis of fair value of all recognizable assets of the investee on acquisition.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Long-term equity investment (Continued)

(2) Subsequent measurement and profit and loss recognition method (Continued)

If the Group is able to exert significant influence or implement joint control (which does not constitute control) on the investee through additional investment or other reason, the sum of the fair value of the original equity plus the additional investment cost will be used as the initial investment cost, which will be accounted for with equity method, on the conversion date. The difference between the fair value of the original equity on the conversion date and its book value, and the accumulated change of fair value recorded into other comprehensive income will be transferred into the profit and loss for the current period, which will be accounted for using equity method.

If the Group loses the joint control or significant influence on the investee due to the disposal of some equity investment or other reasons, the remaining equity after disposal will be subject to the accounting treatment according to Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments on the date when the joint control or significant influence is lost, and the difference between the fair value and book value will be recorded into the profit and loss for the current period. Other comprehensive income recognized for the original equity investment because equity method is used for accounting will be subject to the accounting treatment on the same basis as adopted by the investee for the direct disposal of the relevant assets or liabilities when the accounting with equity method is stopped. The change of other owner's equity related to the original equity investment will be transferred into the profit and loss for the current period.

If the Group loses the control on the investee due to the disposal of some equity investment or other reasons, but still can implement joint control or exert significant influence on the investee with the remaining equity after disposal, equity method will be used for accounting, and the remaining equity shall be adjusted as if it is accounted for using equity method since the date of acquisition. If the Group cannot implement joint control or exert significant influence on the investee with the remaining equity after disposal, the accounting treatment shall be made according to the relevant provisions of Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments, and the difference between the fair value on the date of loss of control and the book value will be recorded into the profit and loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Long-term equity investment (Continued)

(2) Subsequent measurement and profit and loss recognition method (Continued)

If the shareholding proportion of the Company is reduced due to the capital increase of other investors, and as a result, the Company loses the control of but still can implement common control or exert significant influence on the investee, the net asset increase due to the capital increase of the investee attributable to the Company shall be recognized according to the new shareholding proportion, and the difference with the original book value of the long-term equity investment corresponding to the shareholding proportion reduction part that should be carried forward shall be recorded into the profit and loss for the current period; and then it shall be adjusted according to the new shareholding proportion as if equity method is used for accounting since the time of investment acquisition.

The profit and loss of the unrealized internal transactions between the Group and the joint venture and affiliate calculated according to the shareholding proportion and attributable to the Group shall be recognized as the investment profit and loss on the basis of set-off, provided that the unrealized internal transaction loss between the Group and the investee which belongs to impairment loss of the transferred asset shall not be set off.

(3) Basis for determining the joint control and significant influence on the investee

Joint control means the joint control on certain arrangement according to the relevant agreement where decision on the arranged activity can be made only with the unanimous consent of the participants sharing the control. When judging if there is any joint control, it should first be identified if the arrangement is controlled by all the participants or the group consisting of the participants, and then judged if the decision on the arranged activity can be made only with the unanimous consent of the participants sharing the control. If all the participants or a group of participants can only decide the relevant activities of certain arrangement through concerted action, it can be considered that all the participants or a group of participants jointly control the arrangement. If there are two or more participant groups that can collectively control certain arrangement, it does not constitute joint control. When judging if there is any joint control, the relevant protection rights will not be taken into account.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Long-term equity investment (Continued)

(3) Basis for determining the joint control and significant influence on the investee (Continued)

Significant influence means that the investor has the power to participate in the decision-making on the financial and operating policies of the investee but cannot control or jointly control with other parties the formulation of these policies. When determining if there is any significant influence on the investee, the influence of the voting shares of the investee held by the investor directly and indirectly and the potential voting rights held by the investor and other parties which are exercisable in the current period and converted to the equity of the investee, including the warrants, stock options and convertible bonds that are issued by the investee and can be converted in the current period, shall be taken into account.

When the Company holds directly or indirectly through the subsidiary 20% (inclusive) to 50% (exclusive) of the voting shares of the investee, it can be considered to have significant influence on the investee, unless there is concrete evidence to prove that it cannot participate in the production and operation decision-making of the investee and cannot exert significant influence in this situation. When the Group owns less than 20% of the voting shares of the investee, it is generally considered that it has not significantly influenced on the investee, unless there is concrete evidence to prove that it can participate in the production and operation decision-making of the investee and cannot exert significant influence in this situation.

(4) Equity investment held for sale

For the equity investment in the joint venture of affiliate which is classified as assets held for sale in whole or in part, please refer to Note III.13 for the accounting treatment.

The remaining equity investment not classified as assets held for sale shall be subject to accounting treatment with equity method.

If the equity investment in the joint venture of affiliate which is classified as assets held for sale no longer meets the classification criteria of assets held for sale, it shall be subject to adjustment using equity method, with retrospect to the date when it is classified as assets held for sale.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Long-term equity investment (Continued)

(5) Impairment test method and impairment provision method

For the investment in subsidiary, joint venture and affiliate, the method for making impairment provision is set out in Note III. 21.

15. Investment properties

Investment properties are properties held to earn rental or capital appreciation or both. The investment properties of the Group include land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out, etc.

Investment properties of the Group are measured initially at cost upon acquisition, and subject to depreciation or amortization in the relevant periods according to the relevant provisions on fixed assets or intangible assets.

The Group adopts the cost model for subsequent measurement of the investment properties. The method for asset impairment provision is set out in Note III. 21.

The balance after the disposal income from the disposal, transfer, scrapping or destruction of the investment properties deducts the book value and the relevant taxes shall be recorded into the profit and loss for the current period.

16. Fixed assets

(1) Conditions for recognition of fixed assets

The fixed assets of the Group refer to the tangible assets held for manufacturing products, providing services, lease or operation management and whose service life is more than one fiscal year.

The fixed asset can be recognized only when the economic benefit related to the fixed asset is probable to flow into the company and the cost of the fixed asset can be reliably measured.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Fixed assets (Continued)

(1) Conditions for recognition of fixed assets (Continued)

The fixed assets of the Group are initially measured at the actual cost upon acquisition.

(2) Depreciation method for various types of fixed assets

The Group adopts equal annual instalments method. Depreciation will be started when the fixed asset reaches its expected usable state, and stopped when the fixed asset is derecognized or classified as non-current asset held for sale. Without regard to the depreciation provision, the Group determines the annual depreciation rate of the fixed assets according to the type, estimated service life and estimated residual value of the fixed assets, as shown below:

Type	Service life (year)	% Residual value rate (%)	% Annual depreciation rate (%)
Machine and equipment	3-6 years	–	16.67-33.33
Transportation equipment	5 years	–	20.00
Others	3-5 years	0-5.00	19.00-33.33

Where, for the fixed assets for which depreciation provision is made, to determine the depreciation rate, the accumulated amount of the fixed asset depreciation provision that has been made shall be deducted.

(3) The impairment test method and impairment provision method of the fixed assets are set out in Note III 21.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Fixed assets (Continued)

- (4) The judgment basis, pricing method and depreciation method for the fixed assets obtained through financial lease

When the fixed asset leased by the Group meets one or several of the following criteria, it will be recognized as the fixed asset obtained through financial lease:

- 1 Upon the expiry of the lease term, the ownership of the leased asset is transferred to the Group.
- 2 The Group has the option to purchase the leased asset, and the agreed purchase price is estimated to be far lower than the fair value of the leased asset upon the exercise of the option, and as a result, it can be reasonably judged on the starting date of the lease that the Group will exercise the option.
- 3 Even when the ownership of the asset is not transferred, the lease term accounts for the substantial part of the service life of the leased asset.
- 4 The current value of the minimum lease payment made by the Group on the starting date of the lease is almost equal to the fair value of the leased asset on the starting date of the lease.
- 5 The leased asset has special characteristics and can only be used by the Group if it is not subject to major modification.

For the fixed asset obtained through financial lease, the lower of the fair value of the leased asset and the current value of the minimum lease payment on the starting date of the lease will be used as the recording value. The minimum lease payment will be used as the recording value of the long-term payables, with the difference treated as the unrecognized financing expense. The initial direct expenses incurred during the lease negotiation and the execution of the lease contract and attributable to the lease project, including the handling fee, lawyer's fee, travel expense and stamp duty, will be charged to the value of the leased asset. The unrecognized expense will be allocated with effective interest method to the reporting periods within the lease term.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Fixed assets (Continued)

- (4) The judgment basis, pricing method and depreciation method for the fixed assets obtained through financial lease (Continued)

The fixed assets obtained through financial lease shall be depreciated according to the depreciation policy on the self-owned fixed assets. If it can be reasonably determined that the ownership of the leased asset will be obtained upon the expiry of the lease term, the leased asset shall be depreciated in the usable years. If it is unable to determine if the ownership of the leased asset will be obtained upon the expiry of the lease term, the leased asset shall be depreciated in the shorter of the lease term and the usable years of the leased asset.

- (5) The Group will recheck the service life, estimated net residual value and depreciation method of the fixed assets at the end of each year.

When there is any difference between the service life estimate and the originally estimated value, the service life of the fixed asset shall be adjusted. When there is any difference between the estimated net residual value estimate and the originally estimated value, the estimated net residual value of the fixed asset shall be adjusted.

- (6) Overhaul expense

For the overhaul expense incurred during the regular inspection on the fixed assets, if there is concrete evidence to prove that it meets the fixed asset recognition condition, it shall be recorded into the fixed asset cost; if it does not meet the fixed asset recognition condition, it shall be recorded into the profit and loss for the current period. The depreciation of fixed assets shall be continued in the intervals of the regular overhaul of the fixed asset.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Work in progress

The cost of work in progress shall be determined according to the actual project expenditure, including the necessary project expenditures incurred during the construction, the loan expenses that should be capitalized before the project reaches the estimated usable status and other relevant expenses.

The work in progress will be transferred into fixed assets when they reach estimated usable state.

The depreciation method for work in progress is set out in Note III 21.

18. Borrowing expenses

(1) Recognition principle for the capitalization of the borrowing expenses

The borrowing expenses incurred by the Group directly attributable to the acquisition or production of the assets that meet the capitalization conditions will be capitalized and recorded into the relevant asset cost. Other borrowing expenses will be recognized as expenses when incurred according to the incurred amount, and recorded into the profit and loss for the current period. When the borrowing expenses meet all the following conditions, capitalization shall be started:

- 1 The capital expenditure has been incurred, which includes the expenditure incurred by paying cash, transferring non-cash assets or undertaking interest-bearing liabilities for acquiring or producing the assets meeting the capitalization conditions;
- 2 The borrowing expenses have been incurred;
- 3 The acquisition or production activity necessary for the asset to reach the estimated usable status or marketable status has been started.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Borrowing expenses (Continued)

(2) Capitalization period of borrowing expenses

When the assets acquired or produced by the Group that meet the capitalization conditions reach the estimated usable status or marketable status, the capitalization of the borrowing expenses shall be stopped. The borrowing expenses incurred after the assets meeting the capitalization conditions reach the estimated usable status or marketable status shall be recognized as expenses when incurred according to the incurred amount, and recorded into the profit and loss for the current period.

If the acquisition or production of the assets meeting the capitalization conditions is abnormally interrupted and the interruption lasts for more than 3 months, the capitalization of the borrowing expenses shall be suspended. The capitalization of the borrowing expenses shall be continued in the normal interruption period.

(3) Calculation methods for capitalization rate and capitalization amount of the borrowing expenses

The amount of the interest expenses incurred in the current period of the special borrowing deducting the interest income earned by depositing the unused borrowed fund into the bank or the investment income earned by making temporary investment with the unused borrowed fund shall be capitalized. The capitalization amount of the general borrowing is calculated by multiplying the part of the weighted average value of accumulated assets expenditure that the accumulated assets expenditure exceeds the special borrowing with the capitalization rate of the general borrowing. The capitalization rate is determined according to the weighted average interest rate of the general borrowing.

During the capitalization period, all the exchange difference of the foreign currency special borrowing shall be capitalized, while the exchange difference of the foreign currency general borrowing shall be recorded into the profit and loss for the current period.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Intangible assets

The intangible assets of the Group include software and customer relationship.

The intangible asset is initially measured at cost, and its service life is judged upon acquisition. If the service life is limited, the intangible asset will be amortized in the estimated service life using the amortization method that can reflect the estimated realization of the economic benefits related to the asset, starting from the time when it is available for use. If it is unable to reliably determine the estimated realization, straight-line amortization shall be adopted. The intangible assets with uncertain service life will not be amortized.

The amortization methods for the intangible assets with limited service life are as follows:

Type	Service life	Amortization method	Remark
Software	No more than 3 years	Direct approach	-
Customer relationship	3 years	Direct approach	-

The Group will recheck the service life and amortization method of the intangible assets with limited service life at the end of each year. If it is different from the previous estimates, the original estimates will be adjusted, and accounting estimate change treatment shall be made.

If it is estimated on the balance sheet date that certain intangible asset can no longer bring future economic benefit to the company, the book value of the intangible asset will be entirely transferred into the profit and loss for the current period.

The impairment methods for the intangible assets are set out in Note III 21.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. R&D expenditure

The Group divides the expenditure of internal R&D project into research stage expenditure and development stage expenditure.

The research stage expenditure will be recorded into the profit and loss for the current period when incurred.

The development stage expenditure can be capitalized only when it meets all the following conditions: it is technically feasible to complete the intangible asset and make it usable and marketable; it is intended to complete and use or sell the intangible asset; the usefulness of the intangible asset can be proved by its method to generate economic benefit, including the fact that there is market for the product manufactured using the intangible asset, there is market for the intangible asset itself, or the intangible asset will be used internally; there is sufficient technical, financial resource and other resource support to complete the development of the intangible asset, there is the ability to use or sell the intangible asset; and the expenditure attributable to the development stage of the intangible asset can be reliably measured. The development expenditure not meeting the above conditions will be recorded into the profit and loss for the current period.

The R&D project of the Group enters the development stage when the above conditions are satisfied, it passes the technical feasibility and economic feasibility study and the project is established.

The capitalized development stage expenditure is presented as development expenditure on the balance sheet and converted to intangible asset on the date when the project reaches the estimated usable status.

21. Assets impairment

The assets impairment of the long-term equity investment in subsidiary, joint venture and affiliate, the investment property, fixed asset, work in progress subsequently measured at cost, the intangible asset and goodwill measured at cost (except for the inventory, investment property measured at fair value, deferred income tax asset and financial asset) shall be determined according to the following method:

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Assets impairment (Continued)

Judging if the asset has the sign of impairment on the balance sheet date. If there exists the sign of impairment, the Group will estimate its recoverable amount and conduct impairment test. The goodwill resulting from corporate merger, the intangible asset with uncertain service life and the intangible asset that has not reached the usable status will be subject to impairment test each year, no matter there is any sign of impairment or not.

The recoverable amount is determined according to the higher of the net amount of the asset fair value deducting the disposal expense and the current value of the estimated future cash flow of the asset. The Group estimates the recoverable amount based on individual assets. If it is hard to estimate the recoverable amount of the individual asset, the recoverable amount of the asset group that the relevant asset belongs to shall be determined. The asset group shall be determined on the basis whether the principal cash inflow it generates is separate from the cash inflow of other assets or asset groups.

When the recoverable amount of the asset or asset group is lower than its book value, the Group will write down the book value to the recoverable amount, record the written down amount into the profit and loss for the current period, and make corresponding impairment provision.

With regard to the goodwill impairment test, the book value of the goodwill resulting from corporate merger shall be allocated to the relevant asset group according to the reasonable method on the acquisition date. If it is difficult to allocate to the relevant asset group, it shall be allocated to the relevant asset group portfolio. The relevant asset group or asset group portfolio shall be the asset group or asset group portfolio that can benefit from the synergy of corporate merger but is not larger than the reporting division determined by the Group.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Assets impairment (Continued)

If any sign of impairment is detected on the asset group or asset group portfolio related to goodwill during the impairment test, the asset group or asset group portfolio not containing the goodwill shall be subject to impairment test first, in order to calculate the recoverable amount and determine the corresponding impairment loss. Then, the asset group or asset group portfolio containing the goodwill shall be subject to impairment test by comparing its book value and the recoverable amount. If the recoverable amount is lower than the book value, the goodwill impairment loss shall be recognized.

Once the asset impairment loss is recognized, it will not be reversed in the subsequent accounting periods.

22. Long-term deferred expenses

The long-term deferred expenses incurred by the Group shall be recognized according to the actual cost, and evenly amortized in the estimated benefit periods. For the long-term deferred expense that cannot benefit the subsequent accounting periods, its value after amortization shall be entirely recorded into the profit and loss for the current period.

