



**CHINA DIGITAL VIDEO HOLDINGS LIMITED**

**中國數字視頻控股有限公司**

(incorporated in the Cayman Islands with limited liability)

Stock code: 8280

**ALWAYS BE  
FORWARD  
LOOKING**

**Interim Report 2017**

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This report, for which the directors (the “**Directors**”) of China Digital Video Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

Save as stated otherwise in this interim report, the defined terms herein shall have the same meaning as in prospectus of the Company dated 15 June 2016 (the “**Prospectus**”).



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. ZHENG Fushuang (*Chairman*)  
Mr. GUO Langhua (*Vice Chairman*)  
Mr. LIU Baodong (*Chief Executive Officer*)  
Mr. Xu Da

#### Independent Non-executive Directors

Mr. ZHANG Yaqin  
Mr. Frank CHRISTIAENS  
Ms. CAO Qian

### JOINT COMPANY SECRETARIES

Mr. QIAN Yiyue  
Mr. AU Wai Keung

### AUTHORISED REPRESENTATIVES

Mr. QIAN Yiyue  
Mr. AU Wai Keung

### COMPLIANCE OFFICER

Mr. GUO Langhua

### AUDIT COMMITTEE

Ms. CAO Qian (*Chair*)  
Mr. ZHANG Yaqin  
Mr. Frank CHRISTIAENS

### REMUNERATION COMMITTEE

Mr. Frank CHRISTIAENS (*Chair*)  
Mr. GUO Langhua  
Mr. ZHANG Yaqin

### NOMINATION COMMITTEE

Mr. ZHENG Fushuang (*Chair*)  
Mr. ZHANG Yaqin  
Ms. CAO Qian

### COMPLIANCE ADVISER

Reorient Financial Markets Limited

### REGISTERED OFFICE

P.O. Box 309  
Ugland House  
Grand Cayman, KY1-1104  
Cayman Islands

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 606-607  
6/F, China Merchants Building  
152-155 Connaught Road Central  
Hong Kong

### HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN PRC

China Digital Video Technical Plaza  
No. 49 Wukesong Road  
Haidian District  
Beijing  
PRC

### GEM STOCK CODE

8280



**PRINCIPAL SHARE REGISTRAR AND  
TRANSFER OFFICE IN CAYMAN ISLANDS**

Maples Fund Services (Cayman) Limited  
PO Box 1093, Boundary Hall  
Cricket Square  
Grand Cayman KY1-1112  
Cayman Islands

**HONG KONG SHARE REGISTRAR**

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor,  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

**PRINCIPAL BANKERS**

China Merchants Bank  
(West Sanhuan Branch)  
China Merchants Bank  
(Shuangyushu Branch)  
Beijing Bank (Hongxing Branch)  
Bank of Ningbo (Beijing Branch)

**AUDITORS**

Grant Thornton Hong Kong Limited

**LEGAL ADVISOR**

*As to Hong Kong Law*

King & Wood Mallesons

*As to Cayman Islands Law*

Maples and Calder

**COMPANY'S WEBSITE**

[www.cdv.com](http://www.cdv.com)



## FINANCIAL HIGHLIGHTS

- Our revenue decreased by 31.6% to RMB213.4 million for the 2017 Interim Period from RMB311.8 million for the 2016 Interim Period.
- We recorded a loss of RMB41.3 million for the 2017 Interim Period as compared to a profit of RMB298.0 million for the 2016 Interim Period.
- Our unaudited adjusted net profit (as defined in the section headed “Management Discussion and Analysis - Non-IFRS Financial Measure” below) decreased by 73.2% to approximately RMB10.6 million for the 2017 Interim Period from RMB39.5 million for the 2016 Interim Period.
- Our Directors do not recommend the payment of interim dividend for the 2017 Interim Period (2016 Interim Period: nil).

## BUSINESS REVIEW

We are a leading digital video technology solution and service company in the TV broadcasting industry in China. We provide a full range of solutions, services and products to TV broadcasters and other digital video content providers, to effectively assist and enhance digital video technology content in the upgrade and management works on the post-production segment. We have been at the forefront of digital video technology innovation in China. Our emphasis on developing a demand-driven and highly responsive R&D is particularly critical for us because of our focus on the solutions and services business, where the customers demand customized services. Our solutions, services and products businesses facilitate the processing, enhancement and management of digital video content at the post-production stage between the ingestion of raw content and the output of finished content.

We have established business relationship with most of the central- and provincial-level TV stations in China and with some of the provincial-level TV broadcasters in China for over 21 years. We have also served alternative broadcasting platforms, such as cable networks operators, Internet media content providers and IPTV operators. During the six months ended 30 June 2017 (the “2017 Interim Period”), we continued to serve a large number of central-, provincial- and municipal-level TV broadcasters and operators in China, including CCTV, the largest broadcaster in China, and Shanghai Media Group.

We have launched two new products during the 2017 Interim Period, namely CDV Graphite, a HD/4K graphic creation and display system, and VSE xMotion, a 360-degree HD/4K video recording, producing and playback system, from which we have received excellent market response. These two new products have been used by a number of TV broadcasters in major sports events and well-known sports shows. For example, the CDV Graphite video and graphic display platform has been used in the 13th National Games of China and certain broadcasting work of CCTV, while VSE xMotion has been used in 2017 National Olympic Archery Championships, 2017 International Federation of Beach Volleyball U21 World Championships and 2017 Beijing Ocean Beach Carnival of Beijing Media Network.

## FINANCIAL REVIEW

We recorded a total revenue of RMB213.4 million for the 2017 Interim Period, representing a decrease of 31.6% from RMB311.8 million for the six months ended 30 June 2016 (the “2016 Interim Period”). We recorded a loss of RMB41.3 million for the 2017 Interim Period as compared to the profit of RMB298.0 million in the 2016 Interim Period. Such loss was primarily attributable to the non-cash share-based compensation expenses of RMB51.8 million related to the shares of the Company (the “Shares”) granted by Mr. ZHENG Fushuang to Mr. LIU Baodong and Mr. GUO Langhua in January 2017, the share options granted under the Share Option Scheme and the share awards granted under the Share Award Scheme. The Group recorded a one-off gain of approximately RMB276.1 million arising from fair value gain on redeemable convertible preferred shares for the 2016 Interim Period and no such gain was recorded for the 2017 Interim Period.

## MANAGEMENT DISCUSSION AND ANALYSIS

Our unaudited adjusted net profit decreased by 73.2% to approximately RMB10.6 million for the 2017 Interim Period from RMB39.5 million for the 2016 Interim Period. Such decrease was mainly attributable to the decrease in the revenue to approximately RMB213.4 million for the 2017 Interim Period from approximately RMB311.8 million for the 2016 Interim Period; and the decrease of gross profit to approximately RMB75.1 million for the 2017 Interim Period as compared to approximately RMB113.8 million for the 2016 Interim Period. The unaudited adjusted net profit decrease in the 2017 Interim Period was partially offset by our decrease in selling and marketing expenses, research and development expenses and our nil share of loss of joint ventures.

### ANALYSIS ON INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ITEMS

#### Revenue

We derived revenue primarily from (i) sale of solutions, (ii) provision of services and (iii) sale of products. The following table sets out a breakdown of our revenue derive from each business line, as an absolute amount and as a percentage of revenue for the periods indicated.

|           | Six months ended 30 June               |            |                     |            |
|-----------|--|------------|---------------------|------------|
|           | 2017<br>(Unaudited)                    |            | 2016<br>(Unaudited) |            |
|           | Amount                                 | % of total | Amount              | % of total |
|           | (RMB in thousands, except percentages) |            |                     |            |
| Solutions | 160,858                                | 75.4       | 221,151             | 70.9       |
| Services  | 32,270                                 | 15.1       | 45,175              | 14.5       |
| Products  | 20,251                                 | 9.5        | 45,519              | 14.6       |
| Total     | 213,379                                | 100.0      | 311,845             | 100.0      |

Our revenue decreased by 31.6% to RMB213.4 million for the 2017 Interim Period from RMB311.8 million in the 2016 Interim Period as our revenue from the sale of solutions, services and products were decreased in the 2017 Interim Period from that of the 2016 Interim Period. Our revenue from sale of solutions decreased by 27.3% from RMB221.2 million for the 2016 Interim Period to RMB160.9 million for the 2017 Interim Period, primarily due to the absence of large value contracts for sale of solutions recognized as revenue in the 2017 Interim Period. Our revenue from the provision of services decreased by 28.6% from RMB45.2 million for the 2016 Interim Period to RMB32.3 million for the 2017 Interim Period, primarily due to the revenue for services provided under a software design contract with a key customer having been recognized during the 2016 Interim Period and the absence similar service contracts in the 2017 Interim Period. Our revenue from the sale of products decreased by 55.5% from RMB45.5 million for the 2016 Interim Period to RMB20.3 million for the 2017 Interim Period mainly as: (i) some of our major customers delayed their schedule for the upgrade of projects; and (ii) we launched an internal reform to our distributions channels to improve our internal control system, which affected the distribution sales performance to a certain extent.

### Cost of Sales

Our cost of sales decreased by 30.2% to RMB138.3 million for the 2017 Interim Period from RMB198.0 million for the 2016 Interim Period as a result of the decrease of revenue.

### Gross Profit and Gross Profit Margin

Our gross profit represents revenue less cost of sales. Our gross profit decreased by 34.0% to RMB75.1 million for the 2017 Interim Period from RMB113.8 million for the 2016 Interim Period, and our gross profit margin decreased to 35.2% for the 2017 Interim Period from 36.5% for the 2016 Interim Period. Specifically:

Gross profit for our solution business decreased by 17.3% to RMB49.1 million during the 2017 Interim Period from RMB59.4 million in the 2016 Interim Period. Gross profit margin for our solution business in 2017 Interim Period remained stable at 27% as compared to 30.5% in the 2016 Interim Period.

Gross profit for our service business decreased by 42.3% to RMB14.5 million during the 2017 Interim Period from RMB25.2 million in the 2016 Interim Period. Gross profit margin for our service business decreased to 45% in the 2017 Interim Period from 55.8% in the 2016 Interim Period, primarily due to the revenue for a software design service contract with a key customer having been recognized during the 2016 Interim Period. We do not have similar service contract for the 2017 Interim Period.

Gross profit for our product business decreased by 61% to RMB11.4 million during the 2017 Interim Period from RMB29.2 million in the 2016 Interim Period. Gross profit margin for our product business decreased to 56.3% in 2017 Interim Period from 64.1% in the 2016 Interim Period. The main reason for the decrease was that the Company sold a portion of its products to intermediary companies rather than to end customers.

### Other Income

Other income remained stable with a slight increase of 3.8% to RMB16 million for the 2017 Interim Period from RMB15.4 million for the 2016 Interim Period.





## MANAGEMENT DISCUSSION AND ANALYSIS

### Selling and Marketing Expenses

Our selling and marketing expenses decreased by 5.3% to RMB33.7 million for the 2017 Interim Period from RMB35.6 million for 2016 Interim Period as we spent less marketing expense for certain types of solutions and services in the first half of 2017.

### Administrative Expenses

Our administrative expenses decreased by 34.4% to RMB21.4 million for the 2017 Interim Period from RMB32.7 million for the 2016 Interim Period, primarily due to the absence of listing-related expense in the 2017 Interim Period.

### Share-Based Compensation Expense

During the 2017 Interim Period, we recognised a share-based compensation expense of RMB51.8 million in connection with (i) the shares granted by Mr. ZHENG Fushuang to Mr. LIU Baodong and Mr. GUO Langhua, (ii) the share awards granted under the Share Award Scheme and (iii) the share options granted under the Share Option Scheme. During the 2016 Interim Period, we recognized share-based compensation expense of RMB7.6 million.

### Research and Development Expenses

Our research and development expenses decreased by 13.3% to RMB19.9 million for the 2017 Interim Period from approximately RMB23.0 million for the 2016 Interim Period, primarily due to the expenses having been capitalised as costs of intangible assets.

### Finance Costs

Our finance costs decreased by 24.39% to RMB2.3 million for the 2017 Interim Period from RMB3.1 million for the 2016 Interim Period, primarily due to a decrease in financing activities resulting in a decrease of interest payments in the 2017 Interim Period.

### Fair Value Gain on Redeemable Convertible Preferred Shares

We recorded approximately RMB276.1 million arising from fair value gain on redeemable convertible preferred shares for the first quarter of 2016. The Group did not record any such gain for the 2017 Interim Period as all the redeemable convertible preferred shares of the Company have been converted to ordinary shares when the shares of the Company listed on the Growth Enterprise Market of the Stock Exchange in June 2016.

### Share of Losses of Joint Ventures

We do not have any share of losses of joint ventures for the 2017 Interim Period and RMB3.6 million of share of losses of joint ventures was recorded for the 2016 Interim Period. Our share of losses of joint ventures for the 2016 Interim Period was due to loss from Beijing Hermit, Beijing Yueying and Xin'aote Cloud, all of which were at early stages of development of their business. During the 2017 Interim Period, as our share of losses exceeded our interests in the joint ventures, our interest has been reduced to nil and recognition of further losses has been discontinued as we have no legal or constructive obligations on behalf of the joint ventures.



### Profit/(loss) before Income Tax

As a result of the foregoing factors, we recorded a loss before income tax of RMB38.1 million for the 2017 Interim Period as compared to a profit before income tax of RMB299.8 million for the 2016 Interim Period.

### Income Tax Expense

We recorded an income tax expense of RMB3.2 million for the 2017 Interim Period as compared to an income tax expense of RMB1.8 million for the 2016 Interim Period, representing an increase of 77.8%. As the Company was eligible to receive a lower income tax rate for the 2015 financial year, the amount of tax paid in excess of such lower rate was deducted and set off by the income tax payable in the 2016 Interim Period. There was no such income tax deduction for the 2017 Interim Period.

### Loss/(Profit) for the Period

As a result of the foregoing factors, we recorded a loss of RMB41.3 million for the 2017 Interim Period as compared to a profit of RMB298.0 million for the 2016 Interim Period.

