



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

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INTERIM REPORT 2018



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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 GEM 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. ZHENG Fushuang (*Chairman, Chief Executive Officer*)
Mr. LIU Baodong (*President*)
Mr. XU Da

Independent Non-executive Directors

Dr. LI Wanshou
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. LIU Baodong

AUDIT COMMITTEE

Ms. CAO Qian (*Chair*)
Dr. LI Wanshou
Mr. Frank CHRISTIAENS

REMUNERATION COMMITTEE

Mr. Frank CHRISTIAENS (*Chair*)
Mr. LIU Baodong
Dr. LI Wanshou

NOMINATION COMMITTEE

Mr. ZHENG Fushuang (*Chair*)
Dr. LI Wanshou
Ms. CAO Qian

COMPLIANCE ADVISER

TC Capital International Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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152-155 Connaught Road Central
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN PRC

China Digital Video Technical Plaza
No. 131 West Fourth Ring Road N
Haidian District
Beijing
PRC

GEM STOCK CODE

8280

CORPORATE INFORMATION

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

FINANCIAL HIGHLIGHTS

- Our revenue decreased by 24.3% to RMB161.6 million for the 2018 Interim Period from RMB213.4 million for the 2017 Interim Period.
- We recorded a loss of RMB17.8 million for the 2018 Interim Period as compared to a loss of RMB41.3 million for the 2017 Interim Period.
- Our Directors do not recommend the payment of interim dividend for the 2018 Interim Period (2017 Interim Period: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

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 22 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 2018 (the “**2018 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 Co., Ltd. (上海文化廣播影視集團有限公司).

Two of our products, namely the Dunhuang visual effects comprising system DX3.0 (敦煌視覺效果合成系統DX3.0) (the “**Dunhuang System**”) and Yuntu omnimedia convergence data presentation media (雲圖融合媒體數據呈現系統) (the “**Omnimedia Convergence System**”), earned the award of Product Innovation Excellence Award (2018 CCBN 產品創新傑出獎) in the 26th China Content Broadcasting Network Exhibition - CCBN2018 during the 2018 Interim Period. The Omnimedia Convergence System helps our customers to transform news sourcing production system based on traditional platforms into a platform that is capable of sourcing news contents using both traditional and new mobile-based platforms. After the implementation of the Omnimedia Convergence System, our customers will be able to produce media contents that better satisfy the need of the audience for the latest news from the widest variety of sources. The Dunhuang System has a more comprehensive and advanced set of functions targeting more sophisticated and high-ended customers.

On 13 June 2018, China Digital Video (Beijing) Limited (新奧特(北京)視頻技術有限公司) (“**CDV WFOE**”), an indirectly wholly-owned subsidiary of the Company, Zheng Miaoling, an independent third party, and Beijing Tianmei Global Technology Company Limited* (北京天美環球科技有限公司) (“**Tianmei Technology**”) entered into several contracts for establishing a variable interest entity arrangement (the “**VIE Arrangement**”). The VIE Arrangement allows CDV WFOE to have effective control over the operations and the entire economic interest and benefits of Tianmei Technology, an investment holding company that is expected to invest in the radio and television program production in the PRC. Upon the establishment of the VIE Arrangement, the financial results of Tianmei Technology had been consolidated into the financial statements of the Group and Tianmei Technology has become a subsidiary of the Company. For further details, please refer to the announcement of the Company dated 13 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

We recorded a total revenue of RMB161.6 million for the 2018 Interim Period, representing a decrease of 24.3% from RMB213.4 million for the six months ended 30 June 2017 (the “2017 Interim Period”). We recorded a loss of RMB17.8 million for the 2018 Interim Period as compared to a loss of RMB41.3 million in the 2017 Interim Period. Such loss was primarily attributable to the overall declining market condition as we face intense competition from the internet and we experienced significant decrease in revenue from the sale of solutions during the 2018 Interim Period.

Our cost of sales decreased by 14.4% to RMB118.4 million for the 2018 Interim Period as compared to RMB138.3 million for the 2017 Interim Period. Our gross profit margin decreased from 35.2% for the 2017 Interim Period to 26.7% for the 2018 Interim Period. Such decrease was mainly attributable to the decrease of revenue while the fixed cost comprising part of the cost of sales remained relatively stable.

Our loss for the period decreased by 56.8% to approximately RMB17.8 million for the 2018 Interim Period from RMB41.3 million for the 2017 Interim Period. The decrease in loss was mainly attributable to the decrease in research and development expenses and the significant decrease of share-based compensation expense during the 2018 Interim Period.

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. Our revenue decreased by 24.3% to RMB161.6 million for the 2018 Interim Period from RMB213.4 million for the 2017 Interim Period. The decrease of revenue was mainly attributable to the overall declining market condition as the traditional TV broadcasting industry face intense competition from the internet and we experienced significant decrease in revenue from the sale of solutions during the 2018 Interim Period.

Cost of Sales

Our cost of sales decreased by 14.4% to RMB118.4 million for the 2018 Interim Period from RMB138.3 million for the 2017 Interim Period as a result of the decrease in revenue in 2018 Interim Period.

Gross Profit and Gross Profit Margin

Our gross profit represents revenue less cost of sales. Our gross profit decreased by 42.6% to RMB43.1 million for the 2018 Interim Period from RMB75.1 million for the 2017 Interim Period, and our gross profit margin decreased to 26.7% for the 2018 Interim Period from 35.2% for the 2017 Interim Period. The decrease was primarily attributable to the decrease of revenue while the fixed cost comprising part of the cost of sales remained relatively stable.

Other Income

Other income decrease by 28.9% to RMB11.4 million for the 2018 Interim Period from RMB16 million for the 2017 Interim Period as a result of the decrease in value-add tax refunds in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Marketing Expenses

Our selling and marketing expenses remained relatively stable at RMB34.1 million for the 2018 Interim Period and RMB33.7 million for 2017 Interim Period. The slight increase was primarily due to the increase in our business promotion activities.

Administrative Expenses

Our administrative expenses decreased by 12.4% to RMB18.8 million for the 2018 Interim Period from RMB21.4 million for the 2017 Interim Period, primarily due to decrease in our staff costs.

Share-Based Compensation Expense

During the 2018 Interim Period, we recorded a share-based compensation expense of RMB6.3 million in connection with the operation of the Pre-IPO Share Option Scheme of the Company adopted in 2010 (the “**Pre-IPO Share Option Scheme**”), share option scheme of the Company adopted in 2017 (the “**Share Option Scheme**”) and share award scheme of the Company adopted in 2017 (the “**Share Award Scheme**”). During the 2017 Interim Period, we recognized share-based compensation expense of RMB51.8 million.

Research and Development Expenses

Our research and development expenses decreased by 61.1% to RMB7.7 million for the 2018 Interim Period from approximately RMB19.9 million for the 2017 Interim Period, primarily due to the expenses having been capitalised as costs of intangible assets.