23. Payroll

(1) Payroll range

Payroll refers to the remuneration or compensation of varied forms provided by the enterprise for the service offered by the employee or for terminating the labor relationship. The payroll includes short-term compensation, post-termination benefit, demission benefit and other long-term employee benefits. The benefits provided by the enterprise to the spouses, children, dependents of the employees, the family dependants of the deceased employees and other relevant beneficiaries also belong to payroll.

The payroll is respectively presented under “payroll payable” item and “long-term payroll payable” according to mobility.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Payroll (Continued)

(2) Short-term compensation

The Group will recognize the employee salary, bonus, social security contributions (such as medical insurance premium, work injury insurance premium and birth insurance premium) and housing fund paid for the employees according to the prescribed standards and proportions incurred in the accounting period in which the employees provide service as liabilities and record into the profit and loss for the current period or the relevant asset cost. If it is estimated that the liability cannot be fully paid in 12 months after the end of the reporting period for the year in which the employee provides relevant service and it has significant financial influence, the liability shall be measured according to the discounted amount.

(3) Post-termination benefit

The post-termination benefit plan includes defined contribution plan and defined benefit plan. The defined contribution plan refers to the post-termination benefit plan that the company will no longer undertake further payment obligation after making fixed amount payment to the independent fund. The defined benefit plan is the post-termination benefit plan other than the defined contribution plan.

Defined contribution plan

The defined contribution plan includes basic pension insurance, unemployment insurance etc.

The amount payable according to the defined contribution plan in the accounting period in which the employee provides service will be recognized as liability and recorded into the profit and loss for the current period or the relevant asset cost.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Payroll (Continued)

(3) Post-termination benefit (Continued)

Defined benefit plan

Actuarial evaluation on the defined benefit plan will be conducted by the independent actuaries on the balance sheet date of the year, in order to estimate the cost for benefit provision using the projected unit credit method. The payroll cost resulting from the defined benefit plan of the Group includes the following parts:

- 1 Service cost, including the service cost for the current period, previous service cost and the settlement profit or loss. The service cost for the current period refers to the increase of the current value of the defined benefit plan obligation resulting from the service provision by the employee in the current period. The previous service cost refers to the increase or decrease of the current value of the defined benefit plan obligation related to the previous service periods of the employee resulting from change of the defined benefit plan.
- 2 The net interest of the net liability or net asset of the defined benefit plan, including the interest income of the plan asset, the interest expense of the defined benefit plan obligation and the interest affected by the asset limit.
- 3 Change from the remeasurement of the net liability or net asset of the defined benefit plan.

Unless other accounting standards require or permit the employee benefit cost to be recorded into asset cost, the Group will record items 1 and 2 into the profit and loss for the current period, and record item 3 into other comprehensive income and will not transfer it back to profit and loss in the subsequent accounting periods. When the defined benefit plan is terminated, the part formerly recorded into other comprehensive income will be entirely transferred to the unallocated profit within the equity range.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Payroll (Continued)

(4) Demission benefit

When the Group provides demission benefit to the employee, it will recognize the payroll liability resulting from the demission benefit on the earlier of the following days: when the Group cannot unilaterally withdraw the demission benefit due to the termination of the labor relationship or reduce the proposed demission benefit; when the Group recognizes the cost or expense of the reorganization involving the payment of demission benefit.

If internal retirement plan is implemented, the economic compensation made before the official retirement date belongs to the demission benefit. The salary to be paid to and the social security contributions to be made for the employee subject to internal retirement for the period from the date when the employee stops offering service to the official retirement date shall be entirely recorded into the profit and loss for the current period. The economic compensation made after the official retirement date (e.g., the normal pension) shall be treated as post-termination benefit.

(5) Other long-term benefits

The other long-term benefits provided by the Group to the employees will be treated according to the provisions on defined contribution plan if they meet the criteria of defined contribution plan, and treated according to the provisions on defined benefit plan if they meet the criteria of defined benefit plan, provided that the "Change from the remeasurement of the net liability or net asset of the defined benefit plan" in the relevant payroll cost shall be recorded into the profit and loss for the current period or the relevant asset cost.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Estimated liabilities

If the obligation related to contingencies meet the all the following conditions, the Group will recognize it as estimated liability:

- (1) The obligation is the current obligation undertaken by the Group;
- (2) The performance of the obligation may cause the outflow of economic benefit from the Group;
- (3) The obligation amount can be reliably measured.

The estimated liability shall be initially measured according to the best estimate for the expenditure required for the performance of the current obligation, with such factors as the risks, uncertainties related to the contingencies and the time value of money taken into account. If the time value of money has significant influence, the best estimates shall be determined after discounting the relevant future cash outflow. The Group will recheck the book value of the estimated liabilities on the balance sheet date and adjust the book value to reflect the current best estimates.

If the repayment of the expenditure required for the recognized estimated liability is expected to be entirely or partially reimbursed by the third party or any other party, the reimbursement can be recognized separately as asset when it is certain that the reimbursement can be received. The recognized reimbursement amount shall not exceed the book value of the recognized liability.

25. Revenue

(1) General principle

1 Sales of goods

Revenue from sales of goods is recognized when (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow to the Group; and (5) the associated costs incurred or to be incurred can be measured reliably.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Revenue (Continued)

(1) General principle (Continued)

2 Rendering of services

If the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from rendering of services is recognized using the percentage of completion method at the balance sheet date.

The stage of completion of a transaction for rendering of services is determined based on services performed to date as a percentage of total services to be performed.

Revenue from rendering of services is recognized when (1) the amount of revenue can be measured reliably; (2) it is probable that the associated economic benefits will flow to the enterprise; (3) the stage of completion of the transaction can be determined reliably; and (4) the associated costs incurred or to be incurred can be measured reliably.

If the outcome of a transaction involving the rendering of services cannot be estimated reliably, the revenue of rendering of services is recognized at the service cost incurred and estimated to be compensated, and the service cost incurred is recognized in profit or loss for the current period. If the service cost incurred is estimated not to obtain compensation, revenue is not recognized.

3 Transference of right to use assets

Revenue from the transference of right to use assets is recognized when the associated economic benefits will flow into the enterprise and the amount can be measured reliably.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Revenue (Continued)

(2) Methods of revenue recognition

The methods of revenue recognition for the Group are listed as follows:

- 1 The Group's revenue from software development and sales has been accepted and confirmed by the customers according to the contractual acceptance terms. If the relevant economic benefits are likely to flow into the company, and the relevant costs can be measured reliably, the revenue will be recognized all at once after the acceptance.
- 2 The Group's operation and maintenance revenues are recognized on a straight-line basis over the agreed period of operation and maintenance.
- 3 Revenue from system integration is recognized using the percentage of completion method. When the final outcome of system integration items can be estimated reliably, the revenue and cost of these items are recognized using the percentage of completion method at the balance sheet date. The stage of completion is determined based costs incurred to date as a percentage of total costs estimated. If the final outcome of system integration items cannot be estimated reliably, it shall be treated as follows: a. If cost of system integration items is recoverable, associated revenue is recognized based on the actual service cost incurred, which is recognized as current annual cost; b. If cost of system integration items is unrecoverable, it is recognized as current annual cost at occurrence and is not recognized as revenue of the items.
- 4 The consulting income of the Group is recognised on a straight-line basis during the agreed consultation period.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Government grants

A government grant is recognized when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of non-monetary asset, it is measured at fair value; if the fair value cannot be obtained in a reliable way, it is measured at the nominal amount of RMB1.

Government grant related to assets, designed to purchase or construct or form long-term assets, shall be recognized as a government grant pertinent to assets while others classified into government grants pertinent to income.

Regarding the government grant not clearly defined in the official documents and can form long-term assets, the part of government grant which can be referred to the value of the assets is classified as government grant related to assets and the remaining part is government grant related to income. For the government grant that is difficult to distinguish, the entire government grant is classified as government grant related to income.

The government grant related to assets shall be used to offset against the carrying value of the underlying assets. The government grant related to assets is recognized as deferred income and would be transferred to profit or loss in a reasonable and systematic manner within the period of use of the relevant assets. The government grant related to income which is used to compensate the relevant costs or losses incurred should be recognized in profit or loss for the current period or offset against relevant cost; the government grant related to income which is used to compensate the relevant costs or losses for the subsequent period is recognized as deferred income and shall be recognized in profit or loss of offset against relevant cost during the relevant cost or loss confirmation period. Government grants measured in the normal amount are directly included in profit or loss for the current period. The Group has adopted a consistent approach to the same or similar government grant business.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Government grants (Continued)

The government grants related to daily activities are recognized as other gains or offset against relevant costs in accordance with the substance of economic business. Government grants that are not related to daily activities are recognized as non-operating income and expenses.

If the recognized government grants need to be refunded, adjust the book value of assets when the book value of assets is offset at the time of initial recognition; the balance of deferred income is offset against the book balance of deferred income and the excess is recognized in profit or loss for the current period. In other circumstances, it is directly recognized in profit or loss for the current period.

27. Deferred tax assets and deferred tax liabilities

Tax expense comprises current tax expense and deferred tax expense. Current tax and deferred tax are included in profit or loss for the current period as tax expense, except that deferred tax related to transactions or events that are directly recognized in owners' equity is recognized directly in owners' equity, and deferred tax arising from a business combination is adjusted against the carrying amount of goodwill.

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base are recognized as deferred tax using the balance sheet liability method.

All the taxable temporary differences are recognized as deferred tax liabilities except for those incurred in the following transactions:

- (1) The initial recognition of goodwill, and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) when the transaction occurs;
- (2) The taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, and the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Deferred tax assets and deferred tax liabilities (Continued)

The Group recognizes a deferred tax asset for the carryforward of deductible temporary differences, deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, deductible losses and tax credits can be utilized, except for those incurred in the following transactions:

- (1) The transaction is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) when the transaction occurs;
- (2) The deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, the corresponding deferred tax asset is recognized when both of the following conditions are satisfied: it is probable that the temporary difference will reverse in the foreseeable future, it is probable that taxable profits will be available in the future, against which the temporary difference can be utilized.

At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and their tax effect is reflected.

At the balance sheet date, the Group reviews the carrying amount of a deferred tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred tax asset to be utilized, the carrying amount of the deferred tax asset is reduced. Any such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

28. Operating leases and finance leases

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Operating leases and finance leases (Continued)

(1) As lessor

In finance leases, at the beginning date of lease period, the Group will recognize the sum of minimum lease collection and initial direct costs as the recorded value of finance leases receivable and meanwhile the unguaranteed residual value is recorded; the difference between the sum of minimum lease collection, initial direct costs and unguaranteed residual value and their present value is recorded as unrecognized financing income. Unrecognized financing income is measured at amortized cost using the effective interest method in the periods of leasing and recognized in financing income for the current period.

Rental from operating leases is recognized in profit or loss on a straight-line basis over the lease term. The initial direct costs incurred are recognized in profit or loss for the current period.

(2) As lessee

In finance leases, at the beginning date of lease period, the Group will recognize the lower of the fair value of leased asset and the present value of minimum lease payment as the recorded value of the leased asset, their difference is recorded as unrecognized financing charges. Initial direct costs are recognized in leased assets' value. Unrecognized financing charges are measured at amortized cost using the effective interest method in each period of leasing and recognized in financing charges for the current period. The Group depreciates the leased assets by adopting the depreciation policy consistent with self-owned fixed assets.

Rental from operating leases is recognized in the cost of relevant assets or profit or loss on a straight-line basis over the lease term. The initial direct costs incurred are recognized in profit or loss for the current period.

29. Critical accounting judgments and estimates

The Group gives continuous assessment on the reasonable expectations of future events and the critical accounting estimates and key assumptions based on its historical experience and other factors.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Critical accounting judgments and estimates (Continued)

The critical accounting estimates and key assumptions that are likely to lead to significant risks of adjusting the carrying amount of assets and liabilities for the next financial year are listed as follows:

Impairment of goodwill

The Group evaluates at least once a year whether its goodwill has impaired, which entails estimation of the use value of the asset groups to which goodwill is allocated. In estimating the use value, the Group needs to estimate the future cash flow from the said asset group and selects the appropriate discount rate to calculate the current value of the future cash flow.

Development expenditure

Determining the amounts to be capitalized requires the management to make assumptions regarding the expected future cash flows from the assets, applicable discount rates and the expected period of benefits.

Deferred tax assets

To the extent that there is likely sufficient taxable profit to offset losses, deferred tax assets should be recognized in relation to all tax losses not used. Significant judgment of the management is required to determine the amount of deferred tax assets that should be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

30. Changes in Significant Accounting Policies and Accounting Estimates

(1) Changes in Significant Accounting Policies

According to the resolution approved by the Group's Board of Directors on 24 November 2017, the Group has implemented the CASBE since 1 January 2017. On the first application date of the CASBE, for the differences in the conversion of Hong Kong Financial Reporting Standards to the CASBE, please refer to Note 14. Supplementary Information.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Changes in Significant Accounting Policies and Accounting Estimates (Continued)

(1) Changes in Significant Accounting Policies (Continued)

1 Changes in significant accounting policies on consolidated financial statements

Contents of accounting policy and causes	Affected names on the statement	Affected amounts
Accounting Standards for Business Enterprises No. 42–Non-current Assets Held for Sale, Disposal Groups and Discontinued Operation made special requirements for non-current assets held for sale or the classification, measurement and presentation of disposal groups and presentation of discontinued operation after 28 May 2017, and adopted the prospective application method;	1 net profit from continuing operations 2 net profit from discontinued operations	- -
revised the presentation of financial statements and stated profits or losses from continuing operations and profits or losses from discontinued operations respectively in the consolidated and the parent's income statements;		
adjusted the presentation of comparative statements: for the purpose of presentation of discontinued operations in the current period, information stated as profits or losses from originally continuing operations shall be charged into profits or losses from discontinued operations in the comparative statement.		
According to the Accounting Standards for Business Enterprises No.16 — Government Grants in 2017, the accounting treatment of government grants was changed from the total method to the net method, and the amortization method of deferred income in related to government grants concerning assets was changed from average allocation of the use life of related assets to reasonable and systematic allocation and the stated items of government grants were modified. Undiluted government grants as at 1 January 2017 and government grants received as at 2017 are applicable to the revised standards. It is unnecessary to provide comparative information for new disclosure initiatives.	1 other income 2 non-operating income	7,468,583.83 -7,468,583.83
In accordance with the Notice on the Revision of the Format for Issuing General Enterprise Financial Statements (Cai Kuai [2017] No. 30), the statement item of "gains from disposal of assets" was newly added in the income statement. For the disposal gains or losses of the Company on the disposal of assets classified as non-current assets held for sale (excluding financial instruments, long-term equity investments and investment property) or disposal group, and those that are not classified as fixed assets, construction in progress, productive biological assets and intangible assets held for sale, and those that arise from disposal of non-current assets in debt reconstruction or exchange of non-currency assets.	1 Profits or losses from disposal of assets 2 non-operating income 3 non-operating expenditure	29,236.21 -114,673.99 -85,437.78
It deleted "Among: gains from disposal of non-current assets under "non-operating income" and "Among: Losses on disposal of non-current assets under "non-operating expenditure. Revenue not arising from corporate operation profits mainly includes gains or losses on debt reconstruction, government grants unrelated to enterprise's ordinary business, expenditure for public welfare donations, abnormal losses, gains or losses on inventory, gains from donations, damages and retirement losses of current assets.		
The presentation of the comparative statement has been adjusted accordingly.		

Note: The above changes in accounting policies do not affect the net asset at the beginning and the end of the period.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Changes in Significant Accounting Policies and Accounting Estimates (Continued)

(1) Changes in Significant Accounting Policies (Continued)

2 Changes in significant accounting policies on the parent's financial statements

Content and reasons of changes in accounting policies	Items affected	Amount affected
Since the Company proposed to adopt the CASBE for the first time to prepare the financial accounting report on 1 January 2017, according to the requirements of Chinese Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investments (2014 Revision), the investor's long-term equity investments in associates and joint ventures should be accounted for in the individual financial statements using the equity method.	1 Long-term equity investments 2 Surplus reserves 3 Undistributed profit 4 Capital reserves	68,230,117.93 3,063,837.66 27,574,538.90 37,591,741.38

Note: The above changes in accounting policies do not affect the data in consolidated financial statements.

(2) Changes in Accounting Estimates

Nil.