### Other Comprehensive (Loss)/Income

We recorded other comprehensive loss of RMB7.8 million for the 2017 Interim Period as compared to other comprehensive loss of RMB10.9 million for the 2016 Interim Period, primarily due to fluctuations in foreign exchange rates.

### Total Comprehensive Income/(Loss) for the Period

We recorded a total comprehensive loss of RMB49.1 million for the 2017 Interim Period as compared to a total comprehensive income of RMB287.1 million for the 2016 Interim Period, which was resulted from the decrease in revenue.

### Profit/(Loss) Attributable to Non-controlling Interests

Loss attributable to non-controlling interests totaled RMB2.2 million for the 2017 Interim Period and a loss attributable to non-controlling interests recorded for RMB2.3 million for the 2016 Interim Period. Non-controlling interests in the 2017 Interim Period primarily represented the minority interests in Beijing Meicam.

## ANALYSIS ON INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

### Non-current Assets

As at 30 June 2017, our non-current assets were RMB211.8 million (as compared to RMB165.3 million as at 31 December 2016), primarily consisting of property, plant and equipment of RMB8.1 million (as compared to RMB4.7 million as at 31 December 2016), intangible assets of RMB122.4 million (as compared to RMB75.8 million as at 31 December 2016) and goodwill of RMB74.2 million (as compared to RMB74.2 million as at 31 December 2016).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Current Assets

As at 30 June 2017, our current assets were RMB1,110.5 million (as compared to RMB1,129.9 million as at 31 December 2016), primarily consisting of trade and other receivables of RMB664.9 million (as compared to RMB608.7 million as at 31 December 2016), bank balances and cash of RMB157.6 million (as compared to RMB96.6 million as at 31 December 2016), structured deposits of RMB103.7 million (as compared to RMB215 million as at 31 December 2016), inventories of RMB45.7 million (as compared to RMB34.5 million as at 31 December 2016) and pledged bank deposits of RMB135 million (as compared to RMB112.1 million as at 31 December 2016).

### Current Liabilities

As at 30 June 2017, our current liabilities amounted to RMB530.2 million (as compared to RMB505.5 million as at 31 December 2016), primarily consisting of trade and other payables of RMB363.7 million (as compared to RMB301.6 million as at 31 December 2016), income tax liabilities of RMB9 million (as compared to RMB11.9 million as at 31 December 2016) and other interest-bearing borrowings of RMB157.5 million (as compared to RMB192.1 million as at 31 December 2016).

### Non-current Liabilities

As at 30 June 2017, our non-current liabilities, consisting of deferred tax liabilities only, amounted to RMB4.6 million (as compared to RMB5 million as at 31 December 2016).

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the 2017 Interim Period, we financed our operations primarily through cash generated from our operating activities. We had cash used in operating activities in the amount of RMB15.8 million during the 2017 Interim Period as compared to the cash inflow generated from operating activities in the amount of RMB22.5 million during the 2016 Interim Period. As at 30 June 2017, we had (i) cash and cash equivalents of RMB90.2 million (as compared to RMB341.9 million as at 31 December 2016), and (ii) interest-bearing bank and other borrowings of RMB157.5 million (as compared to RMB192.1 million as at 31 December 2016), which were denominated in Renminbi and U.S. dollars bearing fixed and floating interest rates. All of our bank borrowings and other borrowings as at 30 June 2017 are repayable within one year.

The gearing ratio of our Group (calculated as total borrowings divided by total equity) was 20% as at 30 June 2017 (31 December 2016: 24.5%).

During the 2017 Interim Period, we did not employ any financial instrument for hedging purposes.

## COMMITMENTS

As at 30 June 2017, we had operating lease commitments in respect of rented office and various residential properties of approximately RMB16 million (at 31 December 2016: RMB9 million). As at 30 June 2017, we had capital commitments of RMB15 million in relation to an investment in a private equity fund, details of which are set out in the announcement of the Company dated 28 April 2017 (at 31 December 2016: nil).



### MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

We had made no material acquisitions and disposal of subsidiaries, associates and joint ventures during the 2017 Interim Period.

### FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS AND EXPECTED SOURCE OF FUNDING

Save as disclosed regarding the Company's investment in a private equity fund, details of which are set out in the announcement of the Company dated 28 April 2017, during the 2017 Interim Period, we do not have plans for material investments or acquisition of capital assets.

### FOREIGN CURRENCY RISK

Our subsidiaries mainly operate in the PRC and majority of the transactions are settled in Renminbi except for certain bank balances and bank borrowings which are denominated in the U.S. dollar. Foreign currency risk arises when commercial transactions and recognized assets and liabilities are denominated in a currency that is not either our Company's or our subsidiaries' functional currency. As of 30 June 2017, we did not have significant foreign currency risk from our operations. During the 2017 Interim Period, we did not enter into any arrangements to hedge against any fluctuation in foreign currency.

### CHARGE ON ASSETS

As at 30 June 2017, we had no borrowing secured by our patents (at 31 December 2016: RMB4.4 million was secured by certain of our patents with nil carrying amount). As at 30 June 2017, we had a borrowing of RMB86 million which was pledged by a bank deposit of RMB104.1 million (at 31 December 2016: RMB104.1 million).

### NON-IFRS FINANCIAL MEASURES

Our adjusted net profit is a non-IFRS financial measure that refers to our profit for the periods excluding share-based compensation expense, fair value gain on redeemable convertible preferred shares and expenses related to Listing.

## MANAGEMENT DISCUSSION AND ANALYSIS

We present our adjusted net profit to supplement our condensed consolidated statement of comprehensive income for the periods that were prepared in accordance with IFRS to provide additional information regarding our operating performance. The use of adjusted net profit has material limitations as an analytical tool, as it may not include all items that impact our profit for the periods. Items excluded from adjusted net profit are significant components in understanding and assessing our operating and financial performances. Below is a reconciliation of our profit for the periods under IFRS to the adjusted net profit:

|  | Six months ended 30 June |                 |
|--|--------------------------|-----------------|
|  | 2017<br>RMB'000          | 2016<br>RMB'000 |
| (Loss)/Profit for the period                               | (41,258)                 | 298,038         |
| <b>Add:</b>  |                          |                 |
| Share-based compensation expense                           | 51,820                   | 7,586           |
| Fair value gain on redeemable convertible preferred shares | —                        | (276,108)       |
| Listing expenses   | —                        | 9,938           |
| <b>Adjusted net profit (unaudited)</b>                     | <b>10,562</b>            | <b>39,454</b>   |

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with our actual business progress for the 2017 Interim Period is set out below:

| Business Objectives   | Actual Progress   |
|---|---|
| <ul style="list-style-type: none"> <li>enter into additional omnimedia solution contracts with major customers</li> </ul>                             | We have entered into several omnimedia solution contracts with major customers.   |
| <ul style="list-style-type: none"> <li>promote the Company's solutions compatible with the 4K ultra high definition standard</li> </ul>               | We have launched two new products, namely CDV Graphite and VSE xMotion, both of which are compatible with the 4K ultra high definition standard.                          |
| <ul style="list-style-type: none"> <li>improve the cost-effectiveness of our solutions</li> </ul>   | Our business department, marketing department and administrative department are working closely together on proposals to improve the cost-effectiveness of our solutions. |
| <ul style="list-style-type: none"> <li>invest in cloud service resources and develop additional cloud service products based on SaaS model</li> </ul> | We developed a few cloud service products in 2017 and received positive market review since the launch of the relevant products.  |

- promote Meicam and expand its user base We recorded a steady increase of the user base of Meicam. In addition, we have expanded the user base of Meicam to enterprise users due to the launch of the Meicam SDK business.
- initiate internal R&D projects to prepare for eventual spin-offs We have not yet identified suitable R&D projects for eventual spin-offs.
- pursue strategic investments and acquisitions including conducting market research and due diligence on potential investment and acquisition targets in the PRC We have committed to make an investment in a private equity fund as a limited partner to create potential synergies with other industry players.

### USE OF PROCEEDS

The net proceeds from the Global Offering amounted to approximately HK\$225.2 million. After the Listing, the proceeds are intended to be or have been used in accordance with the future plans and use of proceeds as set out in the Prospectus.

### HUMAN RESOURCES

As at 30 June 2017, we had 1,075 full-time employees and 26 dispatched workers (30 June 2016: 930 full-time employees and 54 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the six months ended 30 June 2017 and 30 June 2016, the remuneration expense, excluding share-based compensation expense, were approximately RMB70.1 million and RMB62.5 million, respectively. In general, employees' salaries are determined based on individual performance, qualification, position and seniority. We place strong emphasis on recruiting skilled personnel. We typically recruit talents from universities and technical schools and conduct annual reviews to assess the employees' performance and determine their salary, bonus and promotion. We also place a strong emphasis on providing training to its employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards.

We have adopted the Pre-IPO Share Option Scheme, the Share Option Scheme and the Share Award Scheme. The purpose of the Pre-IPO Share Option Scheme, the Share Option Scheme and the Share Award Scheme is to attract, retain and motivate the directors, senior management and employees of the Group and other participants. For further details, please see "Pre-IPO Share Option Scheme", "Share Option Scheme" and "Share Award Scheme" in the Directors' Report of this report.

### CONTINGENT LIABILITIES

As at 30 June 2017, we did not have any material contingent liabilities (31 December 2016: nil).

### OUTLOOK

Our long-term objective is to become a leading integrated digital video technology, service and media company in China. To achieve this goal, we will continue to (a) gain market share by offering solutions based on the latest industry trends and expanding customer base; (b) create recurring and high margin revenue streams by further strengthening and developing our service business; (c) further develop and invest in innovative products and businesses and (d) selectively pursue strategic investments and acquisitions.

#### Gain market share by offering solutions based on latest industry trends and expanding customer base

We expect that the next phase of system expansions and upgrades in the post-production market will be driven by (i) transition to a cloud computing platform for digital video content delivery; (ii) omnimedia convergence; (iii) continuing upgrades to high definition standard; and (iv) upgrades to a 4K ultra-high definition standard. We plan to capture the opportunities presented by these industry trends through:

- adding new functions to our customized solutions to meet the diverse and growing business requirements and technological sophistication of our customer base;
- assisting our existing customers in system expansions and upgrades to capture a larger portion of their incremental technological capital expenditures as new projects emerge; and
- leveraging existing customer relationships and cross-selling to departments within existing customers who do not currently use our products.

In addition, leveraging our core strengths in high-end post-production technology, we will seek to penetrate the mid-tier market of professional users by developing products that meet their demands.

#### Create recurring and high margin revenue streams by further strengthening and developing our service business

We plan to increase revenue streams generated from our service business, which represents recurring revenue, by focusing on high margin areas. To that end, we plan to transition our *CreaStudio* multi-camera recording and editing service from primarily recording and editing video footages for entertainment TV shows to jointly producing and operating entertainment media contents together with media rights holders using the footage captured by our *CreaStudio* systems, which we believe can generate consistent and high margin revenue. As part of the joint production, we plan to enter into agreements with the relevant media rights holders regarding the use of their media contents. We also strive to further enhance the quality and capabilities of our other services and to further develop new services that generate recurring and high profit margin.



### Further develop and invest in innovative products and businesses

We plan to continue to develop and invest in innovative products and businesses by leveraging our core digital video technology. Meicam, one of our mobile application businesses, is currently at its preliminary stage which its targets are the mass-market audiences. The user base and the activity level of Meicam has gradually increased. In addition, we have expanded the user base of Meicam to enterprise users due to the market demand of enterprises on mobile video applications. We have also launched the Meicam SDK business, for which we have entered into cooperation with certain video network platforms such as IPTV and VEER VR and we have signed strategic cooperation agreements with mobile reading application provider Yidian Zixun and Phoenix New Media. We expected sustainable and impressive returns due to our rapid business developments.

### Selectively pursue strategic investments and acquisitions

We believe that the TV broadcasting post-production industry in China today is fragmented and ripe for consolidation. We intend to continue to actively explore strategic investment and acquisition opportunities to increase the depth and breadth of our portfolio of solutions, services and products in order to maintain our market leadership. The suitable opportunities we intend to pursue include:

- cutting-edge digital video technologies in international markets to further enhance our core technology, as well as technologies that will help us capture key industry trends, such as big data, cloud computing and 4K ultra-high definition standard;
- smaller domestic competitors with attractive niche customer base to further expand our customer reach; and
- investment opportunities in which we have a significant stake and are able to leverage our core technology.





## REPORT OF THE DIRECTORS

The board (the “Board”) of directors (the “Directors”) of the Company has the pleasure in submitting the interim report together with the unaudited condensed consolidated financial statements of the Group for the 2017 Interim Period.

### DIVIDEND DISTRIBUTION

The Board does not recommend the payment of an interim dividend for the 2017 Interim Period (the 2016 Interim Period: nil).

### PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY OR ANY OF ITS SUBSIDIARIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities from 1 January 2017 to 30 June 2017.

### EVENT AFTER THE REPORTING PERIOD

There is no significant event since 30 June 2017 and up to the date of this interim report.

### DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 June 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the “SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, were as follows:



## Long position in the shares, underlying shares and debentures of the Company

| Name of Director      | Capacity                                      | Number of shares or underlying shares | Approximate percentage of interest in the Company |
|-----------------------|---|---------------------------------------|---|
| Mr. Zheng Fushuang    | Founder of a discretionary trust <sup>1</sup> | 210,278,278                           | 33.92%  |
| Mr. Guo Langhua       | Beneficial owner <sup>2</sup>                 | 34,842,106                            | 5.62%   |
| Mr. Liu Baodong       | Beneficial owner <sup>3</sup>                 | 31,237,338                            | 5.04%   |
| Mr. Xu Da             | Beneficial owner <sup>5</sup>                 | 6,200,000                             | 1.00%   |
| Mr. Zhang Yaqin       | Beneficial owner <sup>4</sup>                 | 750,596                               | 0.12%   |
| Mr. Frank Christiaens | Beneficial owner <sup>4</sup>                 | 750,596                               | 0.12%   |
| Ms. Cao Qian          | Beneficial owner <sup>5</sup>                 | 300,000                               | 0.05%   |

Notes:

1. Mr. Zheng Fushuang is the settlor and a beneficiary of Future Success Trust. Future Success Trust holds the entire issued share capital of ZFS Holdings, which in turn holds the entire issued share capital of Wing Success Holdings Limited, a controlling shareholder of the Company. Therefore, Mr. Zheng Fushuang is deemed to be interested in the Shares held by Wing Success Holdings Limited.
2. Mr. Guo Langhua held 15,921,053 shares and the remaining interest is the options representing 18,921,053 underlying shares upon fully exercise of such options.
3. Mr. Liu Baodong held 14,118,669 shares and the remaining interest is the options representing 17,118,669 underlying shares upon fully exercise of such options.
4. Among the 750,596 shares, 450,596 shares are interests in options granted pursuant to the Pre-IPO Share Option Scheme and 300,000 shares are interests in options granted pursuant to the share option scheme.
5. Interests in options granted pursuant to the Share Option Scheme.

Save as disclosed above, as at 30 June 2017, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange.

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2017, so far as was known to the Directors, the following persons (other than the Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

#### Long positions in the shares of the Company

| Name of shareholder                | Capacity  | Number of shares held | Approximate percentage of interest in the Company |
|------------------------------------|---|-----------------------|---|
| Mr. Zheng Fushuang                 | Founder of a discretionary trust <sup>1</sup>             | 210,278,278           | 33.92%  |
| HSBC International Trustee Limited | Trust and interest of controlled corporation <sup>2</sup> | 210,278,278           | 33.92%  |
| ZFS Holdings                       | Interest of controlled corporation <sup>2</sup>           | 210,278,278           | 33.92%  |
| Wing Success Holdings Limited      | Legal owner and beneficial owner                          | 210,278,278           | 33.92%  |
| Carvillo Success Limited           | Legal owner and beneficial owner                          | 98,098,000            | 15.82%  |

Notes:

1. Mr. Zheng Fushuang is the settlor and a beneficiary of Future Success Trust. Future Success Trust holds the entire issued share capital of ZFS Holdings, which in turn holds the entire issued share capital of Wing Success Holdings Limited. Therefore, Mr. Zheng Fushuang is deemed to be interested in the Shares held by Wing Success Holdings Limited.
2. HSBC International Trustee Limited is the trustee of Future Success Trust and holds the entire issued share capital of ZFS Holdings which in turn holds the entire issued share capital of Wing Success Holdings Limited. Therefore, HSBC International Trustee Limited and ZFS Holdings are each deemed under the SFO to be interested in the Shares held by Wing Success Holdings Limited.

Save as disclosed above, as at 30 June 2017, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

## **PRE-IPO SHARE OPTION SCHEME**

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010 and the principal terms and conditions of the Pre-IPO share option scheme are set out in the section headed “D. Pre-IPO Share Option Scheme” in appendix IV of the Prospectus. No further options will be granted under the Pre-IPO Share Option Scheme after the Listing.

### **Outstanding Share Options**

From 1 January 2017 to 30 June 2017, 495,655 pre-IPO share options have been cancelled. As at 30 June 2017, there were a total of 76,526,192 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of 11.0% as at 30 June 2017. Save as set out above, no other share options have been or would be granted by us after the Listing pursuant to the Pre-IPO Share Option Scheme.

## REPORT OF THE DIRECTORS

| Grantees  | Date of grant | Exercise Period       | Exercise price (US\$) | Number of Shares represented by options |                             |                             | Number of unvested option    | Number of vested options | Number of Shares represented by options at 30 June 2017 | Approximate Percentage of issued share capital of the Company |
|---|---------------|-----------------------|-----------------------|---|-----------------------------|-----------------------------|------------------------------|--------------------------|---|---|
|   |               |                       |                       | as at 1 January 2017                    | Exercised during the period | Cancelled during the period |                              |                          |   |   |
| <b>Directors of the Company</b>                                     |               |                       |                       |   |                             |                             |                              |                          |   |   |
| Guo Langhua   | 01/01/2011    | 01/01/2015-31/12/2021 | 1.16                  | 15,921,053                              | —                           | —                           | —                            | 15,921,053               | 15,921,053  | 2.57%   |
| Liu Baodong   | 01/01/2011    | 01/01/2015-31/12/2021 | 1.16                  | 14,118,669                              | —                           | —                           | —                            | 14,118,669               | 14,118,669  | 2.28%   |
| Zhang Yaqin   | 01/01/2011    | 01/01/2014-31/12/2021 | 1.16                  | 450,596                                 | —                           | —                           | —                            | 450,596                  | 450,596   | 0.07%   |
| Frank Christiaens   | 01/01/2011    | 01/01/2014-31/12/2021 | 1.16                  | 450,596                                 | —                           | —                           | —                            | 450,596                  | 450,596   | 0.07%   |
| <b>Senior management of the Company</b>                             |               |                       |                       |   |                             |                             |                              |                          |   |   |
| Sun Jichuan   | 01/01/2011    | 01/01/2015-31/12/2021 | 1.16                  | 450,596                                 | —                           | —                           | —                            | 450,596                  | 450,596   | 0.07%   |
| Qian Yiyue  | 01/01/2011    | 01/01/2015-31/12/2021 | 1.16                  | 450,596                                 | —                           | —                           | —                            | 450,596                  | 450,596   | 0.07%   |
| Qian Yiyue  | 1/10/2015     | 01/10/2016-31/12/2021 | 0.00001               | 4,310,700                               | —                           | —                           | —                            | 4,310,700                | 4,310,700   | 0.70%   |
| <b>Directors of a subsidiary of the Company not mentioned above</b> |               |                       |                       |   |                             |                             |                              |                          |   |   |
| Zheng Pengcheng   | 01/01/2011    | 01/01/2015-31/12/2021 | 1.16                  | 150,199                                 | —                           | —                           | —                            | 150,199                  | 150,199   | 0.02%   |
| Other employees of the Company                                      | 01/01/2011    | 01/01/2015-31/12/2021 | 1.16                  | 36,212,884                              | —                           | 495,655                     | —                            | 35,717,229               | 35,717,229  | 5.76%   |
|   | 01/10/2015    | 01/10/2016-31/12/2021 | 0.00001               | 4,505,958                               | —                           | —                           | 2,703,575 <sup>1</sup>       | 1,802,283                | 4,505,958   | 0.73%   |
| <b>Total</b>  |               |                       |                       | <b>77,021,847</b>                       | <b>—</b>                    | <b>495,655</b>              | <b>2,703,575<sup>1</sup></b> | <b>73,822,617</b>        | <b>76,526,192</b>                                       | <b>12.34%</b>   |

### Notes:

1. Among the 2,703,575 options, 50% of which will be vested on 1 October 2017 and 50% of which will be vested on 1 October 2018.

## SHARE OPTION SCHEME

On 18 May 2017, the Company adopted the Share Option Scheme which is subject to the provisions under Chapter 23 of the GEM Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensation through the grant of options for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. The participants of the Share Option Scheme are any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of our Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to our Group. The basis of eligibility of any of the class of the participants to the grant of any options under the Share Option Scheme shall be determined by the Board from time to time on the basis of their contribution to the development and growth of our Group and any invested entity.

The Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Company (and to which the provisions of the GEM Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares of the Company in issue on the Listing Date, being a total of 62,000,000 Shares, which also represents 10% of the issued share capital of the Company as at the date of this interim report.

The total number of Shares issued and to be issued upon exercise of the options granted to each eligible participant under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. Any further grant of options to an eligible participant under the Share Option Scheme which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant exceeding the abovesaid limit shall be subject to our Shareholders' approval in general meeting with such participant and his associates (as defined under the GEM Listing Rules) abstaining from voting.

The amount of HK\$1.00 is payable as consideration for each grant of options under the Share Option Scheme, upon acceptance of such grant. The subscription price in respect of Shares upon exercise of options under the Share Option Scheme shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the subscription price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day, (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) business days immediately preceding the date of grant, and (c) the nominal value of a Share.

An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each grantee as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme.

## REPORT OF THE DIRECTORS

The following details the options granted (the “Granted Options”) pursuant to the Share Option Scheme but not yet exercised as at 30 June 2017. No options were cancelled, lapsed or exercised during the six months ended 30 June 2017.

| Grantee                                      | Date of grant | Number of share options outstanding as at 1 January 2017 (note 1) | Closing Price per Share immediately prior to the date of grant | Exercise Price per Share | Exercise Period            | Number of options granted during the six months ended 30 June 2017 | Number of options outstanding as at 30 June 2017 | Approximate percentage of shareholding upon fully exercise of share options |
|--|---------------|---|--|--------------------------|----------------------------|--|--|---|
| <b>Executive Directors</b>                   |               |   |  |                          |                            |  |  |   |
| Guo Langhua                                  | 24 May 2017   | —   | HK\$1.31   | HK\$1.33                 | 24 May 2017 to 17 May 2027 | 3,000,000  | 3,000,000  | 0.44%   |
| Liu Baodong                                  | 24 May 2017   | —   | HK\$1.31   | HK\$1.33                 | 24 May 2017 to 17 May 2027 | 3,000,000  | 3,000,000  | 0.44%   |
| Xu Da  | 24 May 2017   | —   | HK\$1.31   | HK\$1.33                 | 24 May 2017 to 17 May 2027 | 6,200,000  | 6,200,000  | 1.00%   |
| <b>Independent non-executive Directors</b>   |               |   |  |                          |                            |  |  |   |
| Frank CHRISTIAENS                            | 24 May 2017   | —   | HK\$1.31   | HK\$1.33                 | 24 May 2017 to 17 May 2027 | 300,000  | 300,000  | 0.05%   |
| ZHANG Yaqin                                  | 24 May 2017   | —   | HK\$1.31   | HK\$1.33                 | 24 May 2017 to 17 May 2027 | 300,000  | 300,000  | 0.05%   |
| CAO Qian                                     | 24 May 2017   | —   | HK\$1.31   | HK\$1.33                 | 24 May 2017 to 17 May 2027 | 300,000  | 300,000  | 0.05%   |
| Other employees and consultants of the Group | 24 May 2017   | —   | HK\$1.31   | HK\$1.33                 | 24 May 2017 to 17 May 2027 | 48,900,000   | 48,900,000                                       | 7.89%   |

Note 1: The options were granted on 24 May 2017. For full details of the Share Option Scheme, please refer to note 17(b) to the condensed consolidated interim financial report on pages 52 to 54 of this report.

### SHARE AWARD SCHEME

On 20 March 2017, the Company adopted the Share Award Scheme to recognize and reward the contribution of certain selected participants to the growth and development of the Group. The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 23 of the GEM Listing Rules. The shares under the Share Award Scheme will be acquired by a trustee by way of subscription of new shares (whether pursuant to general mandate or specific mandate granted by the shareholders or otherwise) and/or purchase of shares from the market out of cash contributed by the Group and be held on trust for the participants until such awarded shares are vested in the relevant selected participants in accordance with the provisions of the Share Award Scheme. The administrator of the Share Award Scheme, may from time to time, at their absolute discretion, select any participant for participation in the Share Award Scheme as a selected participant.

The Company has appointed The Core Trust Company Limited as the trustee (the “Trustee”). The Trustee is an independent third party of the Company and is acting for a wide scope of participants under the Share Award Scheme.

Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the adoption date of the Share Award Scheme provided that no contribution to the trust fund will be made by the Company on or after the 10th anniversary date of the adoption date of the Share Award Scheme.

The maximum number of shares which may be allocated and awarded to a selected participant under the Share Award Scheme in any 12-month period shall not exceed 1% of the issued share capital of the Company immediately preceding such allocation and award.

Vesting of the Shares will be conditional on the selected participant remaining a participant at all times from after the relevant dates of the fulfillment of the performance targets (if any) specified by the Board and on the vesting date until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the Trustee, unless otherwise determined by the Board.

As at 30 June 2017, 12,000,000 awarded shares were granted by the Company to the key employees of the Group under the Share Award Scheme. The 12,000,000 awarded shares are subject to a vesting scale in which 40%, 30% and 30% of the awarded shares shall vest on 18 May 2017, 20 March 2018 and 20 March 2019 respectively.

During the six months ended 30 June 2017, the Company neither issued new shares nor arranged any funds to be paid to the Trustee for purchasing of shares of the Company from the market.

### COMPETING BUSINESSES

For the 2017 Interim Period, none of the Directors or controlling shareholders of the Company and their respective associates (as defined under the GEM listing Rules) had any interest in a business competes or may compete with the business of the Group, or had any other conflict of interest with the Group.

### COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the “Corporate Governance Code”) as contained in Appendix 15 of the GEM Listing Rules as its corporate governance practices.

In the opinion of the Directors, the Company has complied with all the code provisions set out in the Corporate Governance Code from 1 January 2017 to the date of this interim report.

### CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiries to all the Directors who have confirmed their compliance with the required standard of dealings and the code of conduct regarding Directors’ securities transactions from the Listing Date to the date of this Interim Report. No incident of non-compliance was noted by the Company during this period.





## REPORT OF THE DIRECTORS

### INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by the Company's compliance adviser, Reorient Financial Markets Limited ("Reorient"), save as the compliance adviser agreement entered into between the Company and Reorient dated 18 August 2015, none of Reorient or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in any securities of the Company or any member of the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

### AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules on 23 May 2016. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group, and oversee the audit process and the audits of the financial statements of the Group.

The audit committee comprises three independent non-executive Directors, namely, Ms. Cao Qian, Mr. Zhang Yaqin and Mr. Frank Christiaens and is chaired by Ms. Cao Qian.