Finance Costs

Our finance costs increased by 164.2% to RMB6.1 million for the 2018 Interim Period from RMB2.3 million for the 2017 Interim Period, primarily since we were granted new short-term loans during the 2018 Interim Period.

Loss before Income Tax

As a result of the foregoing factors, we recorded a loss before income tax of RMB18.6 million for the 2018 Interim Period as compared to a loss before income tax of RMB38.1 million for the 2017 Interim Period.

Income Tax Credit/(Expense)

We recorded the income tax credit of RMB0.8 million for the 2018 Interim Period while we recorded income tax expenses of RMB3.2 million for the 2017 Interim Period as a result of the decrease in profit for the 2018 Interim Period.

Loss for the Period

As a result of the foregoing factors, we recorded a loss of RMB17.8 million for the 2018 Interim Period as compared to a loss of RMB41.3 million for the 2017 Interim Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Comprehensive Income/(Loss)

We recorded other comprehensive income of RMB3.7 million for the 2018 Interim Period as compared to other comprehensive loss of RMB7.8 million for the 2017 Interim Period, which was primarily due to fluctuations in foreign exchange rates.

Total Comprehensive Loss for the Period

We recorded a total comprehensive loss of RMB14.1 million for the 2018 Interim Period as compared to a total comprehensive loss of RMB49.1 million for the 2017 Interim Period, which was resulted from the decrease in research and development expenses and the significant decrease in shared-based compensation expense during the 2018 Interim Period.

Loss Attributable to Equitable Holders of the Company

Loss attributable to equitable holders of the Company totaled RMB17.8 million for the 2018 Interim Period as compared a loss attributable to equitable holders of the Company of totaled RMB39.1 million for the 2017 Interim Period.

ANALYSIS ON INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Non-current Assets

As at 30 June 2018, our non-current assets were RMB291.4 million (as compared to RMB271.9 million as at 31 December 2017), primarily consisting of intangible assets of RMB162.2 million (as compared to RMB144.0 million as at 31 December 2017), goodwill of RMB74.2 million (as compared to RMB74.2 million as at 31 December 2017) and deferred tax assets of RMB21.0 million (as compared to RMB18.5 million as at 31 December 2017).

Current Assets

As at 30 June 2018, our current assets were RMB1,081.6 million (as compared to RMB1,038.5 million as at 31 December 2017), primarily consisting of trade and other receivables of RMB659.3 million (as compared to RMB582.9 million as at 31 December 2017), bank balances and cash of RMB258.7 million (as compared to RMB298.3 million as at 31 December 2017), restricted bank deposits of RMB14.0 million (as compared to RMB13.5 million as at 31 December 2017), pledged bank deposits of RMB112.5 million (as compared to RMB111.1 million as at 31 December 2017) and inventories of RMB37.1 million (as compared to RMB32.7 million as at 31 December 2017).

Current Liabilities

As at 30 June 2018, our current liabilities amounted to RMB638.1 million (as compared to RMB554.9 million as at 31 December 2017), primarily consisting of trade and other payables of RMB388.5 million (as compared to RMB330.5 million as at 31 December 2017), contract liabilities of RMB14.9 million (as compared to nil as at 31 December 2017), income tax liabilities of RMB7.8 million (as compared to RMB7.8 million as at 31 December 2017) and other interest-bearing borrowings of RMB226.9 million (as compared to RMB216.6 million as at 31 December 2017).

Non-current Liabilities

As at 30 June 2018, our non-current liabilities, consisting of deferred tax liabilities only, amounted to RMB3.9 million (as compared to RMB4.2 million as at 31 December 2017).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the 2018 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 RMB61.7 million during the 2018 Interim Period as compared to the cash used in operating activities in the amount of RMB15.8 million during the 2017 Interim Period. As at 30 June 2018, we had (i) bank balances and cash of RMB258.7 million (as compared to RMB298.3 million as at 31 December 2017), and (ii) interest-bearing bank and other borrowings of RMB226.9 million (as compared to RMB216.6 million as at 31 December 2017), which were denominated in Renminbi and U.S. dollars bearing fixed and floating interest rates of 5.5% and 3% per annum, respectively. All of our bank borrowings and other borrowings as at 30 June 2018 are repayable within one year.

The gearing ratio of our Group (calculated as total borrowings divided by total equity) was 31.0% as at 30 June 2018 (31 December 2017: 28.8%).

During the 2018 Interim Period, we did not employ any financial instrument for hedging purposes.

COMMITMENTS

As at 30 June 2018, we had operating lease commitments in respect of rented office and various residential properties of approximately RMB76,000 (as at 31 December 2017: RMB7.6 million). As at 30 June 2018, we did not have any capital commitments (as at 31 December 2017: RMB15 million).

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

We had made no significant investment, material acquisitions and disposal of subsidiaries, associates and joint ventures during the 2018 Interim Period.

INTERESTS IN JOINT VENTURES

As at 30 June 2018, we had interests in joint venture of RMB16.2 million (as at 30 June 2017: RMB16.2 million). The Group's interests in the joint ventures, which are accounted for using the equity method, represent its investments in Beijing Yue Ying Technology Co., Ltd (北京悦影科技有限公司)(“**Beijing Yueying**”), CDV (Beijing) Yun Duan Technology Co., Ltd. (新奥特(北京)雲端科技有限公司)(“**Xin'aote Cloud**”) and Beijing Meicam Network Technology Co., Ltd (北京美攝網絡科技有限公司)(“**Beijing Meicam**”) (collectively, the “**Joint Ventures**”). All of the Joint Ventures are unlisted corporate entities. As at 30 June 2018 and 31 December 2017, the Group's share of losses exceeds its interests in Beijing Yueying and Xin'aote Cloud, 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. The share of loss from Beijing Meicam by the Group for the 2018 Interim Period was immaterial.

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

During the 2018 Interim Period, we did not have plans for material investments or acquisition of capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2018, we did not have significant foreign currency risk from our operations. During the 2018 Interim Period, we did not enter into any arrangements to hedge against any fluctuation in foreign currency.