IV. TAXES

1. Main taxes and tax rates

Taxes	Calculation Basis	Statutory Tax Rate (%)
Value-added tax	Taxable income	6, 11, 17
Urban maintenance and construction tax	Commodity turnover tax payable	7
Corporate income tax	Taxable income	25

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

IV. TAXES (CONTINUED)

1. Main taxes and tax rates (Continued)

Name of Taxpayer	Income Tax Rate (%)
The Company	10
Capinfo Hong Kong	–
Capinfo Technology	15
Parking Management	25
Shanghai Hengyue	10
Rito Info	15

2. Tax preference and approvals

(1) Value-added tax

In accordance with the requirements of the Notice of Valued-added Tax Policies for Software Products (Cai Shui [2011] No. 100) promulgated by the Ministry of Finance and the State Administration of Taxation, Rito Info, a subsidiary of the Company, sells its own-developed and produced software. After levitation of value-added tax at a rate of 17%, the part over 3% will be refundable as soon as it is imposed.

According to the requirements of the Notice of Inclusion of Railway Transportation and Post Industry into the Pilot Proposals for the Change from Business Tax to Value-added Tax (Cai Shui [2015] No. 118) promulgated by the Ministry of Finance and the State Administration of Taxation, contracts of provision of technological transfer, development and related technological consulting or technological services are exempt from value-added tax upon recognition by the Municipal Competent Department of Science & Technology and reported to the Competent State Administration of Taxation for file.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

IV. TAXES (CONTINUED)

2. Tax preference and approvals (Continued)

(2) Corporate income tax

According to the requirements of the Notice of Corporate Income Tax Policies for Further Encouraging Software Industry and Integrated Circuit Development (Cai shui [2012] No. 27), key software enterprises and integrated circuit design enterprises under the state planning are entitled to 10% discount of corporate income tax if they do not enjoy tax exemption in the current year.

Capinfo Hong Kong, a subsidiary of the Company, has no payable tax profit since its incorporation.

Capinfo Technology, a subsidiary of the Company, obtained its Certificate of Hi-tech Enterprise, No. GR201711003206 on 25 October 2017 and is entitled to the corporate income tax preference of 15% for a period of three years.

According to the requirements of Notice of Corporate Income Tax Preference Policies for Small Low-Profit Enterprises (Cai Shui [2015] No. 34), since 1 January 2015 to 31 December 2017, for small low-profit enterprises with annual payable tax less than and including RMB200,000, their income deduction is included in payable tax amount at a discount of 50% and the corporate income tax shall be levied at a tax rate of 20%. Shanghai Hengyue, a subsidiary of the Company, meets those conditions to enjoy this tax preference.

Rito Info, a subsidiary of the Company, obtained its Certificate of Hi-tech Technological Enterprise, No. GR2015135100061 on 29 June 2015 and is entitled to 15% discount of corporate income tax for a period of three years.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and deposits

Item	End of the period			Beginning of the period		
	Amount in foreign currency	Discount rate	Amount in RMB	Amount in foreign currency	Discount rate	Amount in RMB
Cash on hand:	-	-	137,504.24	-	-	400,475.83
RMB	-	-	107,294.77	-	-	368,414.37
USD	4,601.01	6.5342	30,063.92	4,600.88	6.9370	31,916.30
EUR	10.17	7.8023	79.35	10.17	7.3068	74.31
HKD	79.20	0.8359	66.20	79.20	0.8945	70.85
Bank deposits:	-	-	652,448,680.40	-	-	534,661,586.41
RMB	-	-	593,426,877.37	-	-	471,932,409.55
USD	8,332,163.78	6.5342	54,444,024.57	8,333,277.20	6.9370	57,807,943.94
HKD	5,476,401.12	0.8359	4,577,778.46	5,501,596.32	0.8945	4,921,232.92
Other cash equivalents:	-	-	23,929,696.26	-	-	36,136,660.15
RMB	-	-	23,929,696.26	-	-	36,136,660.15
Total	-	-	676,515,880.90	-	-	571,198,722.39
Incl: total overseas deposits			58,666,014.47			62,334,924.89

Note:

- (1) Other cash equivalents mainly represent bank deposits for the performance guarantees issued by the Company.
- (2) Details of restricted cash are set out in note V.49.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Financial assets at fair value through profit or loss

Item	Fair value at end of period	Fair value at beginning of period
Financial assets at fair value through profit or loss	–	3,564,709.74
Incl: equity instruments investment	–	3,564,709.74
Total	–	3,564,709.74

Note: On 23 October 2014, the Company was informed by PayEase Corp. (“PayEase”) (the carrying value is nil) that on 21 October 2014 (United States time) a merger agreement was entered into between PayEase and Mozido Inc. (hereinafter referred to as “Mozido”), an independent third party, two of Mozido’s subsidiaries (hereinafter referred to as “First Subsidiary” and “Second Subsidiary”), and other parties including the escrow agent, the payments administrator and a person representing the security holders in PayEase. The Group is not a party to the merger agreement.

Pursuant to the merger agreement, Mozido has conditionally agreed to merge its First Subsidiary into PayEase and after the merger, Second Subsidiary became a wholly – owned subsidiary of Mozido. The aggregate consideration for the merger is US\$750 million, which will be satisfied by (1) US\$135 million in the form of cash, less third party expenses, PayEase Group’s debt, amounts set aside for expenses to be incurred by the original shareholders of PayEase for the purposes of the merger agreement, and working capital deficit; (2) the issue of 8,977,361.00 shares of Series C-1 preferred stock of Mozido (hereinafter referred to as “C-1 Stock”) at an issue price of US\$12.81 (approximately RMB78.29) per Share; and (3) the issue of approximately 39,032,006.00 shares of Series C-2 preferred stock of Mozido (hereinafter referred to as “C-2 Stock”) at an issue price of US\$12.81 (approximately RMB78.29) per Share.

On 6 January 2015 (Hong Kong time), the Company received from PayEase supporting documents evidencing that the above transactions had been completed. As informed by PayEase, based on the Company’s shareholding ratio in PayEase and subject to any escrow arrangements, the consideration received by the Company following the execution of certain documents was expected to be approximately US\$14.8 million, 1,254,164 shares of C-1 Stock and 5,452,886.00 shares of C-2 Stock. The expected amount was subject to certain requirements.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Financial assets at fair value through profit or loss (Continued)

In 2015, the Company received RMB51,441,000.00 and 2,771,484.00 shares of C-2 Stock. As the Company is not a party to the merger agreement, in the opinion of the Company, the trading price of C-2 Stock does not represent its fair value and the Company employed a valuer to revalue 2,771,484.00 shares of C-2 Stock, and appraisal value was RMB5,421,000.00. The Company recognised the gain from disposal of PayEase of RMB56,862,000.00.

In 2017, the Company paid income tax of the disposal of PayEase amounting to RMB40,810,489.24 by reserved funds (the final tax payables were not determined). The Company recognised the investment income and income tax expenses accordingly.

As of 31 December 2017, DTZ Cushman & Wakefield Limited has issued Report No. F16-000363 and determined the fair value of C-2 Stock as nil using the market method and Black-Scholes Option Pricing Model.

3. Notes receivable

Types	End of the period	Beginning of the period
Bankers' acceptance notes	281,000.00	-

Notes:

- 1 There is no objective evidence to show that the notes receivable of the Group are impaired, and no impairment provisions have been made for notes receivable;
- 2 The Group has no notes receivable which have been pledged at the end of the period;
- 3 The Group has no notes receivable which have been endorsed or discounted but not due at the end of the period.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable

(1) Accounts receivable analysed by aging

Age	End of the period	
	Amount	Percentage (%)
0-6 months	219,315,140.02	55.07
6 months-1 year	18,549,664.22	4.66
1-2 years	104,250,053.38	26.18
2-3 years	32,364,010.39	8.13
Over 3 years	23,737,944.95	5.96
Total original value	398,216,812.96	100.00
Less: bad debts provisions	87,566,499.28	
Total net value	310,650,313.68	

Note: the average term of credit that the Group provided to its clients is 180 days. The ageing analysis of accounts receivable as at the end of the year is presented according to delivery of goods, date of completion or delivery of labour or provision for write-off of bad debts.

(2) Accounts receivable disclosed by categories

Types	Amount	Percentage (%)	End of the period		Net value
			Bad debts provisions	Ratio of provision (%)	
Individually significant accounts receivable with separate provisions for bad debts	-	-	-	-	-
Accounts receivable with separate provisions for bad debts by aging	393,882,165.41	98.91	83,231,851.73	21.13	310,650,313.68
Individually significant accounts receivable with separate provisions for bad debts	4,334,647.55	1.09	4,334,647.55	100.00	-
Total	398,216,812.96	100.00	87,566,499.28	21.99	310,650,313.68

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable (Continued)

(2) Accounts receivable disclosed by categories (Continued)

Types	Amount	Percentage (%)	Beginning of the period		Net amount
			Bad debts provisions	Ratio of provision (%)	
Individually significant accounts receivable with separate provisions for bad debts	-	-	-	-	-
Accounts receivable with separate provisions for bad debts by aging	346,510,292.23	98.16	53,976,620.86	15.58	292,533,671.37
Individually significant accounts receivable with separate provisions for bad debts	6,498,733.66	1.84	6,498,733.66	100.00	-
Total	353,009,025.89	100.00	60,475,354.52	17.13	292,533,671.37

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable (Continued)

(2) Accounts receivable disclosed by categories (Continued)

Notes:

- 1 Aging groups, accounts receivable that provisions for bad debts are made using the aging analysis method:

E-Government business group:

Age	Amount	Percentage (%)	End of the period		Net amount
			Bad debts provisions	Ratio of provision (%)	
0-6 months	179,392,231.90	62.78	-	-	179,392,231.90
6 months-1 year	15,435,993.34	5.40	1,543,599.33	10.00	13,892,394.01
1-2 years	59,765,536.93	20.92	14,941,384.24	25.00	44,824,152.69
2-3 years	16,082,231.16	5.63	8,041,115.58	50.00	8,041,115.58
Over 3 years	15,061,059.55	5.27	15,061,059.55	100.00	-
Total	285,737,052.88	100.00	39,587,158.70	13.85	246,149,894.18

Age	Amount	Percentage (%)	Beginning of the period		Net amount
			Bad debts provisions	Ratio of provision (%)	
0-6 months	111,738,351.53	46.06	-	-	111,738,351.53
6 months-1 year	64,522,810.79	26.60	6,452,281.06	10.00	58,070,529.73
1-2 years	40,940,071.95	16.88	10,235,017.99	25.00	30,705,053.96
2-3 years	16,806,777.16	6.93	8,403,388.58	50.00	8,403,388.58
Over 3 years	8,559,501.43	3.53	8,559,501.43	100.00	-
Total	242,567,512.86	100.00	33,650,189.06	13.87	208,917,323.80

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable (Continued)

(2) Accounts receivable disclosed by categories (Continued)

Notes: (Continued)

- 1 Aging groups, accounts receivable that provisions for bad debts are made using the aging analysis method: (Continued)

E-Commerce group:

Age	Amount	Percentage (%)	End of the period		Net amount
			Bad debts provisions	Ratio of provision (%)	
0-6 months	39,922,908.12	36.91	-	-	39,922,908.12
6 months-1 year	3,113,670.88	2.88	778,417.72	25.00	2,335,253.16
1-2 years	44,484,516.45	41.13	22,242,258.23	50.00	22,242,258.22
2-3 years	16,281,779.23	15.06	16,281,779.23	100.00	-
Over 3 years	4,342,237.85	4.02	4,342,237.85	100.00	-
Total	108,145,112.53	100.00	43,644,693.03	40.36	64,500,419.50

Age	Amount	Percentage (%)	Beginning of the period		Net amount
			Bad debts provisions	Ratio of provision (%)	
0-6 months	68,891,048.14	66.28	-	-	68,891,048.14
6 months-1 year	983,474.99	0.95	245,868.75	25.00	737,606.24
1-2 years	27,975,386.39	26.91	13,987,693.20	50.00	13,987,693.19
2-3 years	5,861,979.85	5.64	5,861,979.85	100.00	-
Over 3 years	230,890.00	0.22	230,890.00	100.00	-
Total	103,942,779.37	100.00	20,326,431.80	19.56	83,616,347.57

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Accounts receivable (Continued)

(3) Accrual, retrieval and reversal of bad debt provision in this period

Balance of bad debt provision in this period is RMB29,255,230.87; the retrieval or reversal of bad debt provision is RMB2,164,086.11.

(4) Top five accounts receivable based on closing balance by debtor

During the period, the top five accounts receivable based on closing balance by debtor is RMB131,494,530.79 in aggregate, representing 33.02% of the total closing balance of accounts receivable. The closing balance of bad debt provisions is RMB8,078,473.93 in aggregate.

5. Prepayment

(1) Prepayments disclosed by aging

Age	End of the period		Beginning of the period	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	9,607,392.24	25.59	13,602,124.38	28.72
1-2 years	3,145,286.15	8.38	422,260.50	0.89
2-3 years	422,260.50	1.12	8,588,693.36	18.14
Over 3 years	24,373,435.95	64.91	24,743,254.10	52.25
Total	37,548,374.84	100.00	47,356,332.34	100.00

(2) Top five prepayment based on closing balance by the unit prepaid

Top five prepayment based on closing balance by the unit prepaid for the period is RMB21,446,809.19 in aggregate, representing 57.12% of total closing balance of prepayment.

6. Dividends receivable

Item	End of the period	Beginning of the period
Beijing Certificate Authority Co., Ltd.	6,296,524.20	-

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Other receivables

(1) Other receivables analysed by aging

Age	End of the period	
	Amount	Percentage(%)
Within 1 year	21,435,856.63	5.38
1-2 years	33,522,338.39	8.42
2-3 years	17,049,684.73	4.28
Over 3 years	14,914,969.35	3.75
Total original value	86,922,849.10	21.83
Less: bad debt provisions	1,945,441.71	
Total net value	84,977,407.39	

(2) Other receivables disclosed by type

Types	Amount	Percentage(%)	End of the period		Net value
			Bad debt provisions	Percentage(%)	
Individually significant and subject to separate provision	-	-	-	-	-
Subject to provision by groups with free-risk	84,977,407.39	97.76	-	-	84,977,407.39
Subject to provision by aging group	-	-	-	-	-
Sub-total	84,977,407.39	97.76	-	-	84,977,407.39
Individually significant and subject to separate provision	1,945,441.71	2.24	1,945,441.71	100.00	-
Total	86,922,849.10	100.00	1,945,441.71	2.24	84,977,407.39

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Other receivables (Continued)

(2) Other receivables disclosed by type (Continued)

Types	Amount	Percentage (%)	Beginning of the period		Net value
			Bad debt provisions	Percentage (%)	
Individually significant and subject to separate provision	-	-	-	-	-
Subject to provision by groups with free-risk	79,281,718.86	97.63	-	-	79,281,718.86
Subject to provision by aging group	-	-	-	-	-
Sub-total	79,281,718.86	97.63	-	-	79,281,718.86
Individually significant and subject to separate provision	1,928,338.61	2.37	1,928,338.61	100.00	-
Total	81,210,057.47	100.00	1,928,338.61	2.37	79,281,718.86

(3) Top five other receivables by debtor are totally RMB32,336,543.46, accounting for 37.20% of other receivables.

(4) Accrual, retrieval and reversal of bad debt provision in this period

Bad debt provision in this period is RMB17,200.00 and there is no retrieval or reversal of bad debt provision in the period.