The audit committee has reviewed the unaudited interim financial statements for the 2017 Interim Period and is of the opinion that (i) the unaudited financial statements of the Group for the 2017 Interim Period comply with the applicable accounting standards and the GEM Listing Rules; and (ii) adequate disclosures been made in such unaudited financial statements.

### COMPOSITION OF THE BOARD AND BOARD COMMITTEES

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. The Board currently comprises four executive Directors and three independent non-executive Directors. The Directors have no financial, business, family or other material/relevant relationships with one another.

By order of the Board

China Digital Video Holdings Limited  
ZHENG Fushuang  
*Chairman*

Hong Kong, 8 August 2017

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

|   | Notes | (Unaudited)<br>Three months ended<br>30 June |                 | (Unaudited)<br>Six months ended<br>30 June |                 |
|---|-------|--|-----------------|--|-----------------|
|   |       | 2017<br>RMB'000                              | 2016<br>RMB'000 | 2017<br>RMB'000                            | 2016<br>RMB'000 |
| Revenue   | 4     | 107,750                                      | 158,698         | 213,379                                    | 311,845         |
| Cost of sales   |       | (60,093)                                     | (84,821)        | (138,312)                                  | (198,038)       |
| <b>Gross profit</b>   |       | <b>47,657</b>                                | <b>73,877</b>   | <b>75,067</b>                              | <b>113,807</b>  |
| Other income  | 5     | 9,150  | 7,804           | 16,000                                     | 15,418          |
| Selling and marketing expenses                                      |       | (16,869)                                     | (22,059)        | (33,694)                                   | (35,587)        |
| Administrative expenses   |       | (12,566)                                     | (20,234)        | (21,442)                                   | (32,680)        |
| Share-based compensation expense                                    | 17    | (20,021)                                     | (3,842)         | (51,820)                                   | (7,586)         |
| Research and development expenses                                   |       | (5,801)                                      | (12,327)        | (19,890)                                   | (22,953)        |
| Finance costs   | 6     | (1,421)                                      | (1,165)         | (2,321)                                    | (3,069)         |
| Fair value gain on redeemable convertible preferred shares          |       | —  | 209,533         | —  | 276,108         |
| Share of losses of joint ventures                                   | 12    | —  | (764)           | —  | (3,647)         |
| <b>Profit/(Loss) before income tax</b>                              | 6     | <b>129</b>                                   | <b>230,823</b>  | <b>(38,100)</b>                            | <b>299,811</b>  |
| Income tax (expense)/credit   | 7     | (1,908)                                      | 1,669           | (3,158)                                    | (1,773)         |
| <b>(Loss)/Profit for the period</b>                                 |       | <b>(1,779)</b>                               | <b>232,492</b>  | <b>(41,258)</b>                            | <b>298,038</b>  |
| <b>Other comprehensive (loss)/income</b>                            |       |  |                 |  |                 |
| Items that may be subsequently reclassified to profit or loss:      |       |  |                 |  |                 |
| Exchange difference arising on the translation of foreign operation |       | (5,988)                                      | (3,783)         | (7,798)                                    | (10,928)        |
| <b>Total comprehensive (loss)/income for the period</b>             |       | <b>(7,767)</b>                               | <b>228,709</b>  | <b>(49,056)</b>                            | <b>287,110</b>  |
| <b>(Loss)/Profit for the period attributable to:</b>                |       |  |                 |  |                 |
| Equity holders of the Company                                       |       | (949)  | 233,870         | (39,093)                                   | 300,331         |
| Non-controlling interests   |       | (830)  | (1,378)         | (2,165)                                    | (2,293)         |
|   |       | <b>(1,779)</b>                               | <b>232,492</b>  | <b>(41,258)</b>                            | <b>298,038</b>  |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

|   |      | (Unaudited)<br>Three months ended<br>30 June |                 | (Unaudited)<br>Six months ended<br>30 June |                 |
|---|------|--|-----------------|--|-----------------|
|   | Note | 2017<br>RMB'000                              | 2016<br>RMB'000 | 2017<br>RMB'000                            | 2016<br>RMB'000 |
| <b>Total comprehensive (loss)/income for the period attributable to:</b>                                  |      |  |                 |  |                 |
| Equity holders of the Company   |      | (6,937)                                      | 230,087         | (46,891)                                   | 289,403         |
| Non-controlling interests   |      | (830)  | (1,378)         | (2,165)                                    | (2,293)         |
|   |      | <u>(7,767)</u>                               | <u>228,709</u>  | <u>(49,056)</u>                            | <u>287,110</u>  |
| <b>(Loss)/Earnings per share for (loss)/profit attributable to ordinary equity holders of the Company</b> |      |  |                 |  |                 |
| (expressed in RMB cents per share)  |      |  |                 |  |                 |
| Basic   | 9    | <u>(0.15)</u>                                | <u>90.00</u>    | <u>(6.31)</u>                              | <u>118.69</u>   |
| Diluted   |      | <u>(0.15)</u>                                | <u>5.16</u>     | <u>(6.31)</u>                              | <u>5.17</u>     |

The notes on pages 31 to 58 are an integral part of this interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

|  | Notes | (Unaudited)<br>As at<br>30 June<br>2017 | (Audited)<br>As at<br>31 December<br>2016 |
|--|-------|---|---|
|  |       | RMB'000                                 | RMB'000                                   |
| <b>ASSETS AND LIABILITIES</b>                        |       |   |   |
| <b>Non-current assets</b>                            |       |   |   |
| Property, plant and equipment                        | 10    | 8,101                                   | 4,710                                     |
| Intangible assets                                    | 11    | 122,376                                 | 75,787                                    |
| Goodwill   |       | 74,220                                  | 74,220                                    |
| Interests in joint ventures                          | 12    | —                                       | —   |
| Available-for-sale financial assets                  |       | —                                       | 3,697                                     |
| Deferred tax assets                                  |       | 7,134                                   | 6,915                                     |
|  |       | <b>211,831</b>                          | <b>165,329</b>                            |
| <b>Current assets</b>                                |       |   |   |
| Inventories  |       | 45,667                                  | 34,499                                    |
| Trade and other receivables                          | 13    | 664,893                                 | 608,738                                   |
| Available-for-sale financial assets                  |       | 3,611                                   | 63,000                                    |
| Structured deposits                                  |       | 103,690                                 | 215,000                                   |
| Pledged bank deposits                                |       | 135,000                                 | 112,069                                   |
| Bank balances and cash                               |       | 157,643                                 | 96,605                                    |
|  |       | <b>1,110,504</b>                        | <b>1,129,911</b>                          |
| <b>Current liabilities</b>                           |       |   |   |
| Trade and other payables                             | 14    | 363,661                                 | 301,593                                   |
| Income tax liabilities                               |       | 9,048                                   | 11,850                                    |
| Other interest-bearing borrowings                    |       | 157,501                                 | 192,062                                   |
|  |       | <b>530,210</b>                          | <b>505,505</b>                            |
| <b>Net current assets</b>                            |       | <b>580,294</b>                          | <b>624,406</b>                            |
| <b>Total assets less current liabilities</b>         |       | <b>792,125</b>                          | <b>789,735</b>                            |
| <b>Non-current liabilities</b>                       |       |   |   |
| Deferred tax liabilities                             |       | 4,608                                   | 4,982                                     |
| <b>Net assets</b>                                    |       | <b>787,517</b>                          | <b>784,753</b>                            |
| <b>EQUITY</b>  |       |   |   |
| Share capital – Ordinary shares                      | 15    | 42                                      | 42  |
| Reserves   |       | 799,039                                 | 794,110                                   |
| Equity attributable to equity holders of the Company |       | 799,081                                 | 794,152                                   |
| Non-controlling interests                            |       | (11,564)                                | (9,399)                                   |
| <b>Total equity</b>                                  |       | <b>787,517</b>                          | <b>784,753</b>                            |

The notes on pages 31 to 58 are an integral part of this interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

|   | Equity attributable to equity holders of the Company                       |                     |                     |                     |                      |                     |                     |                     |                           |                     |                     |
|---|--|---------------------|---------------------|---------------------|----------------------|---------------------|---------------------|---------------------|---------------------------|---------------------|---------------------|
|   | Share capital - Non-Share redeemable capital convertible - Ordinary Shares | Share premium       | Statutory reserve   | Translation reserve | Share option reserve | Other reserve       | Retained earnings   | Sub-total           | Non-controlling interests | Total equity        |                     |
|   | RMB'000 (Unaudited)  | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited)  | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited) | RMB'000 (Unaudited)       | RMB'000 (Unaudited) | RMB'000 (Unaudited) |
| Balance at 1 January 2017                 | 42   | —                   | 588,902             | 28,982              | 2,477                | 34,527              | —                   | 139,222             | 794,152                   | (9,399)             | 784,753             |
| Comprehensive loss for the period         |  |                     |                     |                     |                      |                     |                     |                     |                           |                     |                     |
| Loss for the period                       | —  | —                   | —                   | —                   | —                    | —                   | —                   | (39,093)            | (39,093)                  | (2,165)             | (41,258)            |
| Other comprehensive loss for the period   | —  | —                   | —                   | —                   | (7,798)              | —                   | —                   | —                   | (7,798)                   | —                   | (7,798)             |
| Total comprehensive loss for the period   | —  | —                   | —                   | —                   | (7,798)              | —                   | —                   | (39,093)            | (46,891)                  | (2,165)             | (49,056)            |
| Transactions with owners                  |  |                     |                     |                     |                      |                     |                     |                     |                           |                     |                     |
| Share-based compensation (Note 17)        | —  | —                   | —                   | —                   | —                    | 13,974              | 37,846              | —                   | 51,820                    | —                   | 51,820              |
| Transfer upon forfeiture of share options | —  | —                   | —                   | —                   | —                    | (128)               | —                   | 128                 | —                         | —                   | —                   |
| Appropriation to statutory reserve        | —  | —                   | —                   | 3,398               | —                    | —                   | —                   | (3,398)             | —                         | —                   | —                   |
| Total transactions with owners            | —  | —                   | —                   | 3,398               | —                    | 13,846              | 37,846              | (3,270)             | 51,820                    | —                   | 51,820              |
| Balance at 30 June 2017                   | 42   | —                   | 588,902             | 32,380              | (5,321)              | 48,373              | 37,846              | 96,859              | 799,081                   | (11,564)            | 787,517             |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

Equity attributable to equity holders of the Company

|   | Share capital     |   | Share premium  | Statutory reserve | Translation reserve | Share option reserve | Other reserve | (Accumulated losses)/ Retained earnings | Sub-total      | Non-controlling interests | (Capital deficiency)/ Total equity |
|---|-------------------|---|----------------|-------------------|---------------------|----------------------|---------------|---|----------------|---------------------------|------------------------------------|
|   | - Ordinary Shares | - Non-redeemable convertible preferred shares |                |                   |                     |                      |               |   |                |                           |                                    |
|   | RMB'000           | RMB'000                                       | RMB'000        | RMB'000           | RMB'000             | RMB'000              | RMB'000       | RMB'000                                 | RMB'000        | RMB'000                   | RMB'000                            |
|   | (Unaudited)       | (Unaudited)                                   | (Unaudited)    | (Unaudited)       | (Unaudited)         | (Unaudited)          | (Unaudited)   | (Unaudited)                             | (Unaudited)    | (Unaudited)               | (Unaudited)                        |
| Balance at 1 January 2016   | 6                 | 26,235  | —              | 19,731            | 2,865               | 21,723               | —             | (190,489)                               | (119,929)      | (3,955)                   | (123,884)                          |
| <b>Comprehensive income for the period</b>  |                   |   |                |                   |                     |                      |               |   |                |                           |                                    |
| Profit for the period   | —                 | —   | —              | —                 | —                   | —                    | —             | 300,331                                 | 300,331        | (2,293)                   | 298,038                            |
| Other comprehensive loss for the period   | —                 | —   | —              | —                 | (10,928)            | —                    | —             | —                                       | (10,928)       | —                         | (10,928)                           |
| <b>Total comprehensive income for the period</b>  | <b>—</b>          | <b>—</b>                                      | <b>—</b>       | <b>—</b>          | <b>(10,928)</b>     | <b>—</b>             | <b>—</b>      | <b>300,331</b>                          | <b>289,403</b> | <b>(2,293)</b>            | <b>287,110</b>                     |
| <b>Transactions with owners</b>   |                   |   |                |                   |                     |                      |               |   |                |                           |                                    |
| Conversion of convertible preferred shares (note 15(ii))                                    | 5                 | (26,235)                                      | 368,469        | —                 | —                   | —                    | —             | —                                       | 342,239        | —                         | 342,239                            |
| Capitalization issue (note 15(iii))   | 21                | —   | (21)           | —                 | —                   | —                    | —             | —                                       | —              | —                         | —                                  |
| Issuance of new shares in connection with the listing of the Company's shares (note 15(iv)) | 10                | —   | 251,921        | —                 | —                   | —                    | —             | —                                       | 251,931        | —                         | 251,931                            |
| Share issuance expenses (note 15(iv))   | —                 | —   | (31,467)       | —                 | —                   | —                    | —             | —                                       | (31,467)       | —                         | (31,467)                           |
| Share-based compensation (Note 17)  | —                 | —   | —              | —                 | —                   | 7,586                | —             | —                                       | 7,586          | —                         | 7,586                              |
| Transfer upon forfeiture of share options   | —                 | —   | —              | —                 | —                   | (31)                 | —             | 31                                      | —              | —                         | —                                  |
| Appropriation to statutory reserve  | —                 | —   | —              | 5,347             | —                   | —                    | —             | (5,347)                                 | —              | —                         | —                                  |
| <b>Total transactions with owners</b>   | <b>36</b>         | <b>(26,235)</b>                               | <b>588,902</b> | <b>5,347</b>      | <b>—</b>            | <b>7,555</b>         | <b>—</b>      | <b>(5,316)</b>                          | <b>570,289</b> | <b>—</b>                  | <b>570,289</b>                     |
| Balance at 30 June 2016   | 42                | —   | 588,902        | 25,078            | (8,063)             | 29,278               | —             | 104,526                                 | 739,763        | (6,248)                   | 733,515                            |