CHARGE ON ASSETS

As at 30 June 2018, we had restricted and pledged deposit of RMB126.5 million (as at 31 December 2017: RMB124.6 million) held in banks for the purpose of contract related deposits or payments, guarantees issued for trade finance facilities and security of bank borrowings.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the prospectus of the Company dated 15 June 2016 (the "Prospectus") with our actual business progress for the 2018 Interim Period is set out below:

| Business Objectives | Actual Progress |
|--|---|
| <ul style="list-style-type: none"> enter into additional omnimedia and cloud-based solutions with major customers and popularise both solutions in the digital video market in China | We have entered into several omnimedia solution contracts with major customers during the 2018 Interim Period. |
| <ul style="list-style-type: none"> expand the capabilities of cloud service based on SaaS model | We have launched cloud services products in 2017. |
| <ul style="list-style-type: none"> complete one to two internal research and development ("R&D") projects for potential spin-offs as start-ups | Due to the lack of ideal target for the development, we have not yet identified suitable R&D projects for eventual spin-offs. |
| <ul style="list-style-type: none"> establish a R&D center in Chengdu, China, which is expected to focus on the fundamental research of digital video technologies, such as design and optimisation of software algorithm and architecture | We are committed to allocate more resources on the fundamental research of digital video technologies as we did not locate a suitable location and appropriate personnel for the R&D center in Chengdu. |
| <ul style="list-style-type: none"> initiate search for international investment and acquisition opportunities | We have been approaching various investment opportunities and did not reach eventual consensus due to various commercial consideration, and we have not yet identified suitable international investment and acquisition opportunities. |

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business, the actual situation and industry.

MANAGEMENT DISCUSSION AND ANALYSIS

The Directors will constantly evaluate the Group's business objective and will change or modify plans against the changing market condition to ascertain the business growth of the Group.

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 2018, we had 852 full-time employees and 39 dispatched workers (30 June 2017: 1,075 full-time employees and 26 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the six months ended 30 June 2018 and 30 June 2017, the remuneration expense, excluding share-based compensation expense, were approximately RMB68.7 million and RMB70.1 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 2018, we did not have any material contingent liabilities (31 December 2017: 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 the Directors has the pleasure in submitting the interim report together with the unaudited condensed consolidated financial statements of the Group for the 2018 Interim Period.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of an interim dividend for the 2018 Interim Period (2017 Interim Period: nil).

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

During the 2018 Interim Period, the Company repurchased a total of 1,136,000 ordinary shares of the Company on the Stock Exchange. As at 13 April 2018, all of such repurchased shares were cancelled. The details of the repurchases were disclosed as follows:

| Date of Repurchase | Number of Shares Repurchased | Repurchased Price | | Total Consideration Paid* (HK\$) |
|--------------------|------------------------------|-------------------|---------------|----------------------------------|
| | | Highest (HK\$) | Lowest (HK\$) | |
| 3 January 2018 | 36,000 | 0.84 | 0.84 | 30,240 |
| 8 January 2018 | 60,000 | 0.89 | 0.87 | 52,700 |
| 9 January 2018 | 22,000 | 0.86 | 0.86 | 18,920 |
| 10 January 2018 | 24,000 | 0.86 | 0.85 | 20,500 |
| 11 January 2018 | 72,000 | 0.86 | 0.86 | 61,920 |
| 12 January 2018 | 60,000 | 0.90 | 0.86 | 52,440 |
| 15 January 2018 | 36,000 | 0.90 | 0.89 | 32,200 |
| 16 January 2018 | 192,000 | 0.90 | 0.86 | 167,580 |
| 17 January 2018 | 184,000 | 0.88 | 0.85 | 158,180 |
| 18 January 2018 | 60,000 | 0.85 | 0.83 | 50,600 |
| 19 January 2018 | 50,000 | 0.86 | 0.83 | 41,900 |
| 22 January 2018 | 10,000 | 0.86 | 0.86 | 8,600 |
| 12 February 2018 | 44,000 | 0.77 | 0.72 | 32,880 |
| 13 February 2018 | 196,000 | 0.82 | 0.78 | 153,960 |
| 14 February 2018 | 90,000 | 0.81 | 0.78 | 71,020 |
| Total | 1,136,000 | | | 953,640 |

* Excluding brokerage and cancellation fee

The Board considered that the value of the Shares was undervalued and believed that through repurchase of Shares, the financial key performance indicators would improve.

Saved as disclosed herein, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the 2018 Interim Period.

REPORT OF THE DIRECTORS

EVENT AFTER THE REPORTING PERIOD

There is no significant event since 30 June 2018 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 2018, 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 ¹ | 214,278,278 | 33.99% |
| Mr. Liu Baodong | Beneficial owner ² | 31,237,338 | 4.96% |
| Mr. Xu Da | Beneficial owner ³ | 6,200,000 | 0.98% |
| Mr. Frank Christiaens | Beneficial owner ⁴ | 750,596 | 0.12% |
| Ms. Cao Qian | Beneficial owner ³ | 300,000 | 0.05% |

Notes:

- 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 Limited, 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.
- 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.
- Interests in options granted pursuant to the Share Option Scheme.
- 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.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 30 June 2018, 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.

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

As at 30 June 2018, 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 ¹ | 214,278,278 | 33.99% |
| HSBC International Trustee Limited | Trust and interest of controlled corporation ² | 214,278,278 | 33.99% |
| ZFS Holdings Limited | Interest of controlled corporation ² | 214,278,278 | 33.99% |
| Wing Success Holdings Limited | Legal owner and beneficial owner | 214,278,278 | 33.99% |
| Eagle Eyes Investment Limited | Interest of controlled corporation | 98,098,000 | 15.56% |
| New Horizon Capital IV, L.P. | Interest of controlled corporation | 98,098,000 | 15.56% |
| New Horizon Capital Partners III, L.P. | Interest of controlled corporation | 98,098,000 | 15.56% |
| Carvillo Success Limited | Legal owner and beneficial owner | 98,098,000 | 15.56% |

Notes:

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

REPORT OF THE DIRECTORS

Save as disclosed above, as at 30 June 2018, 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 was granted under the Pre-IPO Share Option Scheme during the 2018 Interim Period.

Outstanding Share Options

From 1 January 2018 to 30 June 2018, 60,079 pre-IPO share options have been lapsed. As at 30 June 2018, there were a total of 76,345,954 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 2018. Save as set out above, no other share options have been or would be granted by us during the 2018 Interim Period pursuant to the Pre-IPO Share Option Scheme.

| Grantees | Date of grant | Exercise Period | Exercise price (US\$) | Number of Shares represented by options as at 1 January 2018 | Exercised during Lapsed period | Lapsed during the period | Number of unvested option | Number of vested options | Number of Shares represented by options at 30 June 2018 | Approximate Percentage of issued share capital of the Company |
|---|---------------|-----------------------|-----------------------|--|--------------------------------|--------------------------|---------------------------|--------------------------|---|---|
| Directors of the Company | | | | | | | | | | |
| Liu Baodong | 01/01/2011 | 01/01/2015-31/12/2021 | 1.16 | 14,118,669 | — | — | — | 14,118,669 | 14,118,669 | 2.24% |
| Frank Christiaens | 01/01/2011 | 01/01/2014-31/12/2021 | 1.16 | 450,596 | — | — | — | 450,596 | 450,596 | 0.07% |
| Senior management of the Company | | | | | | | | | | |
| 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 | 0.68% |

REPORT OF THE DIRECTORS

| Grantees | Date of grant | Exercise Period | Exercise price (US\$) | Number of Shares represented by options as at 1 January 2018 | Exercised during Lapsed period | Lapsed during the period | Number of unvested option | Number of vested options | Number of Shares represented by options at 30 June 2018 | Approximate Percentage of issued share capital of the Company |
|--------------------------------|---------------|-----------------------|-----------------------|--|--------------------------------|--------------------------|---------------------------|--------------------------|---|---|
| Other employees of the Company | 01/01/2011 | 01/01/2015-31/12/2021 | 1.16 | 52,118,918 | – | 60,079 | – | 52,058,839 | 52,058,839 | 8.26% |
| | 01/10/2015 | 01/10/2016-31/12/2021 | 0.00001 | 4,505,958 | – | – | 1,351,787 ¹ | 3,154,171 | 4,505,958 | 0.71% |
| Total | | | | 76,406,033 | – | 60,079 | 1,351,787 | 74,994,167 | 76,345,954 | 12.11% |

Notes:

- The options 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 18 May 2017, being a total of 62,000,000 Shares.