(5) Details of write-off of other receivables during the period

Item	Write-off value
Write-off of other receivables	96.90

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Inventories

(1) Classification of inventories

Types of inventories	End of the period			Beginning of the period		
	Book balance	Provision for decline in value	Carrying amount	Book balance	Provision for decline in value	Carrying amount
Work in progress	85,211,323.99	-	85,211,323.99	115,150,551.27	-	115,150,551.27
Finished goods	32,613,214.28	22,262,114.19	10,351,100.09	36,318,408.51	22,262,114.19	14,056,294.32
Total	117,824,538.27	22,262,114.19	95,562,424.08	151,468,959.78	22,262,114.19	129,206,845.59

(2) Provision for decline in value of inventories

Type of inventories	Beginning of the period	Increase of provision during the period		Decrease of provision during the period		End of the period
		Provision	Others	Reverse/Write off	Others	
Finished goods	22,262,114.19	-	-	-	-	22,262,114.19

9. Non-current asset due within 1 year

	End of the period	Beginning of the period
Finished goods		
Long-term receivables due within 1 year	26,237,343.74	26,237,343.74

10. Other current asset

Items	End of the period	Beginning of the period
Overpaid or prepaid value-added tax	433,391.80	-
Input value-added tax to be deducted	511,434.54	1,116,590.84
Financial products	10,000,000.00	-
Prepaid income tax	-	2,650.58
Total	10,944,826.34	1,119,241.42

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Available-for-sale financial assets

(1) Available-for-sale financial assets

Items	End of the period			Beginning of the period		
	Book balance	Impairment provisions	Carrying amount	Book balance	Impairment provisions	Carrying amount
Available-for-sale equity instrument	8,443,166.86	7,471,840.33	971,326.53	8,443,166.86	7,471,840.33	971,326.53
Incl: measured by cost	8,443,166.86	7,471,840.33	971,326.53	8,443,166.86	7,471,840.33	971,326.53
Total	8,443,166.86	7,471,840.33	971,326.53	8,443,166.86	7,471,840.33	971,326.53

(2) Available-for-sale equity instruments measured by cost

Investee	Book balance				Provisions for impairment				Shareholding ratio in the investees (%)	Cash dividend for the period
	Beginning of the year	Increase for the period	Decrease for the period	End of the period	Beginning of the period	Increase for the period	Decrease for the period	End of the period		
Capinfo Soft Co., Ltd.	971,326.53	-	-	971,326.53	-	-	-	-	19.00	-
Uniresource Investment Co., Ltd. (紫光信業投資股份有限公司)	7,471,840.33	-	-	7,471,840.33	7,471,840.33	-	-	7,471,840.33	23.00	-
Loyalty Alliance Enterprise Corporation ("LAEC")	-	-	-	-	-	-	-	-	12.00	-
Total	8,443,166.86	-	-	8,443,166.86	7,471,840.33	-	-	7,471,840.33	-	-

Note: Unlisted equity instrument investments which have no quoted price in active market or the fair value cannot be measured reliably are measured at cost by the Group.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term receivables

Items	End of the period			Beginning of the period		
	Book balance	Bad debt provisions	Carrying amount	Book balance	Bad debt provisions	Carrying amount
Provision of labors on installment	30,184,859.30	-	30,184,859.30	51,360,578.97	-	51,360,578.97
Less: Long-term receivables due within 1 year	26,237,343.74	-	26,237,343.74	26,237,343.74	-	26,237,343.74
Total	3,947,515.56	-	3,947,515.56	25,123,235.23	-	25,123,235.23

Note: The discount rate ranges from 1.91% to 5.57%.

13. Long-term equity investments

Investee	Balance at beginning of period	Increase/decrease during the period								Closing balance	Closing balance of impairment provisions
		Increase in investment	Decrease in investment	Investment gain or loss recognised under equity method	Adjustment to other comprehensive income	Change in other equity	Cash dividend or profit declared	Provision for impairment	Others		
Associates											
Beijing Certificate Authority Co., Ltd	127,289,986.78	-	-	22,102,245.50	-	-	6,296,524.20	-	-	143,095,708.08	-
Beijing Culture and Sports Technology Co., Ltd. (北京文化體育科技有限公司)	2,844,016.71	-	-	101,435.89	-	-	-	-	-	2,945,452.60	-
Chongqing Hongxin Haoyu Network Technology Co., Ltd. (重慶宏信瀚宇網絡技術有限公司)	3,862,753.24	-	-	-	-	-	-	-	-	3,862,753.24	3,862,753.24
Total	133,996,756.73	-	-	22,203,681.39	-	-	6,296,524.20	-	-	149,903,913.92	3,862,753.24

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Investment properties

Item	Buildings and structures
I. Original book value	
1. Balance at beginning of period	74,320,626.80
2. Increment for the period	-
(1) Purchase	-
(2) Transferred from fixed assets	-
(3) Increase from business combinations	-
3. Decrement for the Period	-
(1) Disposal	-
(2) Other transfer	-
4. Balance at end of Period	74,320,626.80
II. Accumulated depreciation and accumulated amortization	
1. Balance at beginning of period	29,036,706.48
2. Increment for the period	3,773,660.04
(1) Provision or amortization	3,773,660.04
(2) Increase from business combinations	-
(3) Other increment	-
3. Decrement for the period	-
(1) Disposal	-
(2) Other transfer	-
4. Balance at end of period	32,810,366.52
III. Provision for impairment	
1. Balance at beginning of period	-
2. Increment for the period	-
(1) Provision	-
(2) Other increment	-
3. Decrement for the period	-
(1) Disposal	-
(2) Other transfer	-
4. Balance at end of period	-
IV. Book value	
1. Book value at end of period	41,510,260.28
2. Book value at beginning of period	45,283,920.32

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Investment properties (Continued)

Note:

- (1) Details of certificate of title to be obtained

Item	Carrying amount	Reason for no certificate of title
Digital Beijing Building	41,510,260.28	Yet to be obtained

- (2) The fair value of the Company's investment properties as at 31 December 2017 is RMB173,000,000.00 (2016: RMB167,000,000.00). The fair value is determined by Shenzhen DTZ Land Real Estate Appraisal Co., Ltd. (Beijing Branch) (深圳市戴德梁行土地房地產評估有限公司北京分公司), an independent qualified and professional valuer, using comparison method and direct capitalization method. The comparison method is to take the transaction price of similar properties in the market for reference and modify the price according to a property's location, size, level and other related factors. The direct capitalization method is to obtain the market value of the assets to be evaluated by dividing their certain expected income in a year by the appropriate capitalization rate or by multiplying the appropriate income multiplier.

Details of the fair value of investment properties determined by the Group based on Level 3 fair value on 31 December 2017 are as follows:

Item	End of the period	Beginning of the period
Digital Beijing Building	173,000,000.00	167,000,000.00

The above investment properties depreciation is calculated on the straight-line basis at an annual rate of 5%.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Fixed assets

Item	Machinery & equipment	Transporting equipment	Others	Total
I. Original book value				
1. Balance at beginning of period	449,751,280.68	510,085.57	3,020,684.23	453,282,050.48
2. Increment for the period	75,032,306.39	–	655,030.77	75,687,337.16
(1) Purchase	38,422,856.17	–	655,030.77	39,077,886.94
(2) Transferred from construction in progress	36,609,450.22	–	–	36,609,450.22
3. Decrement for the period	2,398,594.10	–	87,377.06	2,485,971.16
(1) Disposal or write-off	2,398,594.10	–	–	2,398,594.10
(2) Other decrement	–	–	87,377.06	87,377.06
4. Balance at end of period	522,384,992.97	510,085.57	3,588,337.94	526,483,416.48
II. Accumulated depreciation				
1. Balance at beginning of period	387,112,577.06	450,576.40	1,330,082.54	388,893,236.00
2. Increment for the period	48,694,409.33	59,509.17	701,745.01	49,455,663.51
(1) Provision	48,694,409.33	59,509.17	701,745.01	49,455,663.51
(2) Other increment	–	–	–	–
3. Decrement for the period	2,387,875.44	–	81,159.08	2,469,034.52
(1) Disposal or write-off	2,387,875.44	–	–	2,387,875.44
(2) Other decrement	–	–	81,159.08	81,159.08
4. Balance at end of period	433,419,110.95	510,085.57	1,950,668.47	435,879,864.99
III. Provision for impairment				
1. Balance at beginning of period	–	–	–	–
2. Increment for the period	–	–	–	–
(1) Provision	–	–	–	–
(2) Other increment	–	–	–	–
3. Decrement for the period	–	–	–	–
(1) Disposal or write-off	–	–	–	–
(2) Other decrement	–	–	–	–
4. Balance at end of period	–	–	–	–
IV. Book value				
1. Book value at end of period	88,965,882.02	–	1,637,669.47	90,603,551.49
2. Book value at beginning of period	62,638,703.62	59,509.17	1,690,601.69	64,388,814.48

Note: The Group has no fixed assets which have been pledged or secured during the period.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Construction in progress

(1) Breakdowns of construction in progress

Items	End of the period			Beginning of the period		
	Book balance	Impairment provisions	Net carrying amount	Book balance	Impairment provisions	Net carrying amount
Upgrade Project of Comprehensive Information System of Beijing Housing Accumulation Fund Management Center	-	-	-	34,177,008.55	-	34,177,008.55
Beijing Medical Insurance Information System Construction Project.	-	-	-	12,195,905.98	-	12,195,905.98
Total	-	-	-	46,372,914.53	-	46,372,914.53

(2) Changes in significant construction in progress

Name of Project	Beginning of the period	Increase for the period	Transferred to fixed assets	Transferred to intangible assets	Transferred to inventories	Interest capitalization funds	Incl: interest capitalization funds during the period	Interest capitalization rate during the period (%)	End of the period
Upgrade Project of Comprehensive Information System of Beijing Housing Accumulation Fund Management Center	34,177,008.55	2,250,632.50	30,458,646.81	5,968,994.24	-	-	-	-	-
Beijing Medical Insurance Information System Construction Project.	12,195,905.98	-	6,150,803.41	1,045,102.57	5,000,000.00	-	-	-	-
Total	46,372,914.53	2,250,632.50	36,609,450.22	7,014,096.81	5,000,000.00	-	-	-	-

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Intangible assets

Items	Software	Customer relationship	Total
I. Original book value			
1. Balance at beginning of period	141,373,550.95	2,328,003.18	143,701,554.13
2. Increment for the period	15,866,447.62	–	15,866,447.62
(1) Purchase	5,547,230.73	–	5,547,230.73
(2) Internal R & D	3,305,120.08	–	3,305,120.08
(3) Increase from business combination	–	–	–
(4) Transferred from construction in progress	7,014,096.81	–	7,014,096.81
3. Decrement for the period	292,136.74	–	292,136.74
(1) Disposal	–	–	–
(2) Other decrement	292,136.74	–	292,136.74
4. Balance at end of period	156,947,861.83	2,328,003.18	159,275,865.01
II. Accumulated amortization			
1. Balance at beginning of period	107,044,966.27	2,328,003.18	109,372,969.45
2. Increment for the period	16,134,260.58	–	16,134,260.58
(1) Provision	16,134,260.58	–	16,134,260.58
(2) Other increment	–	–	–
3. Decrement for the period	–	–	–
(1) Disposal	–	–	–
(2) Other decrement	–	–	–
4. Balance at end of period	123,179,226.85	2,328,003.18	125,507,230.03
III. Provision for impairment			
1. Balance at beginning of period	–	–	–
2. Increment for the period	–	–	–
(1) Provision	–	–	–
(2) Other increment	–	–	–
3. Decrement for the period	–	–	–
(1) Disposal	–	–	–
(2) Other decrement	–	–	–
4. Balance at end of period	–	–	–
IV. Book value			
1. Book value at end of period	33,768,634.98	–	33,768,634.98
2. Book value at beginning of period	34,328,584.68	–	34,328,584.68

Note: At the end of period, intangible assets from internal R&D represents 2.08% of the balance of intangible assets.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Development expenditures

Item	Beginning of the period	Increase for the period		Decrease for the period		End of the period
		Internal development expenditures	Other increment	Recognized as intangible assets	Included in current profit or loss	
development expenditures	-	10,281,837.19	-	3,305,120.08	196,682.31	6,780,034.80

19. Goodwill

(1) Original carrying amount of goodwill

Investee or items resulted in Goodwill	Opening balance	Increase for the period		Decrease for the period		Closing balance
		Business combination and formation	Others	Disposal	Other	
Rito Info	184,597,722.06	-	-	-	-	184,597,722.06

(2) Impairment provision on goodwill

Investee or items resulted in Goodwill	Opening balance	Increase for the period		Decrease for the period		Closing balance
		Provision	Other	Disposal	Others	
Rito Info	-	6,622,071.30	-	-	-	6,622,071.30

Note: The Group calculated the receivable amount of the asset group by estimating the present value of future cash flow. The Group estimated cash flow in the following five years based on financial budget approved by the management and the growth rate of cash flow adopted in the subsequent years is estimated to be 5.76% (last period: 5.76%), which will not exceed the long-term average growth rate of operations of asset group. The management made the aforementioned financial budget based on the historical performance and its expectation on market development. The discount rate adopted in the process of calculating future cash inflow is 12.32% (last period: 13.80%). According to the results of the impairment test, goodwill impairment at end of the current period is RMB6,622,071.30 (end of last period: nil).

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Long-term deferred expenses

Items	Beginning of the period	Increase for the period	Decrease for the period		End of the period
			Amortization for the period	Other decrement	
Broadband charges	62,499.84	–	12,500.04	–	49,999.80
Refurbishment costs	3,698,815.92	197,018.92	1,305,997.85	–	2,589,836.99
Construction and installment fees	40,487,527.94	10,497,163.31	10,874,786.47	–	40,109,904.78
Total	44,248,843.70	10,694,182.23	12,193,284.36	–	42,749,741.57

21. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets and deferred income tax liabilities before offset

Items	End of the period		Beginning of the period	
	Deductible/taxable temporary difference	Deferred income tax assets/liabilities	Deductible/taxable temporary difference	Deferred income tax assets/liabilities
Deferred income tax assets:				
Provisions for assets impairment assets				
provisions	88,405,390.99	11,367,986.76	61,297,046.27	9,194,556.94
Other payables	69,912,872.51	7,026,546.03	89,679,416.13	13,451,912.42
Amortization of intangible assets	24,333,184.30	3,136,367.20	19,515,479.33	2,927,321.90
Employee compensation payables	28,904,261.34	2,890,426.13	21,088,214.87	3,163,232.23
Total	211,555,709.14	24,421,326.12	191,580,156.60	28,737,023.49

(2) Deferred income tax assets expected to be reversed in 1 year

Item	End of the period	Beginning of the period
Deferred income tax assets expected to be retrieved in over 12 months	5,409,964.55	28,737,023.49

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Deferred income tax assets and deferred income tax liabilities (Continued)

- (3) Breakdown of deductible temporary difference and deductible losses of unrecognized deferred income tax assets

Item	End of the period	Beginning of the period
Provisions for goodwill impairment	6,622,071.30	–
Deductible losses	15,332,796.70	16,723,046.58
Provision for inventory impairment	22,262,114.19	22,262,114.19
Total	44,216,982.19	38,985,160.77

- (4) Deductible losses of unrecognized deferred income tax assets will due in the following years

Year	End of the period	Beginning of the period
2017	–	120,650.71
2018	8,538,665.06	8,915,614.57
2019	6,794,131.64	6,794,131.64
2020	–	–
2021	–	892,649.66
2022	–	–
Total	15,332,796.70	16,723,046.58

22. Accounts Payable

- (1) Accounts payable disclosed by category

Item	End of the period	Beginning of the period
Loans	154,040,442.83	119,367,727.94

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Accounts Payable (Continued)

(2) Accounts payable disclosed by aging

Items	End of the period	Beginning of the period
Within 1 year	114,733,159.15	76,369,495.01
1-2 years	9,145,007.85	16,681,478.25
2-3 years	7,695,794.82	4,831,103.92
Over 3 years	22,466,481.01	21,485,650.76
Total	154,040,442.83	119,367,727.94

Note: Ageing of accounts payable is presented according to the date of receipt of goods and acceptance of labour. The average term of credit for purchase of goods and service is within 90 days (2016: within 90 days).