The notes on pages 31 to 58 are an integral part of this interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

|  | (Unaudited)              |                |
|--|--------------------------|----------------|
|  | Six months ended 30 June |                |
|  | 2017                     | 2016           |
|  | RMB'000                  | RMB'000        |
| <b>Cash flows from operating activities</b>  |                          |                |
| (Loss)/Profit before income tax  | (38,100)                 | 299,811        |
| Adjustments for non-cash items   | 63,360                   | (245,646)      |
| Operating profit before working capital changes  | 25,260                   | 54,165         |
| Net changes in working capitals  | (34,517)                 | (23,753)       |
| Cash generated (used in)/from operations   | (9,257)                  | 30,412         |
| Income tax paid  | (6,554)                  | (7,914)        |
| <b>Net cash (used in)/from operating activities</b>  | <b>(15,811)</b>          | <b>22,498</b>  |
| <b>Cash flows from investing activities</b>  |                          |                |
| Purchase of property, plant and equipment  | (5,656)                  | (1,818)        |
| Purchase of intangible assets  | (35,517)                 | (94)           |
| Addition in development costs through internal development                                 | (19,031)                 | (8,968)        |
| Withdrawal/(Purchase) of structured deposits   | 80,000                   | (50,000)       |
| Proceed of disposal of available-for-sale financial assets                                 | 63,000                   | —              |
| Decrease in time deposits with original maturities exceeding three months                  | 8,075                    | 130,150        |
| Other investing activities   | 11,221                   | (1,420)        |
| <b>Net cash from investing activities</b>  | <b>102,092</b>           | <b>67,850</b>  |
| <b>Cash flows from financing activities</b>  |                          |                |
| Proceed from issuance of new shares in connection with the listing of the Company's shares | —                        | 251,931        |
| Payment of share issuance expenses   | —                        | (31,467)       |
| Other financing activities   | (15,949)                 | 164            |
| <b>Net cash (used in)/from financing activities</b>  | <b>(15,949)</b>          | <b>220,628</b> |
| <b>Net increase in cash and cash equivalents</b>   | <b>70,332</b>            | <b>310,976</b> |
| Cash and cash equivalents at beginning of period   | 21,109                   | 30,935         |
| Effect of foreign exchange rate changes on cash and cash equivalents held                  | (1,219)                  | 15             |
| <b>Cash and cash equivalents at end of period</b>  | <b>90,222</b>            | <b>341,926</b> |
| <b>Analysis of balances of cash and cash equivalents:</b>                                  |                          |                |
| Bank balances and cash   | 157,643                  | 361,926        |
| Less: time deposits with original maturities exceeding three months                        | (67,421)                 | (20,000)       |
| <b>Cash and cash equivalents at end of period</b>  | <b>90,222</b>            | <b>341,926</b> |

The notes on pages 31 to 58 are an integral part of this interim financial information.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017



## 1. GENERAL INFORMATION

China Digital Video Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 8 January 2007 as an exempted company with limited liability under the Companies Law (as consolidated and revised) of the Cayman Islands. The Company’s shares were listed on the Growth Enterprise Market (“**GEM**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 27 June 2016 (the “**Listing**”).

The Company is an investment holding company and its subsidiaries (collectively, the “**Group**”) are principally engaged in research, development and sales of video-related and broadcasting equipment and software and provision of related technical services (the “**Business**”) in the People’s Republic of China (the “**PRC**”).

## 2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial Information for the six months ended 30 June 2017 (the “**Interim Financial Information**”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange, including compliance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “**IASB**”). The Interim Financial Information was authorised for issue by the Company’s board of directors (the “**Board**”) on 8 August 2017.

The accounting policies and methods of computation used in the preparation of the Interim Financial Information are consistent with those used in the annual financial statements for the year ended 31 December 2016 except for the adoption of the amendments to International Financial Reporting Standards (“**IFRSs**”) that have become effective for accounting period beginning on 1 January 2017. The adoption of the new and amended IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The Group has not early adopted any other standard or amendment that has been issued but is not yet effective.

The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016.

The Interim Financial Information is presented in Renminbi (“**RMB**”), unless otherwise stated.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Interim Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016, with the exception of the below changes:

### Recognition of share-based compensation expenses

As detailed in Note 17(b), the Company has granted share options to the Group's management and employees on 24 May 2017. The directors, with the assistance of an independent professional valuer, have used the Binomial Option-Pricing Model to determine the total fair value of the options granted, which is to be expensed over the vesting period as appropriate. Significant estimate on assumptions, such as share price volatility and dividend yield, is required to be made by the directors in applying the Binomial Option-Pricing Model.

## 4. REVENUE AND SEGMENT INFORMATION

The Group's operating activities are attributable to a single reportable and operating segment focusing primarily on the research, development and sales of video-related and broadcasting equipment and software and provision of related technical services in the PRC. This operating segment has been identified on the basis of internal management reports reviewed by the chief operating decision-makers (the "CODM"), being the executive directors of the Group. The CODM mainly reviews revenue derived from sale of products, solutions and services, which are measured in accordance with the Group's accounting policies. However, other than revenue information, no operating results and other discrete financial information is available for the assessment of performance of the respective type of revenue. The CODM reviews the overall results of the Group as a whole to make decisions about resources allocation. Accordingly, no segment information is presented. An analysis of the Group's revenue is as follows:

|           | (Unaudited)                |                | (Unaudited)              |                |
|-----------|----------------------------|----------------|--------------------------|----------------|
|           | Three months ended 30 June |                | Six months ended 30 June |                |
|           | 2017                       | 2016           | 2017                     | 2016           |
|           | RMB'000                    | RMB'000        | RMB'000                  | RMB'000        |
| Solutions | 76,457                     | 91,011         | 160,858                  | 221,151        |
| Services  | 16,900                     | 36,068         | 32,270                   | 45,175         |
| Products  | 14,393                     | 31,619         | 20,251                   | 45,519         |
|           | <u>107,750</u>             | <u>158,698</u> | <u>213,379</u>           | <u>311,845</u> |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017



## 4. REVENUE AND SEGMENT INFORMATION – *continued*

### Geographical information

The Group primarily operates in the PRC. As at 31 December 2016 and 30 June 2017, substantially all of the non-current assets (other than financial instruments and deferred tax assets) of the Group were located in the PRC.

## 5. OTHER INCOME

|   | (Unaudited)                |                     | (Unaudited)              |                      |
|---|----------------------------|---------------------|--------------------------|----------------------|
|   | Three months ended 30 June |                     | Six months ended 30 June |                      |
|   | 2017                       | 2016                | 2017                     | 2016                 |
|   | RMB'000                    | RMB'000             | RMB'000                  | RMB'000              |
| <b>Other revenue</b>  |                            |                     |                          |                      |
| Interest income   | 2,710                      | 666                 | 2,970                    | 862                  |
| Reversal of provision for impairment loss on trade and other receivable | 432                        | 54                  | 2,907                    | 972                  |
| Value-added tax (“VAT”) refunds (note a)                                | 4,984                      | 5,141               | 9,099                    | 9,481                |
|   | <u>8,126</u>               | <u>5,861</u>        | <u>14,976</u>            | <u>11,315</u>        |
| <b>Other net income/gain</b>  |                            |                     |                          |                      |
| Subsidy income from government (note b)                                 | 1,024                      | 1,916               | 1,024                    | 4,065                |
| Sundry income   | —                          | 27                  | —                        | 38                   |
|   | <u>1,024</u>               | <u>1,943</u>        | <u>1,024</u>             | <u>4,103</u>         |
|   | <u><b>9,150</b></u>        | <u><b>7,804</b></u> | <u><b>16,000</b></u>     | <u><b>15,418</b></u> |

### Notes:

- (a) The sales of software products in the PRC are subject to VAT calculated at 17%. Companies which develop their own software products and have the software products registered with the relevant authorities in the PRC are entitled to a refund of VAT equivalent to the excess over 3% of the sales invoice amount paid in the month when output VAT exceeds input VAT.
- (b) Subsidy income mainly relates to cash subsidies in respect of operating and development activities from governments which are either unconditional grants or grants with conditions having been satisfied.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

### 6. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax has been arrived at after charging:

|   | (Unaudited)                |               | (Unaudited)              |               |
|---|----------------------------|---------------|--------------------------|---------------|
|   | Three months ended 30 June |               | Six months ended 30 June |               |
|   | 2017                       | 2016          | 2017                     | 2016          |
|   | RMB'000                    | RMB'000       | RMB'000                  | RMB'000       |
| <b>Finance costs</b>  |                            |               |                          |               |
| Interest on bank and other borrowings, wholly repayable within five years   | 1,421                      | 1,165         | 2,321                    | 3,069         |
| <b>Employee benefit expenses</b>  |                            |               |                          |               |
| Salaries, bonus and allowances  | 21,081                     | 25,483        | 56,293                   | 50,619        |
| Retirement benefit scheme contributions                                     | 5,328                      | 5,459         | 13,534                   | 11,898        |
| Severance payments  | 73                         | 9             | 278                      | 18            |
| Share-based compensation expense  | 20,021                     | 3,842         | 51,820                   | 7,586         |
|   | <b>46,503</b>              | <b>34,793</b> | <b>121,925</b>           | <b>70,121</b> |
| <b>Other items</b>  |                            |               |                          |               |
| Listing-related expenses  | —                          | 3,948         | —                        | 9,938         |
| Cost of software and hardware equipment recognised as an expense, including | 50,735                     | 65,626        | 101,843                  | 151,887       |
| – Provision for inventory obsolescence                                      | —                          | 425           | —                        | 858           |
| Depreciation of property, plant and equipment                               | 1,078                      | 2,685         | 2,260                    | 4,508         |
| Amortisation of intangible assets   | 5,190                      | 3,251         | 7,958                    | 6,754         |
| Provision for impairment loss on trade and other receivables                | 3,878                      | 5,838         | 4,878                    | 5,838         |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017



## 7. INCOME TAX EXPENSE/(CREDIT)

|   | (Unaudited)                |                       | (Unaudited)              |                     |
|---|----------------------------|-----------------------|--------------------------|---------------------|
|   | Three months ended 30 June |                       | Six months ended 30 June |                     |
|   | 2017                       | 2016                  | 2017                     | 2016                |
|   | RMB'000                    | RMB'000               | RMB'000                  | RMB'000             |
| <b>Current tax</b>  |                            |                       |                          |                     |
| - PRC enterprise income tax   |                            |                       |                          |                     |
| Current period  | 2,227                      | 1,256                 | 3,751                    | 4,823               |
| Over-provision in respect of prior year                             | —                          | (5,802)               | —                        | (5,802)             |
|   | <u>2,227</u>               | <u>(4,546)</u>        | <u>3,751</u>             | <u>(979)</u>        |
| <b>Deferred tax</b>   |                            |                       |                          |                     |
| Origination and reversal of temporary differences                   | (319)                      | 102                   | (593)                    | (23)                |
| Effect on deferred tax balances resulting from changes in tax rates | —                          | 2,775                 | —                        | 2,775               |
|   | <u>(319)</u>               | <u>2,877</u>          | <u>(593)</u>             | <u>2,752</u>        |
| <b>Income tax expense/(credit)</b>                                  | <u><b>1,908</b></u>        | <u><b>(1,669)</b></u> | <u><b>3,158</b></u>      | <u><b>1,773</b></u> |

Notes:

(a) Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) Singapore profits tax

Singapore profits tax rate is 17%. Singapore profits tax has not been provided as the companies within the Group had no estimated assessable profits in Singapore for the period.

(c) PRC enterprise income tax

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the period based on the existing legislation, interpretations and practices in respect thereof. The applicable income tax rate for the period is 25%.

Pursuant to the relevant laws and regulations in the PRC, China Digital Video (Beijing) Limited (“CDV WFOE”), a subsidiary of the Company, obtained the “High and New Technology Enterprise” qualification (“HNTE”) in 2012 and renewed its qualification in 2016. In 2016, CDV WFOE was also accredited as a “Key Software Enterprise under the National Plan” (國家規劃佈局內重點軟體企業) and was therefore retrospectively entitled to a preferential income tax rate of 10% from 2016 and continues to enjoy this preferential income tax rate until it no longer meets the requirements of the qualification.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 7. INCOME TAX EXPENSE/(CREDIT) – *continued*

Notes: – *continued*

### (c) PRC enterprise income tax – *continued*

Pursuant to the relevant laws and regulations in the PRC, ZhengQi (Beijing) Video Technology Co., Ltd (北京正奇聯訊科技有限公司, “Beijing Zhengqi”), a subsidiary of the Company, obtained the HNTE in 2014 and accordingly enjoyed preferential income tax rate of 15% for the years 2014 to 2017.

According to relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 150% of the research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). CDV WFOE and Beijing Zhengqi have made its best estimate for the Super Deduction to be claimed in ascertaining their assessable profits for the three months and six months ended 30 June 2016 and 2017.