REPORT OF THE DIRECTORS

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.

The following details the options granted (the "Granted Options") pursuant to the Share Option Scheme but not yet exercised as at 30 June 2018. 187,600 options were lapsed during the six months ended 30 June 2018.

| Grantee | Date of grant | Number of share options outstanding as at 1 January 2018 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 2018 | Number of options lapsed during the six months ended 30 June 2018 | Number of options outstanding as at 30 June 2018 | Approximate percentage of shareholding upon fully exercise of share options |
|---|---------------|---|--|--------------------------|---|--|---|--|---|
| Executive Directors | | | | | | | | | |
| Liu Baodong | 24 May 2017 | 3,000,000 | HK\$1.31 | HK\$1.33 | 24 May 2017 to 17 May 2027 ² | – | – | 3,000,000 | 0.48% |
| Xu Da | 24 May 2017 | 6,200,000 | HK\$1.31 | HK\$1.33 | 24 May 2017 to 17 May 2027 ² | – | – | 6,200,000 | 0.98% |
| Independent non-executive Directors | | | | | | | | | |
| Frank Christiaens | 24 May 2017 | 300,000 | HK\$1.31 | HK\$1.33 | 24 May 2017 to 17 May 2027 | – | – | 300,000 | 0.05% |
| Cao Qian | 24 May 2017 | 300,000 | HK\$1.31 | HK\$1.33 | 24 May 2017 to 17 May 2027 | – | – | 300,000 | 0.05% |
| Other employees and consultants of the Group | 24 May 2017 | 52,170,000 | HK\$1.31 | HK\$1.33 | 24 May 2017 to 17 May 2027 | – | 187,600 | 51,982,400 | 8.23% |

REPORT OF THE DIRECTORS

Notes:

1. The options were granted on 24 May 2017. For full details of the Share Option Scheme, please refer to note 16(b) to the condensed consolidated interim financial information on pages 48 to 50 of this report.
2. The option under the Share Option Scheme were vested as follows:
 - On the date of grant: 40% vested
 - On the first anniversary of the date of grant (i.e. 11 April 2018): 30% vested
 - On the second anniversary of the date of grant (i.e. 11 April 2019): 30% vested

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.

On 30 August 2017, 12,000,000 awarded shares were issued by the Company to the Trustee under the Share Award Scheme. The 12,000,000 awarded shares shall vest in the grantees subject to the vesting scale under the grant letter.

During the six months ended 30 June 2018, 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.

REPORT OF THE DIRECTORS

COMPETING BUSINESSES

For the 2018 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.

Mr. Zheng Fushuang (“**Mr. Zheng**”) was appointed as the chief executive officer of the Company (the “**CEO**”) with effect from 3 April 2018 and Mr. Zheng now serves as both of the Chairman and the CEO of the Company. Such practice deviates from code provision A.2.1 of the Corporate Governance Code. The Board believes that vesting the roles of both the Chairman and the CEO in the same person can facilitate the execution of the Group’s business strategies and boost effectiveness of its operation. The Board is comprised of three executive Directors and three independent non-executive Directors, which is appropriately structured to ensure that there is a balance of power to provide sufficient checks to protect the interests of the Company and its shareholders. Therefore, the Board considers that the deviation from the code provision A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

Saved as disclosed above, 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 2018 up 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 during the 2018 Interim Period and up to the date of this Interim Report. No incident of non-compliance was noted by the Company during this period.

INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by the Company’s compliance adviser, TC Capital International Limited (“**TC Capital**”), save as the compliance adviser agreement entered into between the Company and TC Capital dated 27 February 2018, none of TC Capital 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.

REPORT OF THE DIRECTORS

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, Dr. Li Wanshou and Mr. Frank Christiaens and is chaired by Ms. Cao Qian.

The audit committee has reviewed the unaudited interim financial statements for the 2018 Interim Period and is of the opinion that (i) the unaudited financial statements of the Group for the 2018 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 three executive Directors and three independent non-executive Directors. The Directors have no financial, business, family or other material/relevant relationships with one another.

With effect from 28 June 2018, Mr. Guo Langhua resigned as an executive Director, vice chairman of the Board and a member of the remuneration committee of the Company and Mr. Zhang Yaqin resigned as an independent non-executive Director and a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Each of Mr. Guo Langhua and Mr. Zhang Yaqin has confirmed that there is no disagreement with the Board and there is no matter in respect of his retirement as a Director that needs to be brought to the attention of our Shareholders of the Stock Exchange.

With effect from 28 June 2018, Mr. Liu Baodong was appointed as a member of the remuneration committee of the Company and Dr. Li Wanshou was appointed as an independent non-executive Director and a member of each of the remuneration committee, the audit committee and the nomination committee of the Company.

By order of the Board

China Digital Video Holdings Limited

ZHENG Fushuang

Chairman and Chief Executive Officer

Hong Kong, 8 August 2018

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

| | Notes | (Unaudited) | | (Unaudited) | |
|---|-------|----------------------------|----------|--------------------------|-----------|
| | | Three months ended 30 June | 2017 | Six months ended 30 June | 2017 |
| | | 2018 | 2017 | 2018 | 2017 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 4 | 99,727 | 107,750 | 161,572 | 213,379 |
| Cost of sales | | (73,937) | (60,093) | (118,447) | (138,312) |
| Gross profit | | 25,790 | 47,657 | 43,125 | 75,067 |
| Other income | 5 | 5,629 | 9,150 | 11,373 | 16,000 |
| Selling and marketing expenses | | (14,259) | (16,869) | (34,147) | (33,694) |
| Administrative expenses | | (10,002) | (12,566) | (18,783) | (21,442) |
| Share-based compensation expense | 16 | (2,615) | (20,021) | (6,312) | (51,820) |
| Research and development expenses | | (3,599) | (5,801) | (7,737) | (19,890) |
| Finance costs | 6 | (3,507) | (1,421) | (6,131) | (2,321) |
| Share of losses of joint ventures | 12 | (86) | — | — | — |
| (Loss)/Profit before income tax | 6 | (2,649) | 129 | (18,612) | (38,100) |
| Income tax credit/(expense) | 7 | 315 | (1,908) | 794 | (3,158) |
| Loss for the period | | (2,334) | (1,779) | (17,818) | (41,258) |
| Other comprehensive income/(loss) | | | | | |
| Items that may be subsequently reclassified to profit or loss: | | | | | |
| Exchange difference arising on the translation of foreign operation | | 15,173 | (5,988) | 3,672 | (7,798) |
| Total comprehensive income/(loss) for the period | | 12,839 | (7,767) | (14,146) | (49,056) |
| Loss for the period attributable to: | | | | | |
| Equity holders of the Company | | (2,334) | (949) | (17,818) | (39,093) |
| Non-controlling interests | | — | (830) | — | (2,165) |
| | | (2,334) | (1,779) | (17,818) | (41,258) |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