23. Prepayment

Item	End of the period	Beginning of the period
Loans	266,544,654.84	313,704,417.28

24. Employee compensation payables

Item	Beginning of the period	Increase for the period	Decrease for the period	End of the period
Short-term compensation	64,030,720.54	279,103,325.57	274,416,182.26	68,717,863.85
Post resignation benefit – designed provision plan	2,195,883.24	30,373,498.39	32,117,524.55	451,857.08
Welfare post cancellation of the labor relationship	–	182,362.00	182,362.00	–
Total	66,226,603.78	309,659,185.96	306,716,068.81	69,169,720.93

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Employee compensation payables (Continued)

(1) Short-term compensation

Items	Beginning of the period	Increase for the period	Decrease for the period	End of the period
Wages, bonuses, allowances, subsidies	55,811,542.79	233,049,386.09	224,934,429.94	63,926,498.94
Welfare expenses	-	1,254,705.02	1,254,705.02	-
Social insurances	3,008,645.19	18,696,032.17	19,640,824.63	2,063,852.73
Incl: 1. Medical insurance expenditures	2,648,880.14	15,386,237.00	16,243,652.23	1,791,464.91
2. Supplementary medical insurance	-	1,664,115.66	1,664,115.66	-
3. Work injury insurance expenditures	98,605.22	393,342.99	411,070.85	80,877.36
4. Maternity insurance	261,159.83	1,252,336.52	1,321,985.89	191,510.46
Housing accumulation fund expenditures,	231,462.75	19,758,891.20	19,978,242.20	12,111.75
labor union expenditures and employee education expenses	4,979,069.81	4,995,127.51	7,258,796.89	2,715,400.43
Short-term paid absences	-	-	-	-
Short-term profit-sharing plan	-	-	-	-
Non-monetary welfare	-	-	-	-
Other short-term compensation	-	1,349,183.58	1,349,183.58	-
Total	64,030,720.54	279,103,325.57	274,416,182.26	68,717,863.85

(2) Defined contribution scheme

Item	Beginning of the period	Increase for the period	Decrease for the period	End of the period
Retirement benefit plan	2,195,883.24	30,373,498.39	32,117,524.55	451,857.08
Incl: 1. Basic endowment insurance	2,096,459.77	29,148,455.78	30,812,770.71	432,144.84
2. Unemployment insurance	99,423.47	1,225,042.61	1,304,753.84	19,712.24
3. Enterprise annual payment	-	-	-	-
4. Others	-	-	-	-
Total	2,195,883.24	30,373,498.39	32,117,524.55	451,857.08

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Tax payables

Taxes	End of the period	Beginning of the period
Value-added tax	26,323,797.65	9,926,369.79
Corporate income tax	18,503,917.46	23,975,592.88
Individual income tax	913,363.73	882,941.47
City maintenance and construction tax	1,621,111.74	631,193.18
Stamp duty	49,288.28	302,463.48
Education Surcharges	1,096,253.56	383,192.13
Total	48,507,732.42	36,101,752.93

26. Other payables

Items	End of the period	Beginning of the period
Margin and deposits, quality guarantee deposit	7,429,415.89	10,465,319.27
Current account	22,372,591.30	34,315,847.49
Project bills payable	121,154,433.25	96,749,651.76
Other	149,019.70	53,576.09
Total	151,105,460.14	141,584,394.61

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. Non-current liabilities due within 1 year

Items	End of the period	Beginning of the period
Long-term borrowings due within 1 year	900,000.00	900,000.00
Long-term payables due within 1 year	45,997,051.31	28,881,028.61
Total	46,897,051.31	29,781,028.61

(1) Long-term borrowings due within 1 year

Item	End of the period	Beginning of the period
Credit borrowings	900,000.00	900,000.00

(2) Long-term payables due within 1 year

Item	End of the period	Beginning of the period
Contingent consideration of Rito Info	45,997,051.31	28,881,028.61

28. Long-term borrowings

Items	End of the period	Range of interest rate	Beginning of the period	Range of interest rate
Credit borrowings	900,000.00	–	900,000.00	–
Less: Long-term borrowings due within 1 year	900,000.00	–	900,000.00	–
Total	–	–	–	–

29. Long-term payables

(1) Long-term payables listed by nature

Items	End of the period	Beginning of the period
Contingent consideration of Rito Info	45,997,051.31	40,229,633.84
Less: Long-term payables due within 1 year	45,997,051.31	28,881,028.61
Total	–	11,348,605.23

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Long-term payables (Continued)

(2) Long-term payables listed by aging

Items	End of the period	Beginning of the period
Current or within 1 year	45,997,051.31	28,881,028.61
1-2 years	–	11,348,605.23
Total	45,997,051.31	40,229,633.84

30. Deferred income

Item	Beginning of the period	Increase for the period	Decrease for the period	End of the period	Reason
Government grant	9,057,662.94	1,389,700.00	6,325,191.13	4,122,171.81	Financial appropriation

Note: details of government grant included in deferred income see note XIII.3. Government grants.

31. Other non-current liabilities

Item	End of the period	Beginning of the period
Project appropriation	15,512,453.80	19,192,689.60

32. Share capital (unit: ten thousand shares)

Item	Beginning of the period	Increment/Decrement (+/-)				Sub total	End of the period
		New shares issued	Stock dividend	Reserve to shares	Others		
Total shares	289,808.61	–	–	–	–	–	289,808.61

33. Capital reserve

Items	Beginning of the period	Increase for the period	Decrease for the Period	End of the period
Share capital premium	253,785,082.20	–	–	253,785,082.20
Other capital reserves	37,885,584.20	–	–	37,885,584.20
Total	291,670,666.40	–	–	291,670,666.40

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Surplus reserve

Item	Beginning of the period	Increase for the period	Decrease for the Period	End of the period
Statutory surplus reserve	72,207,069.12	9,455,534.48	-	81,662,603.60

35. Undistributed profits

Items	Amount for current period	Amount for last period
Undistributed profits at end of last period before adjustment	360,642,012.74	304,872,400.47
Adjustment for undistributed profits at beginning of period ("+" for plus; "-" for less)	-37,591,741.88	
Undistributed profits at beginning of period after adjustment	323,050,270.86	304,872,400.47
Plus: net profit attributable to shareholders during the period	81,130,475.64	71,642,062.07
Less: withdrawal of statutory surplus reserves	9,455,534.48	7,964,191.68
Withdrawal of discretionary surplus reserve	-	-
Withdrawal of general risk reserves	-	-
Dividend payable on ordinary shares	31,606,487.15	45,500,000.00
Dividends payable to other equity holders	-	-
Ordinary shares dividends transferred to share capital	-	-
Undistributed profits at end of period	363,118,724.87	323,050,270.86

Notes:

(1) The breakdown of adjustment for undistributed profits at the beginning of the period:

- 1 Due to changes in accounting policies, affected undistributed profit at the beginning of the period was RMB-37,591,741.88.
- 2 Please refer to "XIV. Supplementary information" for the effects of changes in accounting policies on undistributed profits at the beginning of the period.

According to the requirements of the Company's Articles of Association, available-for-distribution profits for the Company's shareholders refer to amounts in the statements prepared in accordance with the Chinese Accounting Standards and Regulations.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Undistributed profits (Continued)

(2) Dividend

According to the Board's resolution as at 28 March 2018, the Board has recommended the payment of cash dividend of RMB0.0125 per share (calculated based on 2,898,086,091.00 issued shares, of which, 774,498,000.00 share are foreign listed H shares) to all shareholders, i.e. RMB36,226,076.14 (of which, RMB9,681,225.00 is for foreign listed H shares) in aggregate. The above proposal is subject to approval in the General Meeting. The cash dividend will not be the company's liability until approval in the General Meeting; therefore, it wasn't presented in the current financial statements.

36. Operating income and operating cost

Items	Amount for current period		Amount for last period	
	Income	Cost	Income	Cost
Main businesses	990,183,462.93	655,963,676.72	934,248,538.88	619,782,452.83
Other businesses	18,123,092.49	811,318.69	15,257,502.74	2,576,959.66

(1) Main businesses (sub-businesses)

Name of business	Amount for current period		Amount for last period	
	Operating income	Operating cost	Operating income	Operating cost
Software development and sales	121,883,711.21	61,988,842.04	119,434,132.20	59,439,331.36
Operation and maintenance service	550,481,463.58	352,896,851.55	502,406,889.03	324,618,354.12
System integration service	310,060,655.75	240,159,700.09	312,407,517.65	235,724,767.35
Consulting service	7,757,632.39	918,283.04	-	-
Total	990,183,462.93	655,963,676.72	934,248,538.88	619,782,452.83

(2) Other businesses (sub-businesses)

Name of business	Amount for current period		Amount for last period	
	Operating income	Operating cost	Operating income	Operating cost
Rental income from investment				
property	13,564,867.64	811,318.69	12,098,343.67	1,113,079.79
Income from subject fund project	4,434,952.78	-	3,064,819.45	1,463,879.87
Other	123,272.07	-	94,339.62	-
Total	18,123,092.49	811,318.69	15,257,502.74	2,576,959.66

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37. Sales expenses

Items	Amount for current period	Amount for last period
Employee compensation	82,670,966.23	81,305,911.14
Housing rents	6,037,592.38	5,514,162.94
Entertainment fee	1,986,858.01	2,930,530.04
Depreciation and amortisation	1,469,382.33	328,412.64
Transportation fee	902,262.94	1,758,405.83
Office expenses	574,175.92	411,632.34
External negotiation fee	450,723.09	831,415.40
Communication fee	237,977.35	746,192.39
Other	814,348.99	772,922.07
Total	95,144,287.24	94,599,584.79

38. Administrative expenses

Items	Amount for current period	Amount for last period
R&D fee	70,426,685.02	56,518,828.66
Employee compensation	35,545,861.74	38,119,229.82
Depreciation and amortisation	8,761,085.30	11,958,837.77
Rents & leases	7,207,942.23	6,109,407.24
Consulting fee	3,778,392.84	4,232,847.99
Property and water & electricity fee	2,818,303.90	2,499,131.79
Audit and evaluation fee	2,433,028.14	1,861,672.51
Travelling expense	2,102,343.36	1,829,397.79
Other	1,868,427.04	1,219,357.44
Office expenses	1,332,732.80	1,560,072.26
Service fee	1,013,403.44	1,069,287.07
Transportation fee	665,262.21	426,411.97
Entertainment fee	331,033.42	296,249.82
Communication fee	50,894.80	164,401.99
Taxes	–	1,545,322.66
Vehicle expenses	–	441,770.91
Total	138,335,396.24	129,852,227.69

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. Finance expenses

Items	Amount for current period	Amount for last period
Interest expenses	5,233,377.44	13,489,955.86
Less: Interest income	3,633,731.36	6,156,910.16
Exchange difference	3,344,255.53	-3,663,969.09
Bank charges and others	95,343.73	79,889.01
Total	5,039,245.34	3,748,965.62

40. Assets impairment loss

Items	Amount for current period	Amount for last period
(1) Bad debt expenses	27,108,344.76	29,095,866.54
(2) Impairment loss on goodwill	6,622,071.30	-
Total	33,730,416.06	29,095,866.54

41. Gains from changes in fair value

Sources of gains from changes in fair value	Amount for current period	Amount for last period
Financial assets at fair value through current profit or loss	-3,564,709.74	-3,094,145.68
Changes in contingent consideration payables	-	4,327,131.46
Total	-3,564,709.74	1,232,985.78

42. Investment income

Items	Amount for current period	Amount for last period
Gains on long-term equity investments calculated on equity method	22,203,681.39	20,974,846.58
Investment income from disposal of long-term equity investment	40,810,489.24	-
Return on financial products	455,268.47	-
Settlement of losses	-291,200.00	-
Total	63,178,239.10	20,974,846.58

Notes: (1) See "Notes V. 13" for "Gains on long-term equity investments calculated on equity method".

(2) See "Notes V. 2" for "Investment income from disposal of long-term equity investment".

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Return on asset disposal

Item	Amount for current period	Amount for last period
Gains on disposal of fixed assets (loss is shown as "-")	29,236.21	-240,415.62

44. Other income

Grant projects (source of other income)	Amount for current period	Amount for last period	Related to assets/ Related to income
Support funds of Z-Park's Beijing Medical Information Service Platform project based on big data analysis	6,325,191.13	-	Related to assets
Third batch of enterprises R & D subsidy funds in 2016	387,400.00	-	Related to income
Project funds of Science & Technology plans in 2016	300,000.00	-	Related to income
Second batch of technology trading bonus in 2016	233,705.00	-	Related to income
First batch of enterprises R & D subsidy funds in 2107	148,200.00	-	Related to income
Other	74,087.70	-	Related to income
Total	7,468,583.83	-	

Note: For details of government grant, please see Note XIII.3 Government grant.

45. Non-operating income

Items	Amount for current period	Amount for last period	Amounts included in non-recurring profit or loss for current period
Government grant	-	819,057.57	-
Other	8,312.65	179,461.80	8,312.65
Total	8,312.65	998,519.37	8,312.65

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. Non-operating income (Continued)

Among which, breakdown of government grant is as follows:

Grant projects	Amount for current period	Amount for last period	Related to assets/ Related to income
Technology trading bonus in 2015	–	300,000.00	Related to income
Special support funds for innovative enterprises	–	200,000.00	Related to income
First batch of software and information service industry development special funds in 2016	–	100,000.00	Related to income
Financial appropriation of Beijing Medical project to purchase fixed assets	–	62,337.06	Related to assets
Xiamen Municipal Science & Technology insurance subsidy	–	53,648.00	Related to income
First batch of technology trading bonus in 2016	–	41,002.00	Related to income
Post subsidy of Xiamen Municipal Social Insurance Management Center	–	39,170.51	Related to income
Subsidy of Z-Park Credit Promotion Association	–	14,000.00	Related to income
Tax preference of Yanqing Economic Development Zone Investment Service Center	–	8,900.00	Related to income
Total	–	819,057.57	–

46. Non-operating expenses

Items	Amount for current period	Amount for last period	Amounts included in non-recurring profit or loss for current period
Default	562,950.87	3,322,528.08	562,950.87
Fines and late fees	101.30	–	101.30
Other	–	26,541.05	–
Total	563,052.17	3,349,069.13	563,052.17

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47. Income tax expense

(1) Breakdown of income tax expense

Items	Amount for current period	Amount for last period
The current income tax calculated in accordance with the tax law and relevant provisions	50,792,324.46	24,332,849.05
Deferred income tax expense	4,315,697.37	-13,679,380.88
Total	55,108,021.83	10,653,468.17

(2) Relationship between income tax expense and total profit is stated as follow:

Item	Amount (audited)
Total profit	139,986,827.80
Income tax expense calculated at appropriate/applicable tax rate	13,998,682.78
Effect of subsidiaries applicable to various tax rates	-2,561,736.18
Effect of adjustment of income tax for previous period	2,982,814.48
Effect of non-taxable income	-2,220,368.14
Effect of non-deductible costs, expenses and losses	1,837,875.70
Effect of development expenses plus taxes deducted	-283,525.94
Effect of deductible losses of using deferred income tax assets not recognized in previous period	-118,417.24
Effect of deductible temporary difference or deductible losses of deferred income tax assets not recognized in current period	662,207.13
Others	40,810,489.24
Total	55,108,021.83

Note: "other" refers to that in 2017, the Company paid income tax of the disposal of PayEase amounting to RMB40,810,489.24 by reserved funds (the final tax payables were not determined). The Company recognised the investment income and income tax expenses accordingly. Please refer to Note V.2.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. Supplementary information to cash flows statement

(1) Supplementary information to cash flows statement

Supplementary information	Amount for current period	Amount for last period
I. Reconciliation from net profit to cash flows from operating activities:		
Net profit	84,878,805.97	72,351,231.80
Plus: Provisions for assets impairment	33,730,416.06	29,095,866.54
Depreciation of fixed assets, depreciation of investment property	53,229,323.55	41,228,883.51
Amortization of intangible assets	16,134,260.58	15,962,504.18
Amortization of long term deferred expenses	12,193,284.36	15,586,734.42
Loss on disposal of fixed assets, intangible assets and other non-current assets (gain is shown as "-")	-29,236.21	240,415.62
Loss on write-off of fixed assets (gain is shown as "-")	-	-
Loss on changes in fair value (gain is shown as "-")	3,564,709.74	-1,232,985.78
Finance costs (gain is shown as "-")	8,577,632.97	7,330,047.54
Loss on investments (gain is shown as "-")	-63,178,239.10	-20,974,846.58
Decrease in deferred tax assets (increase is shown as "-")	4,315,697.37	-9,729,697.30
Increase in deferred tax liabilities (decrease is shown as "-")	-	-
Decrease in inventories (increase is shown as "-")	33,644,421.51	-8,672,429.66
Decrease in operating receivables (increase is shown as "-")	-30,043,486.45	-45,095,395.44
Increase in operating payables (decrease is shown as "-")	62,179,241.59	72,695,181.11
Other	12,206,963.89	-19,466,039.58
Net cash flows generated from operational activities	231,403,795.83	149,319,470.38
II. Significant non-cash investment and financing activities:		
Debts changed to capital	-	-
Convertible bonds mature within 1 year	-	-
Fixed assets acquired under finance lease	-	-
III. Changes in cash and cash equivalents:		
Cash at end of period	652,586,184.64	535,062,062.24
Less: cash at beginning of period	535,062,062.24	561,571,397.15
Plus: cash equivalents at end of period	-	-
Less: cash equivalents at beginning of period	-	-
Net increase in cash and cash equivalents	117,524,122.40	-26,509,334.91

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

V. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. Supplementary information to cash flows statement (Continued)

(2) Composition of cash and cash equivalents

Items	End of the period	Beginning of the period
I. Cash	652,586,184.64	535,062,062.24
Incl: Cash on hand	137,504.24	400,475.83
Bank deposits available on demand	652,448,680.40	534,661,586.41
Other cash assets available on demand	–	–
Deposits with other banks	–	–
Inter-bank lending	–	–
II. Cash equivalents	–	–
Incl: Bond investments mature within 3 months	–	–
III. Closing balance of cash and cash equivalents	652,586,184.64	535,062,062.24

49. Assets with limited title or use

Item	Carrying value at end of period	Cause
Cash and cash equivalents	23,929,696.26	Guarantee issuance

50. Foreign currency monetary items

Item	Foreign balance at end of period	Exchange rate	Translated RMB balance at end of period
Cash and cash equivalents			
Including: US dollar	8,336,764.79	6.5342	54,474,088.49
Euro	10.17	7.8023	79.35
Hong Kong dollar	5,476,480.32	0.8359	4,577,844.66

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

VI. CHANGES IN THE CONSOLIDATED SCOPE

Narrowed consolidated scope for the period is mainly due to the voluntary liquidation and cancellation of the Capinfo Hangyuan, resulting in a liquidation loss of RMB291,200.00.