## 8. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: nil).

## 9. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the adjusted profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

|   | (Unaudited)                |                | (Unaudited)              |                |
|---|----------------------------|----------------|--------------------------|----------------|
|   | Three months ended 30 June |                | Six months ended 30 June |                |
|   | 2017                       | 2016           | 2017                     | 2016           |
|   | RMB'000                    | RMB'000        | RMB'000                  | RMB'000        |
| <b>(Loss)/Earnings</b>  |                            |                |                          |                |
| (Loss)/Profit attributable to equity holders of the Company     | (949)                      | 233,870        | (39,093)                 | 300,331        |
| Undeclared dividend of preferred shares                         | —                          | (2,554)        | —                        | (5,193)        |
| (Loss)/Profit used to determine basic (loss)/earnings per share | <u>(949)</u>               | <u>231,316</u> | <u>(39,093)</u>          | <u>295,138</u> |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017



## 9. (LOSS)/EARNINGS PER SHARE – *continued*

### (a) Basic (loss)/earnings per share – *continued*

|   | (Unaudited)<br>Three months ended 30 June |                | (Unaudited)<br>Six months ended 30 June |                |
|---|---|----------------|---|----------------|
|   | 2017                                      | 2016           | 2017                                    | 2016           |
| Number of shares (in thousands)<br>Weighted average number of<br>ordinary shares outstanding for<br>basic (loss)/earnings per share | <u>620,000</u>                            | <u>257,007</u> | <u>620,000</u>                          | <u>248,663</u> |

### (b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and are calculated as follows:

|  | (Unaudited)<br>Three months ended 30 June |                 | (Unaudited)<br>Six months ended 30 June |                 |
|--|---|-----------------|---|-----------------|
|  | 2017<br>RMB'000                           | 2016<br>RMB'000 | 2017<br>RMB'000                         | 2016<br>RMB'000 |
| <b>(Loss)/Earnings</b>   |   |                 |   |                 |
| (Loss)/Profit attributable to<br>ordinary equity holders of<br>the Company used to<br>determine basic<br>(loss)/earnings per share | (949)                                     | 231,316         | (39,093)                                | 295,138         |
| Change in fair value on<br>redeemable convertible<br>preferred shares  | —   | (209,533)       | —                                       | (276,108)       |
| Undeclared dividend of<br>preferred shares   | —   | 2,554           | —                                       | 5,193           |
| (Loss)/Profit used to determine<br>diluted (loss)/earnings<br>per share  | <u>(949)</u>                              | <u>24,337</u>   | <u>(39,093)</u>                         | <u>24,223</u>   |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

### 9. (LOSS)/EARNINGS PER SHARE – *continued*

#### (b) Diluted (loss)/earnings per share – *continued*

|  | (Unaudited)                |                | (Unaudited)              |                |
|--|----------------------------|----------------|--------------------------|----------------|
|  | Three months ended 30 June |                | Six months ended 30 June |                |
|  | 2017                       | 2016           | 2017                     | 2016           |
|  | RMB'000                    | RMB'000        | RMB'000                  | RMB'000        |
| <b>Number of shares (in thousands)</b>   |                            |                |                          |                |
| Weighted average number of ordinary shares used to determine basic (loss)/earnings per share | 620,000                    | 257,007        | 620,000                  | 248,663        |
| Effect of deemed conversion of preferred shares  | —                          | 214,807        | —                        | 219,745        |
|  | <u>620,000</u>             | <u>471,814</u> | <u>620,000</u>           | <u>468,408</u> |

For the three months and six months ended 30 June 2016, the Company has the following three categories of dilutive potential ordinary shares: non-redeemable convertible Series A-1 Preferred Shares, redeemable convertible preferred shares (including Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares and Series C Preferred Shares) and the 2010 Share Option Plan of the Company. The computation of diluted earnings per share has assumed the conversion of non-redeemable convertible Series A-1 preferred shares, redeemable convertible Series A, Series A-1, Series B and Series C preferred shares. Share options of the Company are considered as anti-dilutive as the estimated market price of the ordinary shares of the Company is less than the exercise price of the share options.

For the three months and six months ended 30 June 2017, the Company has three categories of potential dilutive ordinary shares: the 2010 Share Option Plan, the 2017 Share Option Scheme and the 2017 Share Award Scheme. The diluted loss per share for the three months and six months ended 30 June 2017 was the same as the basic loss per share as the potential ordinary shares were anti-dilutive.

### 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired property, plant and equipment at a cost of RMB5,656,000 (six months ended 30 June 2016: RMB2,447,000), of which nil (six months ended 30 June 2016: RMB629,000) were transferred from the inventories.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017



## 11. INTANGIBLE ASSETS

During the six months ended 30 June 2017, additions to intangible assets by acquisition and capitalisation in respect of development costs amounted to RMB35,517,000 (six months ended 30 June 2016: RMB94,000) and RMB19,031,000 (six months ended 30 June 2016: RMB8,968,000) respectively.

## 12. INTERESTS IN JOINT VENTURES

|                     | (Unaudited)<br>As at<br>30 June 2017<br>RMB'000 | (Audited)<br>As at<br>31 December 2016<br>RMB'000 |
|---------------------|---|---|
| Share of net assets | —   | —   |

The Group's interests in the joint ventures, which are accounted for using the equity method, represent its investments in Beijing Hermit Culture & Media Co., Ltd. (北京海米文化傳媒有限公司, "Beijing Hermit"), Beijing Yue Ying Technology Co., Ltd (北京悦影科技有限公司, "Beijing Yueying") and CDV (Beijing) Yun Duan Technology Co., Ltd. (新奥特(北京)雲端科技有限公司, "Xin'aote Cloud") (collectively, the "Joint Ventures"). All of which are unlisted corporate entities whose quoted market price is not available.

As at 30 June 2017 and 31 December 2016, the Group's share of losses exceeds its interests in the joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued as the Group has no legal or constructive obligations on behalf of the joint ventures.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 13. TRADE AND OTHER RECEIVABLES

|  | Notes | (Unaudited)<br>As at<br>30 June 2017<br>RMB'000 | (Audited)<br>As at<br>31 December 2016<br>RMB'000 |
|--|-------|---|---|
| <b>Trade and bills receivables</b>                               |       |   |   |
| From third parties   |       | 514,520   | 468,248   |
| From related parties   |       | 8,711   | 12,969  |
|  |       | <u>523,231</u>                                  | <u>481,217</u>                                    |
| Less: provision for impairment of trade receivables              |       | <u>(34,326)</u>                                 | <u>(32,355)</u>                                   |
|  | (a)   | <u>488,905</u>                                  | <u>448,862</u>                                    |
| <b>Other receivables</b>   |       |   |   |
| Deposits, prepayments and other receivables                      | (b)   | 79,770  | 53,931  |
| Deposit for guarantee certificate over tendering and performance |       | 13,914  | 17,617  |
| Advances to suppliers  |       | 58,348  | 68,058  |
| Amounts due from related parties                                 |       | 1,723   | 4,545   |
| Amounts due from joint ventures                                  |       | 7,794   | 6,087   |
| VAT receivables  |       | 11,910  | 7,979   |
| Advances to employees  |       | 7,265   | 6,395   |
|  |       | <u>180,724</u>                                  | <u>164,612</u>                                    |
| Less: provision for impairment of other receivables              |       | <u>(4,736)</u>                                  | <u>(4,736)</u>                                    |
|  |       | <u>175,988</u>                                  | <u>159,876</u>                                    |
|  |       | <u>664,893</u>                                  | <u>608,739</u>                                    |

The directors of the Group considered that the fair values of trade and other receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017



## 13. TRADE AND OTHER RECEIVABLES – continued

### (a) Trade and bills receivables

Invoices issued to customers are in accordance with the payment terms stipulated in the contracts and payable on issuance. Deposits are normally required upon signing of the contract. For customers with good credit history and selected large television stations in the PRC with sound financial standing, its settlement may be longer than 180 days after issuance of invoices. As at 30 June 2017, trade and bills receivables contained retention money receivables (net of provisions) of RMB53,718,000 (31 December 2016: RMB42,672,000). Retention money receivables are normally collected within one to three years after the completion of the relevant solution sales. Ageing analysis based on invoiced date of the trade and bills receivables and net of provisions at the respective reporting dates is as follows:

|                 | (Unaudited)<br>As at<br>30 June 2017<br>RMB'000 | (Audited)<br>As at<br>31 December 2016<br>RMB'000 |
|-----------------|---|---|
| Billed:         |   |   |
| 0 to 90 days    | 80,317  | 113,039   |
| 91 to 180 days  | 97,723  | 43,545  |
| 181 to 365 days | 83,953  | 99,348  |
| 1 to 2 years    | 41,192  | 23,802  |
|                 | 303,185   | 279,734   |
| Unbilled        | 185,720   | 169,128   |
|                 | 488,905   | 448,862   |

The movement in the provision for impairment of trade receivables is as follows:

|   | (Unaudited)<br>As at<br>30 June 2017<br>RMB'000 | (Audited)<br>As at<br>31 December 2016<br>RMB'000 |
|---|---|---|
| Balance at the beginning of the period/year | 32,355  | 18,050  |
| Provision for impairment                    | 4,878   | 16,100  |
| Reversal of provision for impairment        | (2,907)   | (1,795)   |
| Balance at the end of the period/year       | 34,326  | 32,355  |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 13. TRADE AND OTHER RECEIVABLES – *continued*

### (b) Other receivables

#### *Deposit for guarantee certificate*

Deposit for guarantee certificate over tendering and performance are placed with third parties for performing the contracts and the deposits are interest-free and will be returned when the contracts are completed.

#### *Amounts due from joint ventures/related parties*

The amounts due are unsecured, interest-free and repayable on demand.

#### *Provision for impairment of other receivables*

The movement in the provision for impairment of other receivables is as follows:

|   | <b>(Unaudited)</b>  | (Audited)        |
|---|---------------------|------------------|
|   | <b>As at</b>        | As at            |
|   | <b>30 June 2017</b> | 31 December 2016 |
|   | <b>RMB'000</b>      | RMB'000          |
| Balance at the beginning of the period/year | 4,736               | 3,628            |
| Provision for impairment                    | —                   | 1,293            |
| Reversal of provision for impairment        | —                   | (185)            |
| Balance at the end of the period/year       | <u>4,736</u>        | <u>4,736</u>     |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017



## 14. TRADE AND OTHER PAYABLES

|  |     | (Unaudited)<br>As at<br>30 June 2017<br>RMB'000 | (Audited)<br>As at<br>31 December 2016<br>RMB'000 |
|--|-----|---|---|
| <b>Trade and bills payables</b>              |     |   |   |
| To third parties                             |     | 198,805   | 154,763   |
| To a related party                           |     | 3,202   | —   |
|  | (a) | 202,007   | 154,763   |
| <b>Other payables</b>                        |     |   |   |
| Amounts due to customers for contract work   | (b) | 521   | 521   |
| Advances from customers                      |     | 17,680  | 13,760  |
| Other payables and accrued charges           |     | 25,762  | 24,732  |
| Other tax liabilities                        |     | 101,588   | 87,231  |
| Staff costs and welfare accruals             |     | 9,345   | 13,745  |
| Amount due to related parties                |     | 300   | 475   |
| Deferred income related to government grants |     | 6,458   | 6,366   |
|  |     | 161,654   | 146,830   |
|  |     | 363,661   | 301,593   |

All amounts are short-term and hence the carrying values of the Group's trade and other payables as at 30 June 2017 and 31 December 2016 were considered to be a reasonable approximation of its fair value.

### (a) Trade and bills payables

The Group was granted by its suppliers credit periods ranging from 30-180 days. The ageing analysis of trade and bills payables based on recognition date is as follows:

|                 | (Unaudited)<br>As at<br>30 June 2017<br>RMB'000 | (Audited)<br>As at<br>31 December 2016<br>RMB'000 |
|-----------------|---|---|
| 0 to 90 days    | 103,073   | 97,649  |
| 91 to 180 days  | 50,963  | 25,041  |
| 181 to 365 days | 21,434  | 18,627  |
| 1 to 2 years    | 16,647  | 2,544   |
| 2 to 3 years    | 1,998   | 2,587   |
| Over 3 years    | 7,892   | 8,315   |
|                 | 202,007   | 154,763   |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 14. TRADE AND OTHER PAYABLES – continued

### (b) Amounts due to customers for contract work

Amounts due to customers for contract work represented the balance of aggregate cost incurred and recognised profits for the service component of the solutions sales which are recognised based on the percentage of completion method.

## 15. SHARE CAPITAL

|  | Notes | Number of shares     | Nominal value of shares US\$ |
|--|-------|----------------------|------------------------------|
| <b>Authorised:</b>   |       |                      |                              |
| <b>Ordinary shares of the Company:</b>                     |       |                      |                              |
| As at 1 January 2016, at US\$0.00001 each                  |       | 4,887,515,214        | 48,875                       |
| Re-designation and reclassification on 27 June 2016        | (ii)  | 112,484,786          | 1,125                        |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>5,000,000,000</b> | <b>50,000</b>                |
| <b>Redeemable convertible preferred shares:</b>            |       |                      |                              |
| <b>– Series A</b>  |       |                      |                              |
| As at 1 January 2016, at US\$0.00001 each                  |       | 40,000,000           | 400                          |
| Re-designation and reclassification on 27 June 2016        | (ii)  | (40,000,000)         | (400)                        |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>             | <b>–</b>                     |
| <b>– Series A-1</b>  |       |                      |                              |
| As at 1 January 2016, at US\$0.00001 each                  |       | 27,500,000           | 275                          |
| Re-designation and reclassification on 27 June 2016        | (ii)  | (27,500,000)         | (275)                        |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>             | <b>–</b>                     |
| <b>– Series B</b>  |       |                      |                              |
| As at 1 January 2016, at US\$0.00001 each                  |       | 34,833,333           | 348                          |
| Re-designation and reclassification on 27 June 2016        | (ii)  | (34,833,333)         | (348)                        |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>             | <b>–</b>                     |
| <b>– Series C</b>  |       |                      |                              |
| As at 1 January 2016, at US\$0.00001 each                  |       | 10,151,453           | 102                          |
| Re-designation and reclassification on 27 June 2016        | (ii)  | (10,151,453)         | (102)                        |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>             | <b>–</b>                     |
| <b>Total redeemable convertible preferred shares</b>       |       |                      |                              |
| As at 1 January 2016, at US\$0.00001 each                  |       | 112,484,786          | 1,125                        |
| Re-designation and reclassification on 27 June 2016        | (ii)  | (112,484,786)        | (1,125)                      |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>             | <b>–</b>                     |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017