| | Note | (Unaudited) | | (Unaudited) | |
|--|------|----------------------------|----------------|--------------------------|-----------------|
| | | Three months ended 30 June | 2017 | Six months ended 30 June | 2017 |
| | | 2018 | 2017 | 2018 | 2017 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total comprehensive income/(loss) for the period attributable to: | | | | | |
| Equity holders of the Company | | 12,839 | (6,937) | (14,146) | (46,891) |
| Non-controlling interests | | — | (830) | — | (2,165) |
| | | <u>12,839</u> | <u>(7,767)</u> | <u>(14,146)</u> | <u>(49,056)</u> |
| Loss per share for loss attributable to equity holders of the Company (expressed in RMB cents per share) | | | | | |
| | 9 | | | | |
| Basic | | <u>(0.38)</u> | <u>(0.15)</u> | <u>(2.88)</u> | <u>(6.31)</u> |
| Diluted | | <u>(0.38)</u> | <u>(0.15)</u> | <u>(2.88)</u> | <u>(6.31)</u> |

The notes on pages 29 to 55 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

| | Note | (Unaudited) As at 30 June 2018 RMB'000 | (Audited) As at 31 December 2017 RMB'000 |
|---|------|--|--|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 2,795 | 3,946 |
| Intangible assets | 11 | 162,194 | 143,998 |
| Goodwill | | 74,220 | 74,220 |
| Interests in joint ventures | 12 | 16,235 | 16,235 |
| Equity investments | | 15,000 | 15,000 |
| Deferred tax assets | | 20,984 | 18,470 |
| | | 291,428 | 271,869 |
| Current assets | | | |
| Inventories | | 37,110 | 32,716 |
| Trade and other receivables | 13 | 659,294 | 582,875 |
| Restricted bank deposits | | 13,991 | 13,507 |
| Pledged bank deposits | | 112,482 | 111,081 |
| Bank balances and cash | | 258,675 | 298,344 |
| | | 1,081,552 | 1,038,523 |
| Current liabilities | | | |
| Trade and other payables | 14 | 388,527 | 330,450 |
| Contract liabilities | | 14,869 | — |
| Income tax liabilities | | 7,825 | 7,825 |
| Other interest-bearing borrowings | | 226,920 | 216,627 |
| | | 638,141 | 554,902 |
| Net current assets | | 443,411 | 483,621 |
| Total assets less current liabilities | | 734,839 | 755,490 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 3,861 | 4,235 |
| Net assets | | 730,978 | 751,255 |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 15 | 43 | 43 |
| Reserves | | 730,935 | 751,212 |
| Total equity | | 730,978 | 751,255 |

The notes on pages 29 to 55 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

| | Equity attributable to equity holders of the Company | | | | | | | | | | |
|--|--|-----------------|---------------|-------------------|---------------------|----------------------|---------------|-------------------|-------------|---------------------------|--------------|
| | Share capital | Treasury shares | Share premium | Statutory reserve | Translation reserve | Share option reserve | Other reserve | Retained earnings | Sub-total | Non-controlling interests | Total equity |
| | 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 2018 | 43 | (1) | 588,503 | 28,982 | (12,531) | 55,842 | 41,398 | 49,019 | 751,255 | – | 751,255 |
| IFRS 9 and IFRS 15 adjustments on retained earnings | – | – | – | – | – | – | – | (11,656) | (11,656) | – | (11,656) |
| Balance as at 1 January 2018 (adjusted) | 43 | (1) | 588,503 | 28,982 | (12,531) | 55,842 | 41,398 | 37,363 | 739,599 | – | 739,599 |
| Comprehensive loss for the period | | | | | | | | | | | |
| Loss for the period | – | – | – | – | – | – | – | (17,818) | (17,818) | – | (17,818) |
| Other comprehensive income for the period | – | – | – | – | 3,672 | – | – | – | 3,672 | – | 3,672 |
| Total comprehensive income/(loss) for the period | – | – | – | – | 3,672 | – | – | (17,818) | (14,146) | – | (14,146) |
| Transactions with owners | | | | | | | | | | | |
| Share repurchased and cancelled (Note 15(ii)) | – | – | (787) | – | – | – | – | – | (787) | – | (787) |
| Share-based compensation (Note 16) | – | – | – | – | – | 4,148 | 2,164 | – | 6,312 | – | 6,312 |
| Transfer upon forfeiture of share options | – | – | – | – | – | (26) | – | 26 | – | – | – |
| Total transactions with owners | – | – | (787) | – | – | 4,122 | 2,164 | 26 | 5,525 | – | 5,525 |
| Balance at 30 June 2018 (Unaudited) | 43 | (1) | 587,716 | 28,982 | (8,859) | 59,964 | 43,562 | 19,571 | 730,978 | – | 730,978 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

| | Equity attributable to equity holders of the Company | | | | | | | | | | |
|--|--|-----------------|---------------|-------------------|---------------------|----------------------|---------------|-------------------|-------------|---------------------------|--------------|
| | Share capital | Treasury shares | Share premium | Statutory reserve | Translation reserve | Share option reserve | Other reserve | Retained earnings | Sub-total | Non-controlling interests | Total equity |
| | 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 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 16) | – | – | – | – | – | 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 (Unaudited) | 42 | – | 588,902 | 32,380 | (5,321) | 48,373 | 37,846 | 96,859 | 799,081 | (11,564) | 787,517 |