VII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiary

(1) Composition of the Group

Name of subsidiary	Type of legal person	Operating location	Location of registration	Nature of business	Shareholding percentage %		Means of acquisition
					Direct	Indirect	
Capinfo Technology	Legal person	Beijing	Beijing	Information technology	74.00	-	Set up by investment
Shanghai Hengyue	Legal person	Shanghai	Shanghai	Information technology	100.00	-	Business combination not under common control
Capinfo Hong Kong	Legal person	Hong Kong	Hong Kong	Investment	100.00	-	Set up by investment
Parking Management Center	Legal person	Beijing	Beijing	Information technology	100.00	-	Set up by investment
Rongtong Information	Legal person	Xiamen	Xiamen	Information technology	100.00	-	Business combination not under common control

Note: Subsidiaries of the Company did not issue share capital or securities as at 31 December 2017.

(2) Significant non-wholly-owned subsidiary

Name of subsidiary	Share percentage of minority shareholders (%)	Profit/loss attributable to minority shareholders	Dividends paid to minority shareholders for the period	Balance of minority interests at the period
Capinfo Technology	26.00	4,000,581.72	-	35,623,005.89

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

VII. EQUITY IN OTHER ENTITIES (CONTINUED)

1. Equity in subsidiary (Continued)

(3) Main financial information on material non-wholly-owned subsidiary:

Name of subsidiary	Balance at end of period					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Capinfo Technology	299,922,458.67	3,878,146.32	303,800,604.99	166,789,043.86	-	166,789,043.86

Name of subsidiary	Balance at beginning of period					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Capinfo Technology	229,695,619.18	4,009,292.25	233,704,911.43	112,080,203.08	-	112,080,203.08

Name of subsidiary	Amount incurred in the current period				Amount incurred in the previous period			
	Operating revenue	Net profit	Total comprehensive income	Cash flow from operating activities	Operating revenue	Net profit	Total comprehensive income	Cash flow from operating activities
Capinfo Technology	187,750,570.48	15,386,852.78	15,386,852.78	59,099,257.36	124,298,704.57	5,911,977.06	5,911,977.06	-30,672,272.74

2. Equity in affiliates

(1) Significant affiliates

Name of affiliate	Location of operation	Location of registration	Business nature	Shareholding percentage (%)		Accounting treatment for the investment in affiliates
				Direct	Indirect	
Beijing Digital Certification Co., Ltd.	Beijing	Beijing	Scientific research and Technology services	26.24	-	Equity approach

Note: Beijing Digital Certification Co., Ltd. was listed on GEM, Shenzhen Stock Exchange on 23 December 2016. The market cap of the listed investment in this company as at 31 December 2017 was RMB944,478,630.00.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

VII. EQUITY IN OTHER ENTITIES (CONTINUED)

2. Equity in affiliates (Continued)

(2) Main financial information of significant affiliates:

Item	Beijing Digital Certification Co., Ltd.	
	Balance at end of period	Balance at beginning of period
Current assets	871,048,877.64	695,281,523.06
Non-current assets	60,297,185.43	45,667,650.09
Total assets	931,346,063.07	740,949,173.15
Current liabilities	372,304,055.97	245,640,197.13
Non-current liabilities	13,612,332.09	10,659,818.50
Total liabilities	385,916,388.06	256,300,015.63
Net asset	545,429,675.01	484,649,157.52
Including: Minority interests	–	-535,007.55
attributable to owners of the parent company	545,429,675.01	485,184,165.07
Share in net asset pro rata shares held	143,096,297.83	127,290,576.53
Adjustment	-589.75	-589.75
Including: Goodwill	–	–
Gains or losses on unrealised internal trading	–	–
Impairment provision	–	–
Others	-589.75	-589.75
Book value of equity investment to affiliate		
Fair value of equity investment with quoted price	143,095,708.08	127,289,986.78

Item	Beijing Digital Certification Co., Ltd.	
	Accrued during the period	Accrued during the previous period
Operating income	519,848,359.34	445,515,080.90
Net profit	83,112,653.12	57,556,728.69
Net profit on discontinued operation	–	–
Other comprehensive income	–	–
Total comprehensive income	83,112,653.12	57,556,728.69
Dividend receivable from affiliate during the period	6,296,524.20	–

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

VII. EQUITY IN OTHER ENTITIES (CONTINUED)

2. Equity in affiliates (Continued)

(3) Summarised financial information of other non-significant affiliate

Item	Balance at end of period/Accrued during the period	Balance at beginning of period/Accrued during the previous period
Affiliate:		
Total carrying value of investment	2,945,452.60	2,844,016.71
Total of the followings at shareholding percentage		
Net profit	101,435.89	2,417.36
Other comprehensive income	–	–
Total comprehensive income	101,435.89	2,417.36

VIII. RISK MANAGEMENT OF FINANCIAL INSTRUMENT

The main financial instruments of the Group include cash and equivalent, accounts receivable, bills receivable, dividend receivable, other receivables, non-current assets due within one year, other current assets, long-term receivable, available-for-sale financial assets, accounts payable, other payables, non-current liabilities due within one year, long-term borrowings and long-term payment. Details of each financial instrument have been disclosed in the relevant notes to the financial statements. The risks in connection with these financial instruments and the risk management policies adopted by the Group to mitigate such risks are described as follows. The management manages and monitors the risk exposure to ensure to control the above risks within limited extent.

1. Goal and policies of risk management

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and to mitigate the adverse effects that the risks of financial instruments have on the Group's financial performance. Based on such objectives, the Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The internal audit department of the Group undertakes both regular or ad hoc reviews of internal control system to check whether such system is compliant with the risk management policies.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

VIII. RISK MANAGEMENT OF FINANCIAL INSTRUMENT (CONTINUED)

1. Goal and policies of risk management (Continued)

The Group has exposure to the following risks from its use of financial instruments, namely credit risk, liquidity risk and market risk (including interest rate risk and exchange risk).

Directors are responsible for planning and establishing the risk management structure of the Group, designating the risk management policies and the related guidance for the Group, and monitoring the implementation of risk management measures. The Group has risk management policies in place to identify and analyse the risk exposure of the Group. These risk management policies have defined particular risks, covering the aspects of the management of credit risk, liquidity risk and market risk. The Group will decide whether it is necessary to update the risk management policies and system by regularly evaluating changes in market environment and the operating activities of the Group. Risk management of the Group is carried out by the risk management committee in accordance with the policies approved by the board. Risk management committee identifies, evaluates and mitigates the relevant risks by closely working with other business departments. Internal audit department of the Group will conduct audit regularly on risk management control and procedures, and submit the audit results to the audit committee of the Group.

The Group spreads the risks from financial instruments by diversified investment and business portfolio, and develops risk management policies accordingly to mitigate the risk of overconcentration on any single industry, particular region or particular counterparties.

(1) Credit risk

Credit risk is the risk that one counterparty will cause a financial loss for the Group by failing to discharge an obligation.

The Group manages credit risk by collective classification. Credit risk is mainly attributable to cash at bank and receivables.

The bank deposit of the Group is mainly held with well-known financial institutions with high credit ratings. The counterparties of the Group's bank deposits are placed in the well-established banks with high credit ratings. The management does not foresee any significant credit risk from these deposits.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

VIII. RISK MANAGEMENT OF FINANCIAL INSTRUMENT (CONTINUED)

1. Goal and policies of risk management (Continued)

(1) Credit risk (Continued)

In respect of receivables, the Group has established a credit policy to control credit risk exposure. Based on the debtors' financial position, the external ratings of the customers, their possibility of acquiring guarantee from third parties, their credit record and other factors (e.g. existing market conditions), the Group assesses the credit quality of its debtors, and sets up the outstanding limits and credit terms accordingly. The Group has adopted policies to cooperate with the counterparties with good credit record, and obtain full collateral, if necessary, to relieve the risk of financial loss arising from default of these counterparties. The Group will monitor the credit record of its customers, and ensure the overall credit risk of the Group within controllable extent by issuing written collection notice, reducing credit terms or cancelling credit terms for the debtors with poor credit records.

The Group's accounts receivable debtors are the customers distributed in different industries and regions. The Group will continually conduct credit assessment on the financial position of the accounts receivable, and secure credit guarantee insurance as appropriate.

The maximum credit risk exposure to the Group is the carrying amount of each financial asset presented in the balance sheet. The Group does not provide any other guarantee that may enable the Group to assume credit risk. Among the accounts receivable of the Group, the accounts receivable attributable to the top five customers account for 33.02% of the Group's total accounts receivable. Other receivables attributable to the top five companies account for 37.20% of the Group's total other receivables.

(2) Liquidity risk

Liquidity risk is the risk that the Group may encounter deficiency of funds in meeting obligations settled with cash or other financial assets delivery.

In managing liquidity risk, the Group ensures to monitor the cash and cash equivalent the management considered as sufficient, in order to meet the Group's needs for operation, and lower the effects from fluctuation of cash flow. The management monitors the usage of bank borrowings, and ensures compliance with the borrowing agreements. At the same time, the Group secures adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

VIII. RISK MANAGEMENT OF FINANCIAL INSTRUMENT (CONTINUED)

1. Goal and policies of risk management (Continued)

(2) Liquidity risk (Continued)

The financial liabilities and off balance sheet guarantee held by the Group at end of period are analysed at terms of the remaining undiscounted contractual cash flows as follows (expressed in RMB10,000):

Item	Within 1 year	More than 1 year	Total undiscounted cash flows	Total
Financial liabilities:				
Accounts payable	12,609.16	2,794.89	15,404.04	15,404.04
Employee benefits payable	6,916.97	–	6,916.97	6,916.97
Taxes payable	4,850.77	–	4,850.77	4,850.77
Other payables	10,311.80	4,798.75	15,110.55	15,110.55
Non-current liabilities due within one year	4,689.71	–	4,689.71	4,689.71
Total financial liabilities and contingent liabilities	39,378.40	7,593.64	46,972.04	46,972.04

(3) Market risk

Market risk of financial instruments is the risk of fluctuation in the fair value of financial instruments or future cash flow arising from changes in market price. Market risk includes interest rate risk, exchange risk and other price risk.

Interest rate risk

Interest rate risk is the risk of fluctuation in the fair value of financial asset or future cash flow arising from changes in market interest rate. Interest rate may arise in the recognised interest-bearing financial instruments and unrecognised financial instruments (e.g. some loan commitments).

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

VIII. RISK MANAGEMENT OF FINANCIAL INSTRUMENT (CONTINUED)

1. Goal and policies of risk management (Continued)

(3) Market risk (Continued)

Interest rate risk (Continued)

The Group's interest rate risk is mainly attributable to bank deposits. The Group closely monitors the interest rate risk due to the effect of changes in interest rate. At present, the Group does not adopt any interest rate hedging policies. However, the management is responsible for monitoring interest rate risk, and considers hedging significant interest rate risk as necessary. Since the term deposits are short-term deposits, so the interest rate risk for the fair value of these bank deposits is not significant.

As at 31 December 2017, it is estimated that a general increase or decrease of 10 basis points in interest rates, if floating, with all other variables held constant, would decrease or increase the Group's net profit and shareholders' equity by RMB3,600.

The sensitivity analysis above indicates the instantaneous change in the net profit and equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the net profit and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the previous year.

Exchange rate risk

Exchange rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in foreign exchange rates. Exchange rate risk may arise from financial instruments denominated in foreign currencies other than the functional currency.

The exchange rate risk is mainly the effect of the fluctuation of the foreign exchange rate on the Group's financial position and cash flow. Except that the subsidiaries established in Hong Kong hold monetary fund in Hong Kong dollars as the settlement currency, the proportion of assets and liabilities held by the Group in foreign currency to total assets and liabilities is not significant. Therefore, the Group believes that its exposure to exchange rate risks is not significant.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

VIII. RISK MANAGEMENT OF FINANCIAL INSTRUMENT (CONTINUED)

1. Goal and policies of risk management (Continued)

(3) Market risk (Continued)

Exchange rate risk (Continued)

The Group monitors closely the impact of changes in exchange rate on the exchange rate risks the Group is exposed to. The Group currently does not take any measure to avoid exchange rate risks. However, the management is responsible for monitoring exchange rate risks and will consider hedging significant exchange rate risks when necessary.

As of 31 December 2017, for the Group's monetary fund denominated in foreign currencies, assuming that the RMB appreciates or depreciates against foreign currencies (mainly for the US dollar, Hong Kong dollar) by 10%, while other factors remain unchanged, both shareholders' equity and net profit of the Group will increase or decrease by approximately RMB5,900,000.

2. Capital Management

The goal of the Group's capital management policy is to ensure that the Group has the ability to continue its operations so as to provide returns to shareholders and benefit other stakeholders while maintaining the optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or dispose of assets to reduce debts.

The Group monitors the capital structure based on the gearing ratio (i.e. total liabilities divided by total assets). As of 31 December 2017, the Group's gearing ratio was 41.58%.

IX. FAIR VALUE

Based on the inputs of the lowest level that are of great significance to the measurement as a whole in the fair value measurement, the fair value can be categorized as:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable inputs other than the quoted market price of assets or liabilities in Level 1, either directly (the prices) or indirectly (derived from prices).

Level 3: Any input that is not based on observable market data (unobservable inputs) is used for assets or liabilities.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

IX. FAIR VALUE (CONTINUED)

(1) Items and amounts measured at fair value

As at 31 December 2017, assets and liabilities measured at fair value are listed as follows based on the three hierarchies set out above:

Items	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
I. Continuing fair value measurement				
The fair value of the C-2 Stock received due to deemed disposal of the equity interest in PayEase	-	-	-	-
Total assets subject to continuing fair value measurement	-	-	-	-
(II) Contingent consideration for merger and acquisition of Rito Info not under common control	-	-	45,446,788.72	45,446,788.72
Total liabilities subject to continuing fair value measurement	-	-	45,446,788.72	45,446,788.72

(2) The quantitative information of important unobservable input used in the Level 3 fair value measurement

Items	Closing fair value	Valuation techniques	Unobservable inputs	Sensitivity relationship of unobservable inputs to fair value
The fair value of the C-2 Stock received due to the deemed disposal of equity interest in PayEase	-	Market approach; Black-Scholes option pricing model	Revenue multiplier of 8.40 times (2016: 7.12 times); Discount rate of 6.00% (2016: 25.00%) for lack of marketability; Volatility of 18.00% (2016: 24.89%); Risk free rate of 1.90% (2016: 1.45%)	The higher the multiplier, the higher the fair value, and vice versa; the higher the discount rate, the lower the fair value, and vice versa; the higher the volatility, the higher the fair value, and vice versa; the higher the risk free rate, the higher the fair value, and vice versa
Contingent consideration for merger and acquisition of Rito Info not under common control	45,446,788.72	Discounted cash flow approach	Projected profit after tax of Rito Info for the year ended 31 December 2016 of RMB31,317,000; Discount rate of 12.50%	The higher the projected profit after tax, the higher the fair value, and vice versa; the higher the discount rate, the lower the fair value, and vice versa

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

IX. FAIR VALUE (CONTINUED)

(3) Table of reconciliation of fair value measurements categorized into level 3 of the fair value hierarchy

Amount for the current period	Opening balance	Transfer into level 3	Transfer out from level 3	Total profit or loss for the current period		Purchase, issuance, sale and settlement				Closing balances	Assets held at the end of the reporting period are included in profit or loss as changes in gain or loss that are not realized in the period
				Included in profit or loss	Included in other comprehensive income	Purchase	Issuance	Sale	Settlement		
The fair value of the C-2 Stock received due to deemed disposal of the equity interest in PayEase	3,564,709.74	-	-	-3,564,709.74	-	-	-	-	-	-	-
Contingent consideration for merger and acquisition of Rito Info not under common control	40,229,633.84	-	-	-5,217,154.88	-	-	-	-	-	45,446,788.72	-

Notes: 1. The Group holds 2,771,484.00 C-2 shares in Mozido. DTZ issued a report No. F16-000363. The fair value of C-2 shares as of 31 December 2017 recognized based on Market Approach and Black-Scholes-Merton Option Pricing Model is RMB0.