## 15. SHARE CAPITAL – continued

|   | Notes | Number of shares   | Nominal value of shares US\$ | Equivalent nominal value of shares RMB'000 |
|---|-------|--------------------|------------------------------|--|
| <b>Issued and fully paid:</b>   |       |                    |                              |  |
| <i>Ordinary shares of the Company:</i>  |       |                    |                              |  |
| Ordinary shares as at 1 January 2016  |       | 80,000,000         | 800                          | 6  |
| Conversion of preferred shares  | (i)   | 74,795,203         | 748                          | 5  |
| Issuance of shares upon capitalisation issue                                  | (iii) | 310,204,797        | 3,102                        | 21   |
| Issuance of new shares in connection with the listing of the Company's shares | (iv)  | 155,000,000        | 1,550                        | 10   |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b>                    |       | <b>620,000,000</b> | <b>6,200</b>                 | <b>42</b>                                  |

|  | Notes | Number of shares | Nominal value of shares US\$ |
|--|-------|------------------|------------------------------|
| <i>Non-redeemable convertible preferred shares:</i>        |       |                  |                              |
| – Series A-1   |       |                  |                              |
| As at 1 January 2016                                       |       | 6,250,000        | 62                           |
| Converted into ordinary shares                             | (i)   | (6,250,000)      | (62)                         |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>         | <b>–</b>                     |
| <i>Redeemable convertible preferred shares:</i>            |       |                  |                              |
| – Series A   |       |                  |                              |
| As at 1 January 2016                                       |       | 22,400,000       | 224                          |
| Converted into ordinary shares                             | (i)   | (22,400,000)     | (224)                        |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>         | <b>–</b>                     |
| – Series A-1   |       |                  |                              |
| As at 1 January 2016                                       |       | 14,000,000       | 140                          |
| Converted into ordinary shares                             | (i)   | (14,000,000)     | (140)                        |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>         | <b>–</b>                     |
| – Series B   |       |                  |                              |
| As at 1 January 2016                                       |       | 34,833,333       | 348                          |
| Converted into ordinary shares                             | (i)   | (34,833,333)     | (348)                        |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>         | <b>–</b>                     |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 15. SHARE CAPITAL – *continued*

|  | Notes | Number of shares | Nominal value of shares<br>US\$ |
|--|-------|------------------|---------------------------------|
| <b>– Series C</b>  |       |                  |                                 |
| As at 1 January 2016                                       |       | 10,151,453       | 102                             |
| Converted into ordinary shares                             | (i)   | (10,151,453)     | (102)                           |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>         | <b>–</b>                        |
| <b>Total redeemable convertible preferred shares</b>       |       |                  |                                 |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>         | <b>–</b>                        |

Notes:

- (i) Conversion of redeemable and non-redeemable convertible preferred shares (the “Conversion”)

Immediately prior to the Listing, 6,250,000 Series A-1 non-redeemable convertible preferred shares, 22,400,000 Series A, 14,000,000 Series A-1, 34,833,333 Series B and 10,151,453 Series C redeemable convertible preferred shares were converted into ordinary shares at the conversion ratio of 1:0.75, 1:0.75, 1:0.75, 1:0.9375 and 1:1 respectively, giving rise to 74,795,203 ordinary shares (before capitalisation issue adjustment). As a result, all the preferred shares were derecognized and transferred to the share capital and share premium for approximately RMB5,000 and RMB368,469,000, respectively.

- (ii) Change of authorised share capital of the Company immediately after the completion of the Conversion

Pursuant to the written resolution of the shareholders passed on 23 May 2016, immediately after the Conversion, 112,484,786 authorized redeemable convertible preferred shares and non-redeemable convertible preferred shares were reclassified and re-designated as ordinary share of par value of US\$0.00001 and that the authorised share capital of the Company was increased from US\$48,875 to US\$50,000 divided into 5,000,000,000 ordinary shares of US\$0.00001 each.

- (iii) Capitalisation issue

Pursuant to a written resolution of the shareholders of the Company passed on 23 May 2016 and conditional on the share premium account of the Company being credited as a result of the offer shares pursuant to the proposed share offering described in the Prospectus (the “Capitalisation Issue”), the Company capitalised an amount approximately of US\$3,102, standing to the credit of its share premium account and to appropriate such amount as capital to pay up 310,204,797 shares in full at par. The Capitalisation Issue was completed on 27 June 2016.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017



## 15. SHARE CAPITAL – *continued*

Notes: – *continued*

- (iv) Issuance of new shares in connection with the Listing of the Company's shares

On 27 June 2016, upon its Listing on the GEM of the Stock Exchange, the Company issued 155,000,000 new ordinary shares at par value of US\$0.00001 per share for cash consideration of HK\$1.90 each, and raised gross proceeds of approximately HK\$294,500,000 (equivalent to RMB251,931,000), of which approximately RMB10,000 was credited to share capital and the balance of RMB251,921,000 was credited to the share premium account of the Company.

Share issuance expenses mainly include share underwriting commission, lawyers' fees, reporting accountant's fee and other related costs associated with the Listing. Incremental costs that are directly attributable to the issue of the new shares amounting to RMB31,467,000 was treated as a deduction against the share premium account arising from the issuance.

## 16. REDEEMABLE CONVERTIBLE PREFERRED SHARES

The movement in the redeemable and non-redeemable convertible preferred shares during the year/period, are as follows:

|  | Notes | Number of shares | Nominal value of shares<br>US\$ |
|--|-------|------------------|---------------------------------|
| <i>Redeemable convertible preferred shares</i>             |       |                  |                                 |
| – Series A   |       |                  |                                 |
| As at 1 January 2016, at US\$0.00001 each                  |       | 22,400,000       | 224                             |
| Converted into ordinary share                              | 15(i) | (22,400,000)     | (224)                           |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>         | <b>–</b>                        |
| – Series A-1   |       |                  |                                 |
| As at 1 January 2016, at US\$0.00001 each                  |       | 14,000,000       | 140                             |
| Converted into ordinary share                              | 15(i) | (14,000,000)     | (140)                           |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>         | <b>–</b>                        |
| – Series B   |       |                  |                                 |
| As at 1 January 2016, at US\$0.00001 each                  |       | 34,833,333       | 348                             |
| Converted into ordinary share                              | 15(i) | (34,833,333)     | (348)                           |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>         | <b>–</b>                        |
| – Series C   |       |                  |                                 |
| As at 1 January 2016, at US\$0.00001 each                  |       | 10,151,453       | 102                             |
| Converted into ordinary share                              | 15(i) | (10,151,453)     | (102)                           |
| <b>As at 31 December 2016 and 30 June 2017 (Unaudited)</b> |       | <b>–</b>         | <b>–</b>                        |



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 16. REDEEMABLE CONVERTIBLE PREFERRED SHARES – *continued*

|  | Note  | Number of shares | Nominal value of shares<br>US\$ |
|--|-------|------------------|---------------------------------|
| <b>Aggregate redeemable convertible preferred shares</b> |       |                  |                                 |
| As at 31 December 2016 and 30 June 2017 (Unaudited)      |       | –                | –                               |
| <b>Non-redeemable convertible preferred shares</b>       |       |                  |                                 |
| – Series A-1   |       |                  |                                 |
| As at 1 January 2016, at US\$0.00001 each                |       | 6,250,000        | 62                              |
| Converted into ordinary share                            | 15(i) | (6,250,000)      | (62)                            |
| As at 31 December 2016 and 30 June 2017 (Unaudited)      |       | –                | –                               |

The movement of the Series A, Series A-1, Series B and Series C Preferred Shares are set out below:

|   | Redeemable convertible preferred shares  |   |           | Non-redeemable convertible preferred shares<br>Total included in equity<br>RMB'000 |
|---|--|---|-----------|--|
|   | Financial liabilities<br>at fair value<br>through<br>profit or loss<br>RMB'000 | Financial liabilities at<br>amortised cost<br>RMB'000 | RMB'000   |  |
| At 31 December 2015 and 1 January 2016              | 607,832  | –   | 607,832   | 26,235   |
| Changes in fair value recognised in profit or loss  | (276,108)  | –   | (276,108) | –  |
| Converted into ordinary shares (Note 15(i))         | (342,239)  | –   | (342,239) | (26,235)   |
| Currency translation differences                    | 10,515   | –   | 10,515    | –  |
| At 31 December 2016 and<br>30 June 2017 (Unaudited) | –  | –   | –         | –  |



## 17. SHARE-BASED COMPENSATION TRANSACTIONS

### (a) The 2010 Share Option Plan

Pursuant to unanimous written resolution of the Board on 20 December 2010 (the “Effective Date”), a share option scheme was adopted by the Company and is valid and effective for a period of ten years from 20 December 2010 (the “2010 Share Option Plan”).

The purpose of the 2010 Share Option Plan is to provide eligible participants with the opportunity to acquire and maintain share ownership, thereby strengthening their commitment to the welfare of the Group and promoting and identify of interest between shareholders and these eligible participants. All directors, employees, consultant or advisor to the Group who, in the sole discretion of the remuneration committee of the Board (“Committee”), or if no such committee has yet been established, the Board, have contributed or will contribute to the Group are eligible to participate in the 2010 Share Option Plan. Without limiting to the foregoing, at the time of grant of options, any holder of 5% or more of the outstanding ordinary shares of the Company shall not be eligible to be granted, or to receive any ordinary shares of the Company under, any options under the 2010 Share Option Plan.

The maximum number of ordinary shares of the Company to be issued (from time to time) upon exercise of all outstanding options granted and yet to be exercised under the 2010 Share Option Plan must not in aggregate exceed 26,000,000 (subject to adjustment, such as bonus issue, extraordinary cash dividends, share splits, reverse share splits, recapitalisation, reorganisations, mergers, consolidations, combinations occurring after the date of grant of options). The aggregate number of outstanding ordinary shares of the Company as of the Effective Date is 80,000,000 ordinary shares of US\$0.00001 each.

The period within which the options must be exercised will be specified by the Company at the time of grant and not to exceed 10 years. The options may be exercised according to the vesting schedule established by the Company. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before the option can be exercised in whole or in part.

The subscription price of the shares (the “Option Price”) under the 2010 Share Option Plan will be specified by the Company at the time of grant. The Option Price shall be payable in cash or by the sale by the participant to the Company, and the repurchase by the Company, for an aggregate consideration of US\$1.00, of ordinary shares of the Company held by the participant having an aggregate fair market value at the time the option is exercised equal to the Option Price.

The offer and acceptance of a grant of share options shall be evidenced by a share option agreement. No options may be granted under the 2010 Share Option Plan after the date of the tenth anniversary of its adoption.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

### 17. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

#### (a) The 2010 Share Option Plan – *continued*

In the event a participant's employment or service with the Group is terminated for any reason, for a period of 360 days after such termination (the "Repurchase Period") the Company shall have a right but not an obligation, to repurchase any or all ordinary shares of the Company purchased by such participant upon exercise of his or her options (the "Right of Repurchase"), at a price equal to the fair market value of the ordinary shares on the date the Company exercises its Right of Repurchase.

On 1 January 2011, 26,000,000 options were granted by the Company for nil consideration with estimated fair value of approximately US\$3,129,000 (approximately RMB20,720,000) (note). Each option gives the holder the right to subscribe for one ordinary share in the Company at an exercise price of US\$1.16 per share. The share options are valid for a period of 10 years from 1 January 2011. Included in the 26,000,000 options, (i) 25,700,000 options are subject to a vesting scale in which 30%, 30%, 20% and 20% of options granted shall vest on 1 January 2012, 1 January 2013, 1 January 2014 and 1 January 2015 respectively; and (ii) 300,000 options are subject to a vesting scale in which 1/3, 1/3 and 1/3 of the options granted shall vest on 1 January 2012, 1 January 2013 and 1 January 2014 respectively. All options granted are exercisable from 1 January 2012 to 31 December 2021.

Note: As detailed above, as the participant can choose the method of settlement, the Company is considered to have issued a compound financial instrument, an instrument with a debt component (to the extent that the participant has a right to demand cash) and an equity component (to the extent that the counterparty has a right to demand settlement in equity instruments by giving up their right to cash). However, as the exercise price of the options of US\$1.16 per share is higher than the agreed repurchase price of US\$1.00 per share, the Group considered the debt component is of no value in respect of all the share options granted, thus the fair value of the equity component was approximately US\$3,129,000 (approximately RMB20,720,000) at the date of grant.

On 1 October 2015, 2,935,000 options were granted by the Company to the key employees of the Group under the 2010 Share Option Plan with estimated total fair value of approximately US\$3,000,000 (equivalent to approximately RMB19,195,000). The exercise price of the share options granted is US\$0.00001 per share. The share options are valid for a period of 10 years from 1 October 2015. Included in the 2,935,000 options, 1,435,000 options granted will vest on the 1 October 2016, and the remaining 1,500,000 options are subject to a vesting scale in which 40%, 30% and 30% of options granted shall vest on 1 October 2016, 1 October 2017 and 1 October 2018 respectively. The options granted are exercisable from 1 October 2016 to 30 September 2021.