The notes on pages 29 to 55 are an integral part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

| | (Unaudited) | |
|--|--------------------------|-----------------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Cash flows from operating activities | | |
| Loss before income tax | (18,612) | (38,100) |
| Adjustments for non-cash items | 22,300 | 63,360 |
| Operating profit before working capital changes | 3,688 | 25,260 |
| Net changes in working capitals | (65,400) | (34,517) |
| Cash used in operations | (61,712) | (9,257) |
| Income tax paid | — | (6,554) |
| Net cash used in operating activities | (61,712) | (15,811) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (20) | (5,656) |
| Purchase of intangible assets | — | (35,517) |
| Addition in development costs through internal development | (27,463) | (19,031) |
| Withdrawal of structured deposits | — | 80,000 |
| (Increase)/Decrease in time deposits with original maturities exceeding three months | (10,000) | 8,075 |
| Proceed of disposal of available-for-sale financial assets | — | 63,000 |
| Other investing activities | 19,390 | 11,221 |
| Net cash (used in)/from investing activities | (18,093) | 102,092 |
| Cash flows from financing activities | | |
| Other financing activities | 28,640 | (15,949) |
| Net cash from/(used in) financing activities | 28,640 | (15,949) |
| Net (decrease)/increase in cash and cash equivalents | (51,165) | 70,332 |
| Cash and cash equivalents at beginning of period | 63,344 | 21,109 |
| Effect of foreign exchange rate changes on cash and cash equivalents held | 1,496 | (1,219) |
| Cash and cash equivalents at end of period | 13,675 | 90,222 |
| Analysis of balances of cash and cash equivalents: | | |
| Bank balances and cash | 258,675 | 157,643 |
| Less: time deposits with original maturities exceeding three months | (245,000) | (67,421) |
| Cash and cash equivalents at end of period | 13,675 | 90,222 |

The notes on pages 29 to 55 are an integral part of this interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 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 2018 (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 2018.

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 2017 except for the adoption of the amendments to International Financial Reporting Standards (“**IFRSs**”) that have become effective for accounting period beginning on 1 January 2018.

The Group has applied all the new and amended to standards, which are mandatory for the financial year beginning 1 January 2018. The adoption had no material impact on how the results and financial position for the current and prior periods have been prepared and presented, except the new IFRSs as described below:

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. BASIS OF PREPARATION – *continued*

IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement”. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an “expected credit loss” (“**ECL**”) model for the impairment of financial assets.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities’ risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The impairment of financial assets applying the ECL model and it applies to the Group’s trade and other receivables. For contract assets arising from IFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime ECL as these items do not have a significant financing components. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group’s unquoted equity investment previously classified as available-for-sale financial assets were reclassified as financial asset with fair value change through other comprehensive income. The cash flows of the investment does not solely payments of principal and interest. The Group classified the equity investment as financial asset measured at fair value and elected to present any changes in the fair value in other comprehensive income, because the investment is held as long-term strategic investment that are not expected to be sold in the short to medium term.

In current period, the Group has elected to use the cumulative effect transition method for the adoption of IFRS 9 with cumulative effect of initial application recognised in the opening balance of equity at 1 January 2018.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 and the related clarification to IFRS 15 (hereinafter referred to as “**IFRS 15**”) presents new requirements for the recognition of revenue, replacing IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and several revenue-related Interpretations. IFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

Previously, the Group’s revenue arising from solution sales and provision of services are recognised over time, whereas revenue from products sales is generally recognised when the risks and rewards of ownership have passed to the customers. Under the transfer-of-control approach in IFRS 15, revenue arising from solution sales will need to be recognised at a point of time when the solution is delivered to the customers and the relevant installation services are fully performed. This results in revenue, and some associated costs, for those contracts being recognised later as the Group previously recognised the revenue from solution sales by using “percentage of completion method”.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2. BASIS OF PREPARATION – *continued*

IFRS 15 “Revenue from Contracts with Customers” – *continued*

For contracts with multiple performance obligations including, but not limited to, goods delivery, installation and training and warranty, revenue is recognised for each of these performance obligations when control over the corresponding goods and services is transferred for the customers. Under IFRS 15, the Group evaluates the separability of the promised goods or services based on whether they are distinct.

The Group has elected to use the cumulative effect transition method for the adoption of IFRS 15 with cumulative effect of initial application recognised in the opening balance of equity at 1 January 2018.

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 2017.

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

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 2017, with the exception of the below changes:

Measurement of impairment loss on trade and other receivables

Credit losses are the difference between all contractual cash flows the Group is due and the cash flows that it actually expects to receive. An expected credit loss is the probability-weighted estimate of credit losses which requires the Group’s judgement. Where the actual result is different from the original estimate, such difference with impact the carrying amount of the trade and other receivables and impairment loss in the period in which such estimate has been changed.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 | |
| | 2018 | 2017 | 2018 | 2017 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Solutions | 52,878 | 76,457 | 94,162 | 160,858 |
| Services | 15,904 | 16,900 | 30,975 | 32,270 |
| Products | 30,945 | 14,393 | 36,435 | 20,251 |
| | 99,727 | 107,750 | 161,572 | 213,379 |

Geographical information

The Group primarily operates in the PRC. As at 31 December 2017 and 30 June 2018, substantially all of the non-current assets (other than financial instruments and deferred tax assets) of the Group were located in the PRC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

5. OTHER INCOME

| | (Unaudited) | | (Unaudited) | |
|---|----------------------------|--------------|--------------------------|---------------|
| | Three months ended 30 June | | Six months ended 30 June | |
| | 2018 | 2017 | 2018 | 2017 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Other revenue | | | | |
| Interest income | 2,024 | 2,710 | 4,044 | 2,970 |
| Reversal of provision for impairment loss on trade and other receivables | — | 432 | — | 2,907 |
| Value-added tax (“VAT”) refunds (note a) | 2,480 | 4,984 | 6,042 | 9,099 |
| | 4,504 | 8,126 | 10,086 | 14,976 |
| Other net income/gain | | | | |
| Subsidy income from government (note b) | 1,031 | 1,024 | 1,031 | 1,024 |
| Sundry income | 94 | — | 256 | — |
| | 1,125 | 1,024 | 1,287 | 1,024 |
| | 5,629 | 9,150 | 11,373 | 16,000 |

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 2018

6. LOSS BEFORE INCOME TAX

Loss before income tax has been arrived at after charging:

| | (Unaudited) | | (Unaudited) | |
|---|----------------------------|---------------|--------------------------|----------------|
| | Three months ended 30 June | | Six months ended 30 June | |
| | 2018 | 2017 | 2018 | 2017 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Finance costs | | | | |
| Interest on bank and other borrowings, wholly repayable within five years | 3,507 | 1,421 | 6,131 | 2,321 |
| Employee benefit expenses | | | | |
| Salaries, bonus and allowances | 22,141 | 21,081 | 43,306 | 56,293 |
| Retirement benefit scheme contributions | 3,892 | 5,328 | 10,297 | 13,534 |
| Severance payments | — | 73 | 115 | 278 |
| Share-based compensation expense | 2,615 | 20,021 | 6,312 | 51,820 |
| | 28,648 | 46,503 | 60,030 | 121,925 |
| Other items | | | | |
| Cost of software and hardware equipment recognised as an expense | 42,659 | 50,735 | 69,404 | 101,843 |
| Depreciation of property, plant and equipment | 1,695 | 1,078 | 2,635 | 2,260 |
| Amortisation of intangible assets | 6,318 | 5,190 | 9,267 | 7,958 |
| (Reversal)/Provision for impairment loss on trade and other receivables | (1,292) | 3,878 | 1,947 | 4,878 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