2. Since the performance evaluation period of Rito Info was from 1 January 2014 to 31 December 2016, the contingent consideration for the merger and acquisition of Rito Info not under common control was determined in 2016. This year's change was due to the change of interest expenses.

X. RELATED PARTIES AND CONNECTED TRANSACTIONS

1. Information on the parent company of the Company

Name of parent company	Place of registration	Nature of business	Registered capital (RMB ten thousand)	Parent company's shareholding percentage to the Company %	Parent company's percentage of voting rights to the Company %
Beijing State-owned Assets Management Corporation Limited (hereinafter referred to as BSAM)	Beijing	Investment Management	1,000,000.00	63.31	63.31

The ultimate controlling party of the Company is: the People's Government of Beijing Municipality.

2. Information on the subsidiaries of the Company

Details on the subsidiaries are set out in Note VII.1.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

X. RELATED PARTIES AND CONNECTED TRANSACTIONS (CONTINUED)

3. Information on the joint ventures and affiliates of the Group

Details of the important joint ventures and affiliates are set out in Note VII.2.

Set out below are other joint ventures or affiliates which were involved in connected transactions with the Group during the period, or for which balances were formed due to their involvement in connected transactions with the Group during previous periods:

Name of joint ventures or affiliates	Relationship with the Group
Beijing Certificate Authority Co., Ltd. (hereinafter referred to as BJCA, BJCA and its subsidiaries)	affiliate
Beijing Culture & Sports Technology Co., Ltd. (hereinafter referred to as BST)	affiliate

4. Information on other related parties of the Group

Name of related parties	Relations with the Group
Beijing Aiyuhua Hospital for Children and Women Co., Ltd. (hereinafter referred to as Aiyuhua Company)	The same ultimate controlling party
Beijing Anxintianxing Science Co., Ltd. (hereinafter referred to as Anxintianxing, BJCA and its subsidiaries)	A subsidiary of BJCA, which is an affiliate of the Company
China Beijing Equity Exchange Limited (hereinafter referred to as Beijing Equity Exchange)	The same ultimate controlling party
Beijing Chenghejing Investment Co., Ltd. (hereinafter referred to as Chenghejing Investment)	The same ultimate controlling party
Beijing Chenghejing Elderly Caring Service Co., Ltd. (hereinafter referred to as Chenghejing Elderly Caring)	The same ultimate controlling party
Beijing Industrial Development Investment Management Co., Ltd. (hereinafter referred to as Industrial Development)	The same ultimate controlling party
Beijing National Swimming Centre Co., Ltd. (hereinafter referred to as National Swimming Centre)	The same ultimate controlling party
Beijing Huayu Energy Technology Holdings Co., Ltd. (hereinafter referred to as Beijing Huayu Energy Technology)	The same ultimate controlling party
Beijing Huimin Traditional Chinese Medicine Children's Hospital Co., Ltd. (hereinafter referred to as Huimin Chinese Medicine Children's Hospital)	The same ultimate controlling party
Beijing IC Design Park Co., Ltd. (hereinafter referred to as BIDP)	The same ultimate controlling party
Beijing QYT Pay Sci-tech Co., Ltd. (hereinafter referred to as QYT Pay)	The same ultimate controlling party
Beijing Petroleum Exchange (hereinafter referred to as Beijing Petroleum Exchange)	The same ultimate controlling party
Beijing Urban Drainage Monitoring Station Co., Ltd. (hereinafter referred to as Beijing Drainage Monitoring Station)	The same ultimate controlling party
Capnet Company Limited (hereinafter referred to as Capnet)	The same ultimate controlling party
Beijing Crystal Digital Co., Ltd. (hereinafter referred to as Beijing Crystal Digital)	The same ultimate controlling party
Beijing Culture and Sports Technology Co., Ltd. (hereinafter referred to as Beijing Sports Technology)	The same ultimate controlling party
Beijing Xinlongfu Culture Investment Co., Ltd. (hereinafter referred to as Xinlongfu Culture)	The same ultimate controlling party
Beijing SME Credit Re-guarantee Co., Ltd. (hereinafter referred to as Beijing SME Credit Re-guarantee)	The same ultimate controlling party
National Sport Stadium Co., Ltd. (hereinafter referred to as National Stadium)	The same ultimate controlling party
Capital Healthcare Industry Group Co., Ltd. (hereinafter referred to as the Capital Medical Health Industry)	The same ultimate controlling party
Yingzhi Recovery Investment Management Limited (hereinafter referred to as Yingzhi Recovery Hospital)	The same ultimate controlling party

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

X. RELATED PARTIES AND CONNECTED TRANSACTIONS (CONTINUED)

5. Information on connected transactions

(1) Information on connected purchases and sales

1 Purchase of goods and receipt of labor service

Related parties	Subjects of connected transactions	Amount incurred for the current period (RMB ten thousand)	Amount incurred for the previous period (RMB ten thousand)
BJCA and its subsidiaries	Purchase of network security system and relevant technical service	313.62	574.91
Capnet	Purchase of hardware and relevant service	7.87	1,541.60
Beijing Petroleum Exchange	Purchase of network security system and service	0.14	-
Beijing Crystal Digital	Relevant expenses for promotion of business	36.23	-
Xinlongfu Culture	Fees for property management	16.43	-

2 Sale of goods and provision of labor service

Related parties	Subjects of connected transactions	Amount incurred for the current period (RMB10,000)	Amount incurred for the previous period (RMB10,000)
Capnet	Provision of network system and relevant operation and maintenance service	1,066.04	1,066.04
Beijing Equity Exchange	Purchase of network security system and service	274.96	-
BJCA and its subsidiaries	Purchase of network security system and relevant operation and maintenance service	207.35	-
BSAM	Provision of network system and relevant technical service	115.97	-
Huimin Traditional Chinese Medicine Children's Hospital	Provision of network system and relevant technical service	2.63	-
Beijing Huayu Energy Technology	Provision of network system and relevant technical service	0.35	-
National Sport Stadium	Provision of network system and relevant technical service	49.89	-
Chenghejing Investment	Provision of network system and relevant technical service	116.89	-
National Swimming Centre	Provision of network system and relevant technical service	2.68	-
Capital Healthcare Industry	Provision of network system and relevant technical service	11.25	-
QYT Pay	Provision of network system and relevant technical service	185.67	-
Aiyuhua Company	Purchase of network security system and service	130.67	109.47
Beijing Petroleum Exchange	Provision of hardware, software and relevant technical service	14.02	29.30
INTECH	Purchase of hardware and relevant technical service	-	66.30
BIDP	Provision of network system and relevant technical service	0.17	-
BSAM	Charges for equity custodian service	9.43	-

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

X. RELATED PARTIES AND CONNECTED TRANSACTIONS (CONTINUED)

5. Information on connected transactions (Continued)

(2) Other connected transactions

A. Leasing

Lessor	Subjects of connected transactions	Method of pricing and procedure for decision-making in respect of connected transactions	Amount incurred for the current period (RMB10,000)	Amount incurred for the previous period (RMB10,000)
BIDP	Leasing of office	Based on prevailing market price	1,035.72	1,085.02

B. Transfer of equity interest

Purchaser	Subjects of connected transactions	Method of pricing and procedure for decision-making in respect of connected transactions	Amount incurred for the current year	Amount incurred for the previous year
Capnet	Transfer of 26% equity interest in Capinfo Technology	Based on prevailing market price	-	29,275,766.00

C. Joint research and development

On 28 July 2017, the Company entered into a project cooperation agreement with BJCA, Anxintianxing and six other independent third parties. The Company agreed that BJCA shall act as the leading party while the Company, Anxintianxing and other six independent third parties as the participants, to jointly cooperate on the project of "key technology for service certification and certification based on domestic cryptographic algorithms". The project will complete the research and development of five topics, among which the Company will participate in the research and development of three under the cooperation project. This project received a total of RMB21,860,000.00 from the central government budget, and the self-raised research funding of RMB10,000,000.00 from BJCA, RMB12,000,000 from the Company and RMB1,000,000.00 from one of the independent project participants and RMB2,000,000.00 from Anxintianxing. During the implementation of the project, all parties shall take timely measures of intellectual property protection in regard to scientific and technological achievements, and shall determine their ownership in accordance with the relevant provisions of the National Science and Technology Plan for Intellectual Property Management. Regardless of the exclusive or shared intellectual property rights, the parties to the project shall have priority in the assignment under the same conditions. In 2017, the Company actually received a grant of RMB1,389,700.00 from the central government budget.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

X. RELATED PARTIES AND CONNECTED TRANSACTIONS (CONTINUED)

5. Information on connected transactions (Continued)

(3) Compensation of key management personnel

The compensation of key management personnel is set out in Note XIII.4.

(4) Loans to directors, legal entities controlled by these directors or entities connected to these directors

In 2017 and 2016, the Company did not provide loans to directors, legal entities controlled by these directors, or entities connected to such directors.

6. Amounts receivable from and payable to related parties

(1) Amounts receivable from related parties

Names of subjects	Related parties	Closing amount		Opening amount	
		Balance in the account	Provision for bad debts	Balance in the account	Provision for bad debts
Accounts receivable	Aiyuhua Company	8,893,389.16	1,841,128.21	15,364,512.85	5,895,830.85
Accounts receivable	Capnet	5,000,000.00	187,500.00	11,300,000.00	315,000.00
Accounts receivable	BJCA	-	-	53,360.00	13,340.00
Accounts receivable	Industrial Development	12,843.60	12,843.60	12,843.60	12,843.60
Accounts receivable	BSAM	10,328.40	10,328.40	10,328.40	10,328.40
Accounts receivable	Beijing Petroleum Exchange	90,000.00	-	-	-
Accounts receivable	Beijing Equity Exchange	466,748.58	-	-	-
Accounts receivable	Anxintianxing	943,550.40	-	-	-
Accounts receivable	Chenghejing Investment	543,912.60	-	-	-
Accounts receivable	QYT Pay	113,850.00	-	-	-
Accounts receivable	National Sport Stadium	35,000.00	-	-	-
Accounts receivable	Yingzhi Recovery Hospital	46,500.00	-	46,500.00	-
Other receivables	Capnet	8,239,796.06	-	7,138,234.63	-
Other receivables	Culture and Sports	190,780.86	-	190,780.86	-
Other receivables	Beijing Sports Technology	500.93	-	-	-
Other receivables	BSAM	100,000.00	-	100,000.00	-
Other receivables	Anxintianxing	-	-	80,000.00	-
Other receivables	BIDP	2,853,972.00	-	2,853,972.00	-
Other receivables	Beijing Equity Exchange	5,798.13	-	5,798.13	-
Other receivables	Aiyuhua Company	1,689,338.92	-	1,689,338.92	-
Amount paid in advance	BJCA	322,800.00	-	-	-
Amount paid in advance	Aiyuhua Company	609,601.12	-	-	-

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

X. RELATED PARTIES AND CONNECTED TRANSACTIONS (CONTINUED)

6. Amounts receivable from and payable to related parties (Continued)

(2) Amounts payable to related parties

Names of Items	Related parties	Closing amount	Opening amount
Amount payables	BJCA	790,510.00	2,397,579.48
Amount payables	BIDP	695,865.55	695,865.55
Amount payables	Capnet	215,442.09	202,559.09
Amount payables	Anxintianxing	2,888,390.00	-
Amount payables	BJCA	-	8,753.00
Other payables	Beijing Petroleum Exchange	9,341.51	9,341.51
Other payables	Culture and Sports	2,240.00	2,240.00
Other payables	Capnet	1,750,157.62	2,150.15
Other payables	BSAM	33,728.16	-
Amount collected in advance	Beijing Equity Exchange	-	514,278.30
Amount collected in advance	BSAM	-	255,684.30
Amount collected in advance	Anxintianxing	103,512.40	-
Amount collected in advance	Huimin Traditional Chinese Medicine Children's Hospital	4,245.28	14,400.00
Amount collected in advance	Industrial Development	77,185.85	-
Amount collected in advance	Beijing SME Credit Re-guarantee	25,801.89	-
Amount collected in advance	Beijing Huayu Energy Technology	8,553.46	-
Amount collected in advance	Beijing Urban Drainage Monitoring	6,301.89	-
Amount collected in advance	National Sport Stadium	5,189.69	44,483.02
Amount collected in advance	Chenghejing Investment	-	39,622.64
Amount collected in advance	Chenghejing Elderly Caring	17,075.47	6,603.77
Amount collected in advance	Capital Healthcare Industry	96,070.95	-
Amount collected in advance	Aiyuhua Company	86,792.45	-
Amount collected in advance	BIDP	18,762.26	-
Amount collected in advance	Beijing Petroleum Exchange	-	48,879.25

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XI. COMMITMENTS AND CONTINGENCIES

1. Principal commitments

(1) Capital commitments

Capital commitments contracted but not yet confirmed in the financial statements	Closing amount	Opening amount
Commitment to acquisition and construction of long-term assets		
– Contracted but not executed	9,320,318.82	9,495,227.69
– Authorized but not contracted	57,900,200.94	33,119,507.92
Total	67,220,519.76	42,614,735.61

(2) Operating lease commitments

As of the balance sheet date, the irrevocable operating lease contracts signed by the Company are summarized as follows:

Minimum lease payments under irrevocable operating leases	Closing amount	Opening amount
1 year after the balance sheet date	21,196,304.89	26,569,853.44
2-5 years after the balance sheet date	19,161,891.65	31,642,303.80
Total	40,358,196.54	58,212,157.24

(3) Other commitments

As of 31 December 2017, the Group had no other discloseable commitments.

2. Contingencies

As of 31 December 2017, the Group has no pending lawsuits, external guarantees and other contingencies that should be disclosed.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XII. POST-BALANCE SHEET DATE EVENTS

1. Explanation of important post-balance sheet date events

Item	Description	Effects on financial conditions and operating results	Reasons of failure to estimate the effects
Significant outbound investment	Investment in establishing the subsidiary the Capinfo Medical United Information Technology Company Limited	–	–

Note: The Company established a subsidiary, the Capinfo Medical United Information Technology Company Limited (hereinafter referred to as "Capinfo Medical United Company") on 26 January 2018 due to operation needs. The articles of association of Capinfo Medical United Company stipulates a registered capital of RMB50,000,000, and the Company has made a capital contribution of RMB50,000,000, undertaking to invest RMB6,662,000 in the form of monetary fund and RMB8,338,000 in the form of intellectual property on 31 December 2018, and RMB35,000,000 in the form of monetary fund on 31 December 2037. As of 31 December 2017, the Company has not actually made any capital contribution.

2. Dividend distribution is set out in Note V.35.

3. Explanation of other post-balance sheet date events

As of 28 March 2018 (the date of the approval of the report by the Board of Directors), the Group did not have other discloseable post-balance sheet date events.

XIII. OTHER SIGNIFICANT EVENTS

1. Correction of errors

The Group has no correction of errors during the reporting period.