The Company has adjusted, pursuant to the authority granted to the board of director under the 2010 Share Option Plan, the total number of shares subject to options granted under the 2010 Share Option Plan to 77,893,000 as a result the Capitalization Issue (as detailed in Note 15(iii)). Upon completion of such grant and adjustment, no further options will be granted under the 2010 Share Option Plan. The number of share option outstanding disclosed below has been adjusted to reflect the Capitalisation Issue which was completed on 27 June 2016.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 17. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

### (a) The 2010 Share Option Plan – *continued*

The following table discloses details of the Company's share options under the 2010 Share Option Plan held by directors and senior employees and movements in such holdings:

|                                  | (Unaudited)  |                            | (Unaudited)  |                            |
|----------------------------------|--|----------------------------|--|----------------------------|
|                                  | Six months ended 30 June 2017                            |                            | Six months ended 30 June 2016                            |                            |
|                                  | Average<br>exercise price<br>in US\$ per<br>share option | Number of<br>share options | Average<br>exercise price<br>in US\$ per<br>share option | Number of<br>share options |
| <b>Directors</b>                 |  |                            |  |                            |
| At beginning and end of period   | <u>1.16</u>  | <u>30,940,914</u>          | <u>1.16</u>  | <u>30,940,914</u>          |
| <b>Employees</b>                 |  |                            |  |                            |
| At beginning of period           | 0.94   | 46,080,933                 | 0.94   | 47,102,285                 |
| Forfeited during the period      | <u>1.16</u>  | <u>(495,655)</u>           | <u>1.16</u>  | <u>(150,199)</u>           |
| At end of period                 | <u>0.94</u>  | <u>45,585,278</u>          | <u>1.03</u>  | <u>46,952,086</u>          |
| <b>Total</b>                     |  |                            |  |                            |
| At beginning of period           | 1.03   | 77,021,847                 | 1.03   | 78,043,199                 |
| Forfeited during the period      | <u>1.16</u>  | <u>(495,655)</u>           | <u>1.16</u>  | <u>(150,199)</u>           |
| At end of period                 | <u>1.03</u>  | <u>76,526,192</u>          | <u>1.03</u>  | <u>77,893,000</u>          |
| Exercisable at the end of period | <u>1.16</u>  | <u>73,822,617</u>          | <u>1.16</u>  | <u>77,893,000</u>          |

None of the above share options were exercised during the period. The weighted average remaining contractual life of options outstanding at 30 June 2017 was 4.5 years (31 December 2016: 5.0 years).

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 17. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

### (b) Share Option Scheme adopted by the Company in 2017

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 18 May 2017, the Company adopted a share option scheme to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensation through the grant of options for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group (the “2017 Share Option Scheme”). The participants of the 2017 Share Option Scheme are any executive, non-executive or independent non-executive directors or any employees (whether full-time or part-time) of the Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group.

The 2017 Share Option Scheme is valid and effective for a period of ten years from 24 May 2017.

The maximum number of shares which may be issued upon exercise of all options to be granted at any time under the 2017 Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the relevant class of the shares in issue as at the date of adoption (the “Mandate Limit of Option Scheme”). Options lapsed in accordance with the terms of the 2017 Option Scheme will not be counted for the purpose of calculating the Mandate Limit of Option Scheme.

The Company may seek approval by its shareholders in general meeting for refreshing the Mandate Limit of Option Scheme under the 2017 Share Option Scheme. However, the total number of shares which may be issued upon exercise of all options to be granted under the 2017 Share Option Scheme and any other schemes of the Company under the limit as “refreshed” must not exceed 10% of the relevant class of the shares in issue as at the date of passing the relevant resolution to refresh such limit. Options previously granted under the 2017 Share Option Scheme and any other schemes (including those outstanding, cancelled, lapsed in accordance with the 2017 Share Option Scheme or any other schemes or exercised options) will not be counted for the purpose of calculating the Mandate Limit of Option Scheme as “refreshed”. The Company may seek separate approval by its shareholders in general meeting for granting options beyond the Mandate Limit of Option Scheme provided the options in excess of the Mandate Limit of Option Scheme are granted only to eligible participants of the option Scheme specifically identified by the Company before such approval is sought.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under, the 2017 Share Option Scheme and any other schemes of the Company must not exceed 30% of the relevant class of the shares in issue from time to time. No options may be granted under the 2017 Share Option Scheme or any other schemes of the Company if this will result in this limit being exceeded.

Unless approved by the shareholders, the total number of shares issued and to be issued upon exercise of the options granted to each eligible participant of the 2017 Share Option Scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the relevant class of the shares in issue.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017



## 17. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

### (b) Share Option Scheme adopted by the Company in 2017 – *continued*

The amount of HK\$1.00 is payable as consideration for each grant of options under the 2017 Share Option Scheme, upon acceptance of such grant. The subscription price in respect of shares upon exercise of options under the 2017 Share Option Scheme shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the subscription price shall not be less than the higher of (a) the closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day, (b) the average closing price of the shares as stated in the daily quotation sheets of the Stock Exchange for the 5 business days immediately preceding the date of grant, and (c) the nominal value of a share.

Unless otherwise specified by the Board, a grantee is not required to achieve any performance target or to hold an option for a minimum period from the date of grant before any option granted under the 2017 Share Option Scheme can be exercised.

An option may be exercised at any time during a period to be determined and notified by the directors to each grantee of the option and such period shall not exceed the period of ten years from the offer date.

During the six months ended 30 June 2017, 62,000,000 options were granted under the 2017 Share Option Scheme on 24 May 2017 with estimated total fair values of approximately RMB29,510,000.

The exercise price of the share options granted is HK\$1.33 per share. The share options are valid for a period of 10 years from 24 May 2017. Included in the 62,000,000 share options, 25,340,000 options, 18,330,000 options and 18,330,000 options will vest on the grant date, the first anniversary of the grant date and the second anniversary of the grant date respectively.

The fair values were calculated using the Binomial Option Pricing Model. The inputs into the model were as follows:

|                         | 24 May 2017 |
|-------------------------|-------------|
| Exercise price          | HK\$1.33    |
| Expected volatility     | 40.0%       |
| Expected life           | 10 years    |
| Risk-free rate          | 1.32%       |
| Expected dividend yield | —           |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 17. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

### (b) Share Option Scheme adopted by the Company in 2017 – *continued*

Movements in the number of the Company's share options under the 2017 Share Option Scheme during the period are as follows:

|                                  | (Unaudited)   |                            |
|----------------------------------|---|----------------------------|
|                                  | Six months ended 30 June 2017                         |                            |
|                                  | Average exercise<br>price in HK\$<br>per share option | Number of<br>share options |
| <b>Directors</b>                 |   |                            |
| At beginning of period           | —   | —                          |
| Granted during the period        | 1.33  | 13,100,000                 |
| At end of period                 | <u>1.33</u>   | <u>13,100,000</u>          |
| <b>Employees</b>                 |   |                            |
| At beginning of period           | —   | —                          |
| Granted during the period        | 1.33  | 48,900,000                 |
| At end of period                 | <u>1.33</u>   | <u>48,900,000</u>          |
| <b>Total</b>                     |   |                            |
| At beginning of period           | —   | —                          |
| Granted during the period        | 1.33  | 62,000,000                 |
| At end of period                 | <u>1.33</u>   | <u>62,000,000</u>          |
| Exercisable at the end of period | <u>1.33</u>   | <u>900,000</u>             |

None of the above share options were lapsed or exercised during the period. The weighted average remaining contractual life of options outstanding at 30 June 2017 was 9.9 years.



## 17. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

### (c) Share Award Scheme adopted by the Company in 2017

The Board approved the adoption of the a share award scheme on 20 March 2017 (the “**2017 Share Award Scheme**”), pursuant to which, shares will be acquired by a trustee by way of subscription of new shares (whether pursuant to general mandate or specific mandate granted by the shareholders or otherwise) and/or purchase of shares from the market out of cash contributed by the Group and be held on trust for the participants until such awarded shares are vested in the relevant selected participants in accordance with the provisions of the 2017 Share Award Scheme.

The Company has appointed The Core Trust Company Limited as the trustee (the “**Trustee**”). The Trustee is an independent third party of the Company and is acting for a wide scope of participants under the 2017 Share Award Scheme.

Unless early terminated by the Board, the 2017 Share Award Scheme shall be valid and effective for a term of 10 years commencing on the adoption date of the 2017 Share Award Scheme provided that no contribution to the trust fund will be made by the Company on or after the 10th anniversary date of the adoption date of the 2017 Share Award Scheme.

The Board shall not make any further award of shares which will result in the number of shares awarded by the Board under the 2017 Share Award Scheme to be in excess of 8.5% of the issued share capital of the Company as at the adoption date of the 2017 Share Award Scheme unless otherwise determined by the resolution of the Board.

The maximum number of shares to be awarded under the 2017 Share Award Scheme in each financial year of the Company shall not exceed 3% of the issued share capital of the Company as at the adoption date of the 2017 Share Award Scheme.

The maximum number of shares which may be allocated and awarded to a selected participant under the 2017 Share Award Scheme in any 12-month period shall not exceed 1% of the issued share capital of the Company immediately preceding such allocation and award.

The administrator of the 2017 Share Award Scheme, may, from time to time, at their absolute discretion, select any participant, for participation in the 2017 Share Award Scheme as a selected participant.

On each occasion when the Board instructs the Trustee to purchase shares from the market, it shall specify the maximum amount of funds to be used and the range of prices at which such shares are to be purchased. The Trustee may not incur more than the maximum amount of funds or purchase any shares at a price falling outside the range of prices so specified unless with the prior written consent of the Board.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 17. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

### (c) Share Award Scheme adopted by the Company in 2017 – *continued*

Vesting of the Shares will be conditional on the selected participant remaining a participant at all times from after the relevant dates of the fulfillment of the performance targets (if any) specified by the Board and on the vesting date until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the Trustee, unless otherwise determined by the Board.

The Trustee shall not exercise the voting rights in respect of any shares held under the trust (including but not limited to the awarded shares, the returned shares and further shares acquired out of the income derived therefrom).

Pursuant to the resolution passed at the annual general meeting of the Company held on 18 May 2017, 12,000,000 awarded shares were granted by the Company to the key employees of the Group under the 2017 Share Award Scheme with estimated totally fair value of approximately RMB14,325,000. The fair value of the awarded shares was calculated based on the market price of the Company's shares at the grant date. The expected dividends during the vesting period have been taken into account when assessing the fair value of these awarded shares. The 12,000,000 awarded shares are subject to a vesting scale in which 40%, 30% and 30% of the awarded shares shall vest on 18 May 2017, 20 March 2018 and 20 March 2019 respectively.

During the six months ended 30 June 2017, the Company neither issued new shares nor arranged any funds to be paid to the Trustee for purchasing of shares of the Company from the market.

- (d) On 4 January 2017, 15,921,053 and 14,118,669 shares of the Company were transferred from the ultimate holding company of the Company, Wing Success Holdings Limited, to two executive directors of the Company as a recognition of their contributions to the Group. The transfer of shares was accounted for as a share-based compensation transaction by way of capital contribution from shareholder. The fair value of the shares amounting to approximately RMB31,235,000 were recognised to profit or loss for the six months ended 30 June 2017.
- (e) The Group recognised an expense of RMB13,974,000 and RMB37,846,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB7,586,000 and nil) in relation to the above share options and share awards granted by the Company, respectively. The share-based compensation expense was shown as a separate item on the face of the condensed consolidated statement of comprehensive income.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017



## 18. COMMITMENTS

### (a) Capital commitments

At the reporting date, the Group had the following capital commitments:

|   | (Unaudited)<br>As at<br>30 June 2017<br>RMB'000 | (Audited)<br>As at<br>31 December 2016<br>RMB'000 |
|---|---|---|
| Contracted but not provided for:<br>Expenditure in respect of other investments | 15,000  | —   |

In April 2017, the Group has entered into an agreement with certain independent third parties to set up a private equity fund in the PRC, pursuant of which the Group needs to inject RMB15,000,000 to the private equity fund. Details of which are stated in the Company's announcement dated 28 April 2017.

### (b) Operating lease commitments

The Group leases its office and various residential properties under non-cancellable operating lease agreements, ranging from 1 to 3 years. The leases have varying lease terms and renewal rights. At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

|                                       | (Unaudited)<br>As at<br>30 June 2017<br>RMB'000 | (Audited)<br>As at<br>31 December 2016<br>RMB'000 |
|---------------------------------------|---|---|
| Within one year                       | 15,963  | 8,111   |
| In the second to fifth year inclusive | —   | 923   |
|                                       | 15,963  | 9,034   |

## 19. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the Interim Financial Information, the Group had the following material transactions with related parties during the period:

| Name of related parties   | Relationship with the Group   |
|---|---|
| Mr. Zheng Fushuang ("Mr. Zheng")                                      | Substantial shareholder of the Company and director of the Company  |
| China Digital Video Cloud (Beijing) Technology Co., Ltd ("CDV Cloud") | Company in which Mr. Zheng can exercise significant influence since May 2016  |
| Xinxin Holding Co., Ltd. ("Xinxin Holding")                           | Controlled by Mr. Zheng up to 25 January 2016. Mr. Zheng can exercise significant influence in the company with effect from 25 January 2016 |
| Xin'aote Silicon Valley Video Technology Co., Ltd. ("Xin'aote Video") | Controlled by Mr. Zheng   |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 19. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

### a) Transactions with related parties

|                 |   | (Unaudited)              |         |
|-----------------|---|--------------------------|---------|
|                 |   | Six months ended 30 June |         |
|                 |   | 2017                     | 2016    |
|                 |   | RMB'000                  | RMB'000 |
| Xinxin Holding  | Rental expenses and property management fee | 7,702                    | 6,082   |
| Xin'aote Video  | Rental expenses and property management fee | —                        | 932     |
| Xin'aote Video  | Sales of goods and provision of service     | 195                      | 1,259   |
| CDV Cloud       | Sales of goods and provision of service     | 2,630                    | 9,500   |
| CDV Cloud       | Purchase of services                        | —                        | 100     |
| Beijing Hermit  | Disposal of property, plant and equipment   | 4                        | —       |
| Beijing Hermit  | Purchase of goods                           | 904                      | —       |
| Beijing Yueying | Purchase of goods                           | 1,524                    | —       |
| Xin'aote Cloud  | Disposal of property, plant and equipment   | —                        | 291     |

### b) Key management personnel remuneration

Key management of the Group are members of the board of directors and senior management. Included in employee benefit expenses are key management personnel remuneration which includes the following expenses:

|  |   | (Unaudited)              |              |
|--|---|--------------------------|--------------|
|  |   | Six months ended 30 June |              |
|  |   | 2017                     | 2016         |
|  |   | RMB'000                  | RMB'000      |
|  | Basic salaries and allowances           | 2,766                    | 1,911        |
|  | Discretionary bonus                     | 180                      | 282          |
|  | Retirement benefit scheme contributions | 188                      | 135          |
|  | Share-based compensation expense        | 35,680                   | 7,586        |
|  |   | <b>38,814</b>            | <b>9,914</b> |