7. INCOME TAX (CREDIT)/EXPENSE

| | (Unaudited) | | (Unaudited) | |
|---|----------------------------|--------------|--------------------------|--------------|
| | Three months ended 30 June | | Six months ended 30 June | |
| | 2018 | 2017 | 2018 | 2017 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Current tax - PRC enterprise income tax | | | | |
| Current period | — | 2,227 | — | 3,751 |
| | — | 2,227 | — | 3,751 |
| Deferred tax | | | | |
| Origination and reversal of temporary differences | (427) | (319) | (794) | (593) |
| | (427) | (319) | (794) | (593) |
| Income tax (credit)/expense | (427) | 1,908 | (794) | 3,158 |

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) Hong Kong profits tax

Hong Kong profits tax rate is 16.5%. Hong Kong profits tax has not been provided as the companies within the Group had no estimated assessable profits in Hong Kong for the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

Note: - continued

(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 2015. 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 2015 and continues to enjoy this preferential income tax rate until it no longer meets the requirements of the qualification. In 2017, CDV WFOE enjoyed preferential income tax rate of 15% and continues to enjoy the preferential income tax rate of 15% until year 2018.

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. In 2017, Beijing Zhengqi renewed the HNTE and continues to enjoy the preferential income tax rate of 15% for the years from 2017 to 2019.

8. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

9. LOSS PER SHARE

(a) Basic loss per share

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

| | (Unaudited) Three months ended 30 June | | (Unaudited) Six months ended 30 June | |
|---|---|-----------------|---|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| Loss | | | | |
| Loss used to determine basic loss per share | <u>(2,334)</u> | <u>(949)</u> | <u>(17,818)</u> | <u>(39,093)</u> |

| | (Unaudited) Three months ended 30 June | | (Unaudited) Six months ended 30 June | |
|---|---|----------------|---|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Number of shares (in thousands) | | | | |
| Weighted average number of ordinary shares outstanding for basic loss per share | <u>618,619</u> | <u>620,000</u> | <u>619,041</u> | <u>620,000</u> |

(b) Diluted loss per share

For the three months and six months ended 30 June 2018 and 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 2018 and 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 2018, the Group acquired property, plant and equipment at a cost of RMB2,043,000 (six months ended 30 June 2017: RMB5,656,000), of which RMB2,023,000 (six months ended 30 June 2017: nil) were transferred from the inventories.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

11. INTANGIBLE ASSETS

During the six months ended 30 June 2018, additions to intangible assets by acquisition and capitalisation in respect of development costs amounted to nil (six months ended 30 June 2017: RMB35,517,000) and RMB27,463,000 (six months ended 30 June 2017: RMB19,031,000) respectively.

12. INTERESTS IN JOINT VENTURES

| | (Unaudited) As at 30 June 2018 RMB'000 | (Audited) As at 31 December 2017 RMB'000 |
|---------------------|---|---|
| Share of net assets | 16,235 | 16,235 |

The Group's interests in the joint ventures, which are accounted for using the equity method, represent its investments in Beijing Yue Ying Technology Co., Ltd (北京悦影科技有限公司) ("Beijing Yueying"), CDV (Beijing) Yun Duan Technology Co., Ltd. (新奥特(北京)雲端科技有限公司) ("Xin'aote Cloud") and Beijing Meicam Network Technology Co., Ltd (北京美攝網絡科技有限公司) ("Beijing Meicam") (collectively, the "Joint Ventures"). All of which are unlisted corporate entities whose quoted market price is not available.

As at 30 June 2018 and 31 December 2017, the Group's share of losses exceeds its interests in Beijing Yueying and Xin'aote Cloud, 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. For the six months ended 30 June 2018, the share of loss from Beijing Meicam by the Group was immaterial to the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

13. TRADE AND OTHER RECEIVABLES

| | Notes | (Unaudited) As at 30 June 2018 RMB'000 | (Audited) As at 31 December 2017 RMB'000 |
|---|-------|---|---|
| Trade and bills receivables | | | |
| From third parties | | 490,026 | 454,085 |
| From related parties | | 236 | 8,530 |
| | | 490,262 | 462,615 |
| Less: provision for impairment of trade receivables | | (72,514) | (55,759) |
| | (a) | 417,748 | 406,856 |
| Other receivables | | | |
| Deposits, prepayments and other receivables | (b) | 57,390 | 29,376 |
| Deposit for guarantee certificate over tendering and performance | | 28,967 | 29,650 |
| Loan receivable | | 20,688 | 19,883 |
| Advances to suppliers | | 127,742 | 66,805 |
| Amounts due from related parties | | — | 3,074 |
| Amounts due from joint ventures | | 7,392 | 22,923 |
| VAT receivables | | 563 | 2,330 |
| Advances to employees | | 4,679 | 8,666 |
| | | 247,421 | 182,707 |
| Less: provision for impairment of other receivables | | (5,875) | (6,688) |
| | | 241,546 | 176,019 |
| | | 659,294 | 582,875 |

The directors of the Group considered that the fair values of trade and other receivables which are expected to be recovered within one year 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 2018

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 2018, trade and bills receivables contained retention money receivables (net of provisions) of RMB29,345,000 (31 December 2017: RMB56,984,000). 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) As at 30 June 2018 RMB'000 | (Audited) As at 31 December 2017 RMB'000 |
|-----------------|---|---|
| Billed: | | |
| 0 to 90 days | 101,827 | 30,983 |
| 91 to 180 days | 52,881 | 21,972 |
| 181 to 365 days | 13,713 | 82,119 |
| 1 to 2 years | 130,268 | 89,433 |
| | <u>298,689</u> | <u>224,507</u> |
| Unbilled | 119,059 | 182,349 |
| | <u>417,748</u> | <u>406,856</u> |

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

| | (Unaudited) As at 30 June 2018 RMB'000 | (Audited) As at 31 December 2017 RMB'000 |
|---|---|---|
| Balance at the beginning of the period/year | 55,759 | 32,355 |
| Charged to retained earnings (Note 2) | 13,955 | — |
| Provision for impairment | 6,661 | 35,157 |
| Reversal of provision for impairment | (3,861) | (8,025) |
| Written off as uncollectible | — | (3,728) |
| Balance at the end of the period/year | <u>72,514</u> | <u>55,759</u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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.

Loan receivable

As at 30 June 2018, the Group has a loan receivable of approximately RMB20,688,000 (31 December 2017: RMB19,883,000) from a third party. The loan receivable is secured by a property, carrying fixed interest of 6% per annum and wholly repayable within one year. As at 30 June 2018, the market value of the property is approximately RMB21,330,000 (31 December 2017: RMB20,479,000).