2. Segment reporting

The Group does not have a variety of operations that have a significant impact on its operating results. At the same time, as the Group only operates in one geographical area, its revenue mainly comes from China, and its major assets are also located within China. Therefore, it's not necessary for the Group to disclose the segment data.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

3. Government grants

- (1) Government grants included in deferred income are subsequently measured using the total method

Government grants projects	Type	Opening balance	Increase in the current year	Amounts carried forward into the profits and losses in the current year	Other changes	Closing balance	Items carried forward into the profits and losses in the current year	Related to asset/income
Capital support to the project of Beijing hospital medical information service platform which is based on big data analysis in Zhongguancun	Fiscal appropriation	9,057,662.94	-	6,325,191.13		2,732,471.81	Other incomes	Related to asset
Collaboration on the 2017 Cyberspace Security Key Project titled Research, Development and Application of Demonstration of the Information Services Trust Management Platform	Fiscal appropriation	-	949,700.00	-		949,700.00		Related to asset
Service fees of project of China Academy of Information and Communication Technology	Fiscal appropriation	-	440,000.00	-		440,000.00		Related to asset
Total		9,057,662.94	1,389,700.00	6,325,191.13	-	4,122,171.81		

- (2) Government grants included in profits and losses in the current year measured using the total method

Government grants projects	Type	Amounts included in the profits and losses in the current year	Items included in the profits and losses in the current year	Related to asset/income
The grants of R&D funds to the third batch of enterprises in 2016	Fiscal appropriation	387,400.00	Other incomes	Related to income
Science and technology project funds in 2016	Fiscal appropriation	300,000.00	Other incomes	Related to income
The second batch of technical trading incentives in 2016	Fiscal appropriation	233,705.00	Other incomes	Related to income
The grants of R&D funds to the first batch of enterprises in 2017	Fiscal appropriation	148,200.00	Other incomes	Related to income
Others	Fiscal appropriation	74,087.70	Other incomes	Related to income
Total		1,143,392.70		

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

4. Compensation of Directors, Supervisors and Chief Executive Officers

(1) Compensation of Directors, Supervisors and Chief Executive Officers

The remuneration of each of the Directors, Supervisors and Chief Executive Officers in 2017 was as follows: (unit: RMB10,000)

Title	Name	Fees	Salaries, Allowances and subsidies	Retirement benefit scheme contributions	Total
Chairman, Executive Director	Lin Yankun	-	104.89	5.06	109.95
Chairman	Xu Zhe (Resigned)	-	-	-	-
Executive Director, Chief Executive Officer	Yu Donghui	-	104.89	5.06	109.95
Non-executive Director	Feng Haocheng	-	-	-	-
Non-executive Director	Cao Jun	-	-	-	-
Non-executive Director	Zhou Weihua	-	-	-	-
Non-executive Director	Shan Yuhu	-	-	-	-
Non-executive Director	An Lili	-	-	-	-
Independent Non-executive Director	Yang Xiaohui	6.50	-	-	6.50
Independent Non-executive Director	Gong Zhiqiang	7.00	-	-	7.00
Independent Non-executive Director	Cheung, Wai Hung Boswell	6.00	-	-	6.00
Independent Non-executive Director	Li He	6.00	-	-	6.00
Chairman of the Supervisory Committee	Di Guojun	-	-	-	-
Supervisor	Lang Jianjun	-	38.27	4.22	42.49
Supervisor	Liang Xianjun	-	-	-	-
Vice President	Gong Chengliang	-	96.67	5.06	101.73
Vice President, Secretary of Joint Company and Secretary of the Board	Lu Lei	-	90.45	5.06	95.51

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

4. Compensation of Directors, Supervisors and Chief Executive Officers (Continued)

(1) Compensation of Directors, Supervisors and Chief Executive Officers (Continued)

Notes:

- 1 Ms. Lin Yuk Kwan was appointed as Executive Director in January 2017, replacing Dr. Feng Haocheng as a member of the Remuneration and Appraisal Committee. In October 2017, he was elected to replace Mr. Xu Zhe as Chairman of the board of directors and appointed as Chairman of the Strategy Committee and the Nomination Committee.
- 2 Mr. Yu Donghui was appointed in January 2017 to replace Mr. Lu Lei as Executive Director and a member of the Strategy Committee.
- 3 Dr. Feng Haocheng was appointed as a member of the Strategy Committee in January 2017 and resigned as a member of the Remuneration and Assessment Committee at the same time.
- 4 Mr. Xu Zhe resigned as Chairman of the board of directors, Non-executive Director, Chairman of the Nomination Committee and Chairman of the Strategy Committee in October 2017 due to work arrangement.
- 5 Mr. Lu Lei resigned as Executive Director and a member of the Strategy Committee in January 2017 due to work arrangement.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

4. Compensation of Directors, Supervisors and Chief Executive Officers (Continued)

(1) Compensation of Directors, Supervisors and Chief Executive Officers (Continued)

The remuneration of each of the Directors, Supervisors and Chief Executive Officers in 2016 was as follows:

Title	Name	Fees	Salaries, Allowances and subsidies	Retirement benefit scheme contributions	Total
Chairman, Executive Director, Chief Executive Officer	Wang Xu (Resigned)	-	-	-	-
Executive Director, Secretary of the Board, Vice President	Lu Lei	-	76.6	4.7	81.3
Non-executive Director	Xu Zhe	-	-	-	-
Non-executive Director	Feng Haocheng	-	-	-	-
Non-executive Director	Cao Jun	-	-	-	-
Non-executive Director	Shi Hongyin	-	-	-	-
Non-executive Director	Wu Shengjiao	-	-	-	-
Non-executive Director	Zhou Weihua	-	-	-	-
Non-executive Director	Shan Yuhu	-	-	-	-
Non-executive Director	An Lili	-	-	-	-
Independent Non-executive Director	Gong Zhiqiang	7.00	-	-	7.00
Independent Non-executive Director	Cheung, Wai Hung Boswell	6.00	-	-	6.00
Independent Non-executive Director	Li He	3.60	-	-	3.60
Independent Non-executive Director	Yang Xiaohui	0.80	-	-	0.80
Independent Non-executive Director	Jiao Jie	2.50	-	-	2.50
Independent Non-executive Director	Zhou Liye	5.70	-	-	5.70
Chairman of the Supervisory Committee	Di Guojun	-	-	-	-
Supervisor	Lang Jianjun	-	24.90	3.90	28.80
Supervisor	Liang Xianjun	-	-	-	-
Chief Executive Officer	Yu Donghui	-	8.00	0.40	8.40

Of which, Wang Xu resigned in January 2016 and Lu Lei resigned as Executive Director in January 2017.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

4. Compensation of Directors, Supervisors and Chief Executive Officers (Continued)

- (2) Payments made or benefits provided for directors (including former directors and shadow directors) who terminate services

During the year, the Company did not make payments or provide benefits for the directors (including former directors and shadow directors) who terminate services. (2016: none)

- (3) Details about any compensation arrangement that directors have waived or agreed to waive

During the year, no director of the Company has waived or agreed to waive any compensation arrangement (2016: none)

- (4) Payment to third parties for obtaining directorship services

During the year, the Company did not pay the third party for the services provided by the directors. (2016: none)

- (5) Loans, quasi-loans and other transactions provided to directors, legal entities controlled by directors, and connected parties of directors, or guarantees on loans to directors, and connected parties of directors

During the year, the Company did not provide loans, quasi-loans, and other transactions for any directors, legal entities controlled by directors, and connected parties of directors, or provided guarantees on loans to directors, legal entities controlled by directors, and connected parties of directors. (2016: none)

- (6) Significant interests of directors in transactions, arrangements or contracts

During the year, the Company did not enter into any important transaction, arrangement or contract that is related to the business of the Group and where the directors of the Company have direct or indirect interests in it. (2016: none)

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

4. Compensation of Directors, Supervisors and Chief Executive Officers (Continued)

(7) Top five employees with the highest salary

The top five employees with the highest salary for the current year included two directors (who acted as Chairman and Chief Executive Officer respectively), whose details of remuneration are shown in Note XIII.4 (1). The remaining top three highest paid employees included the non-directors and non-executive chief executive officers, the details of which are set out as follows:

Item	Closing amount (RMB ten thousand)	Opening amount (RMB ten thousand)
Basic salaries and allowances	278.22	331.60
Retirement benefit scheme contributions	15.18	19.00
Total	293.40	350.60

Number of the highest paid employees who is non-directors and non-executive chief executive officers within the following remuneration range is set out as follows:

Item	Number of employees	
	Closing amount	Opening amount
HK\$0 to 1,000,000	–	3
HK\$1,000,000 to 1,500,000	3	1
Total	3	4

XIV. SUPPLEMENTARY INFORMATION

1. Earnings per share

	Amount incurred in the current period	Amount incurred in the previous period
Earnings per share		
Basic earnings per share	0.028	0.025
Diluted earnings per share	0.028	0.025

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIV. SUPPLEMENTARY INFORMATION (CONTINUED)

2. Difference adjustment on first application day upon conversion of HKFRSs into Standards for Business Enterprises of the PRC

- (1) As changes in adoption of accounting standards will increase efficiency and reduce disclosure costs and are in the interest of the Group and its shareholders as a whole, the Group adopted the CASBE for the first time on 1 January 2017 to prepare its financial and accounting reports.
- (2) Differences in net profit and net assets set out in financial statements disclosed on the first application day (1 January 2017) upon conversion of HKFRSs into Standards for Business Enterprises of the PRC:

	Net profit In 2016	Net assets At the end of 2016
According to HKFRSs	109,942,973.68	1,008,320,091.04
Items and amounts adjusted according to the CASBE:		
Investment income	-37,591,741.88	-
Capital reserve	-	37,591,741.88
Undistributed profit	-	-37,591,741.88
According to the CASBE	72,351,231.80	1,008,320,091.04

Note: As the Group adopted the CASBE for the first time on 1 January 2017 to prepare its financial and accounting reports, and according to the provisions of Chinese Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investments (2014 Revision), the long-term equity investment accounted for using equity method and the book value arising from adjustments with other changes in owners' equity of the investee due to factors other than net loss & profit, other comprehensive income and profit distribution are simultaneously recognized as capital reserve (other capital reserve). Differences in net profit and net assets set out in financial statements upon conversion of HKFRSs into Accounting Standards for Business Enterprises of the PRC only affect the data in financial statements for 2016.

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIV. SUPPLEMENTARY INFORMATION (CONTINUED)

2. Difference adjustment on first application day upon conversion of HKFRSs into Standards for Business Enterprises of the PRC (Continued)

- (3) Other significant differences (excluding net profit and net assets) set out in financial statements disclosed on the first application day (1 January 2017) upon conversion of HKFRSs into Standards for Business Enterprises of the PRC:

	Items in Balance Sheet	
	Opening amount (consolidated financial statements)	Opening amount (financial statements of parent company)
Items and amounts adjusted according to the CASBE:		
Project contract value due from client	-96,660,964.60	-64,760,885.97
Inventory	106,249,688.41	73,071,832.17
Fixed assets	-12,633,993.81	-12,117,534.00
Intangible assets	12,633,993.81	12,117,534.00
Advances	300,951,134.52	243,287,223.98
Project contract value due to client	-291,362,410.71	-234,976,277.78

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIV. SUPPLEMENTARY INFORMATION (CONTINUED)

3. Balance sheet of the parent company

Prepared by: Capinfo Company Limited

Unit: RMB

Items	Note	Balance at end of period	Opening Balance
Current assets:			
Monetary fund	Note V.1	457,520,672.99	391,871,700.64
Financial assets at fair value through profit or loss	Note V.2	–	–
Derivative financial assets		–	–
Notes receivables	Note V.3	–	–
Trade receivables	Note V.4	199,899,228.32	181,493,020.91
Prepayments	Note V.5	36,874,660.00	47,010,631.37
Interest receivables		–	–
Dividend receivables	Note V.6	6,296,524.20	–
Other receivables	Note V.7	77,520,277.37	78,460,435.44
Inventories	Note V.8	51,089,622.49	81,744,100.39
Assets held for sale		–	–
Non-current assets due within one year	Note V.9	26,237,343.74	26,237,343.74
Other current assets	Note V.10	511,434.54	–
Total current assets		855,949,763.65	806,817,232.49

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIV. SUPPLEMENTARY INFORMATION (CONTINUED)

3. Balance sheet of the parent company (Continued)

Items	Note	Balance at end of period	Opening Balance
Non-current assets:			
Available-for-sale financial assets	Note V.11	971,326.53	971,326.53
Held-to-maturity investments		-	-
Long-term receivables	Note V.12	3,947,515.56	25,123,235.23
Long-term equity investments	Note V.13	472,158,987.23	457,051,830.04
Investment properties	Note V.14	41,510,260.28	45,283,920.32
Fixed assets, at original price	Note V.15	522,442,272.97	449,808,560.68
Less: Accumulated depreciation	Note V.15	433,434,567.39	387,123,158.26
Net value of fixed assets		89,007,705.58	62,685,402.42
Less: Provision for the impairment of fixed assets		-	-
Net fixed assets		89,007,705.58	62,685,402.42
Construction in progress	Note V.16	-	46,372,914.53
Construction materials		-	-
Disposal of fixed assets		-	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible assets	Note V.17	32,723,256.93	28,821,887.31
Development expenditures	Note V.18	-	-
Goodwill	Note V.19	-	-
Long-term deferred expenses	Note V.20	41,151,711.47	42,134,270.84
Deferred income tax assets	Note V.21	13,596,839.61	21,905,076.49
Other non-current assets		-	-
Total non-current assets		695,067,603.19	730,349,863.71
Total assets		1,551,017,366.84	1,537,167,096.20

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIV. SUPPLEMENTARY INFORMATION (CONTINUED)

3. Balance sheet of the parent company (Continued)

Items	Note	Balance at end of period	Opening Balance
Current Liabilities:			
Short-term borrowings		-	-
Financial liabilities at fair value through profit or loss		-	-
Derivative financial liabilities		-	-
Notes payables		-	-
Accounts payables	Note V.22	133,000,065.83	115,583,718.72
Advances received	Note V.23	191,149,390.28	253,354,173.26
Payroll payables	Note V.24	47,874,730.78	44,496,990.44
Tax payables	Note V.25	16,019,862.15	18,197,738.18
Interest payables		-	-
Dividend payables		-	-
Other payables	Note V.26	198,012,106.15	200,673,812.16
Liabilities held for sale		-	-
Non-current liabilities due within one year	Note V.27	46,897,051.31	29,781,028.61
Other current liabilities		-	-
Total current liabilities		632,953,206.50	662,087,461.37
Non-current Liabilities:			
Long-term borrowings	Note V.28	-	-
Bonds payables		-	-
Long-term payables	Note V.29	-	11,348,605.23
Long-term payroll payables		-	-
Specific payables		-	-
Accrued liabilities		-	-
Deferred income	Note V.30	4,122,171.81	9,057,662.94
Deferred income tax liabilities	Note V.21	-	-
Other non-current liabilities	Note V.31	15,512,453.80	19,192,689.60
Total non-current liabilities		19,634,625.61	39,598,957.77
Total liabilities		652,587,832.11	701,686,419.14

Notes to the Financial Statements

For the year ended 31 December 2017 (All amounts in RMB unless otherwise stated)

XIV. SUPPLEMENTARY INFORMATION (CONTINUED)

3. Balance sheet of the parent company (Continued)

Items	Note	Balance at end of period	Opening Balance
Owners' equity (or shareholders' equity):			
Paid-in capital (share capital)	Note V.32	289,808,609.10	289,808,609.10
Other equity instruments		-	-
Including: Preferred shares		-	-
Perpetual debts		-	-
Capital reserves	Note V.33	291,670,666.40	291,670,666.40
Less: Treasury stock		-	-
Other comprehensive income		-	-
Including: Translation reserves		-	-
Special reserves		-	-
Surplus reserves	Note V.34	68,392,296.08	58,936,761.60
Unallocated profits	Note V.35	248,557,963.15	195,064,639.96
Total equity attributable to owners of the parent		898,429,534.73	835,480,677.06
Minority interests		-	-
Total owners' equity (or shareholders' equity)		898,429,534.73	835,480,677.06
Total liabilities and owners' equity (or shareholders' equity)		1,551,017,366.84	1,537,167,096.20

Capinfo Company Limited

28 March 2018

DEFINITION

Abbreviation	Full Name
Group	the Company and its subsidiaries
Capinfo/the Company	Capinfo Company Limited
Capinfo Hong Kong	Capinfo (Hong Kong) Co., Ltd.
Capinfo Technology	Capinfo Technology Development Co., Ltd.
Parking Management	Beijing Parking Management Centre Co., Ltd.
Shanghai Hengyue	Shanghai Hengyue Computer Technology Co., Ltd.
Rito Info	Rito Info Technology Co., Ltd.
Capinfo Hangyuan	Beijing Capinfo Hangyuan Technology Co., Ltd.
BJCA	Beijing Certificate Authority Co., Ltd.
BST	Beijing Culture & Sports Technology Co., Ltd.
Capinfo Soft	Capinfo Soft Co., Ltd.
BSAM	Beijing State-owned Assets Management Co., Ltd.
Capnet	Capnet Company Limited
BIDP	Beijing IC Design Park Co., Ltd.
Beijing Assets and Equity Exchange	China Beijing Equity Exchange Co., Ltd.* (北京產權交易所有限公司)
Beijing Quanyitong	Beijing QYT Pay Sci-tech Co., Ltd.* (北京權益通支付科技有限公司)
Beijing Anxintianxing	Beijing Anxintianxing Science. Co., Ltd.* (北京安信天行科技有限公司)
Hong Kong Registrars	Hong Kong Registrars Limited
CSDCC	China Securities Depository and Clearing Corporation Limited
Grant Thornton	Grant Thornton LLP (special general partnership)
Companies Law	the Companies Law of the People's Republic of China
Articles of Association	the Articles of Association of Capinfo Company Limited
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
Stock Exchange	the Stock Exchange of Hong Kong Limited
IND	the independent non-executive directors
the Year	the year ended 31 December 2017
Reporting Period	the period from 1 January 2017 to 31 December 2017

FEEDBACK ON ANNUAL REPORT

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

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

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

2. Any other comments or suggestions:

The completed feedback may be returned to the Company by:

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

Information Collection Form

Name

Postal Address

Tel No.

Email Address

Information Collection Statement:

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

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