Amounts due from joint ventures/related parties

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

Advances to employees

Advances to employees mainly advances for various expenses and deposits to be incurred in the ordinary course of business.

Provision for impairment of other receivables

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

| | (Unaudited) As at 30 June 2018 RMB'000 | (Audited) As at 31 December 2017 RMB'000 |
|---|---|---|
| Balance at the beginning of the period/year | 6,688 | 4,736 |
| Provision for impairment | — | 2,082 |
| Reversal of provision for impairment | (813) | (130) |
| Balance at the end of the period/year | <u>5,875</u> | <u>6,688</u> |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. TRADE AND OTHER PAYABLES

| | Note | (Unaudited) As at 30 June 2018 RMB'000 | (Audited) As at 31 December 2017 RMB'000 |
|--|------|---|---|
| Trade and bills payables | | | |
| To third parties | (a) | 238,132 | 191,655 |
| Other payables | | | |
| Amounts due to customers for contract work | | — | 206 |
| Advances from customers | | — | 17,498 |
| Other payables and accrued charges | | 39,952 | 28,632 |
| Other tax liabilities | | 79,000 | 72,091 |
| Staff costs and welfare accruals | | 19,031 | 12,532 |
| Amount due to related parties | | 8,747 | 4,171 |
| Deferred income related to government grants | | 3,665 | 3,665 |
| | | 150,935 | 138,795 |
| | | 388,527 | 330,450 |

All amounts are short-term and hence the carrying values of the Group's trade and other payables as at 30 June 2018 and 31 December 2017 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 bill payables based on recognition date is as follows:

| | (Unaudited) As at 30 June 2018 RMB'000 | (Audited) As at 31 December 2017 RMB'000 |
|-----------------|---|---|
| 0 to 90 days | 74,376 | 93,244 |
| 91 to 180 days | 17,328 | 15,716 |
| 181 to 365 days | 54,510 | 35,565 |
| 1 to 2 years | 61,476 | 35,738 |
| 2 to 3 years | 25,972 | 2,171 |
| Over 3 years | 4,470 | 9,221 |
| | 238,132 | 191,655 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

15. SHARE CAPITAL AND TREASURY SHARES

| | Number of shares | Nominal value of shares US\$ |
|--|---------------------|------------------------------------|
|--|---------------------|------------------------------------|

Authorised:

Ordinary shares of the Company:

As at 1 January 2017, 31 December 2017 and

30 June 2018 (Unaudited), at US\$0.00001 each

5,000,000,000

50,000

| | Number of shares | Nominal value of shares US\$ | Equivalent nominal value of shares RMB'000 |
|------|---------------------|---------------------------------------|--|
| Note | | | |

Issued and fully paid:

Ordinary shares of the Company:

Ordinary shares as at 1 January 2017

620,000,000

6,200

42

Issuance of shares for share award scheme

(i)

12,000,000

120

1

As at 31 December 2017 and 1 January 2018

632,000,000

6,320

43

Repurchased shares cancelled

(1,668,000)

(17)

—

As at 30 June 2018 (Unaudited)

630,332,000

6,303

43

| | Number of treasury shares | Nominal value of shares US\$ | Equivalent nominal value of shares RMB'000 |
|-------|---------------------------------|---------------------------------------|--|
| Notes | | | |

Treasury shares of the Company:

At 1 January 2017

—

—

—

Issuance of shares for share award scheme

(i)

12,000,000

120

1

Shares repurchased and not yet cancelled

(ii)

532,000

5

—

As at 31 December 2017 and 1 January 2018

12,532,000

125

1

Repurchased shares cancelled

(532,000)

(5)

—

As at 30 June 2018 (unaudited)

12,000,000

120

1

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

15. SHARE CAPITAL AND TREASURY SHARES – *continued*

Notes:

- (i) Issuance of new shares for share award scheme

During the year ended 31 December 2017, 12,000,000 ordinary shares of US\$0.00001 each were issued under the specific mandate granted by the shareholders of the Company at the annual general meeting on 20 March 2017 for the Company's share award scheme. The shares were issued to the trustee of the share award scheme and have been classified as treasury shares of the Company. Details of which were set out in note 16(c) to the condensed consolidated financial statements.

- (ii) Repurchase of shares

During the six months ended 30 June 2018, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

| Month of repurchase | Number of shares repurchased | Highest price paid per share HK\$ | Lowest price paid per share HK\$ | Aggregate consideration paid HK\$'000 | Equivalent aggregate consideration paid RMB'000 |
|---------------------|------------------------------|-----------------------------------|----------------------------------|---------------------------------------|---|
| January 2018 | 806,000 | 0.90 | 0.83 | 696 | 577 |
| February 2018 | 330,000 | 0.82 | 0.72 | 258 | 210 |

The 1,136,000 and 532,000 shares repurchased in 2018 and 2017 were cancelled during the six months ended 30 June 2018.

16. 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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 31 December 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 completed on 27 June 2016. Upon completion of such grant and adjustment, no further options will be granted under the 2010 Share Option Plan.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. 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) Six months ended 30 June 2018 | | (Unaudited) Six months ended 30 June 2017 | |
|----------------------------------|--|----------------------------|--|----------------------------|
| | Average exercise price in US\$ per share option | Number of share options | Average exercise price in US\$ per share option | Number of share options |
| Directors | | | | |
| At beginning of period | 1.16 | 30,940,914 | 1.16 | 30,940,914 |
| Re-designated to employees | 1.16 | (14,569,265) | — | — |
| At end of period | 1.16 | 16,371,649 | 1.16 | 30,940,914 |
| Employees | | | | |
| At beginning of period | 0.94 | 45,465,119 | 0.94 | 46,080,933 |
| Re-designated from directors | 1.16 | 14,569,265 | — | — |
| Forfeited during the period | 1.16 | (60,079) | 1.16 | (495,655) |
| At end of period | 1.00 | 59,974,305 | 0.94 | 45,585,278 |
| Total | | | | |
| At beginning of period | 1.03 | 76,406,033 | 1.03 | 77,021,847 |
| Forfeited during the period | 1.16 | (60,079) | 1.16 | (495,655) |
| At end of period | 1.03 | 76,345,954 | 1.03 | 76,526,192 |
| Exercisable at the end of period | 1.05 | 74,994,167 | 1.16 | 73,822,617 |

None of the above share options were exercised during the period. The weighted average remaining contractual life of options outstanding at 30 June 2018 was 3.5 years (30 June 2017: 4.5 years).

The Group recognised an expense of RMB377,000 (30 June 2017: RMB559,000) for the six months ended 30 June 2018 in relation to the 2010 Share Option Plan.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. 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 2017 Share 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 2018

16. 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.

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 year ended 31 December 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 2018

16. 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 2018 | | (Unaudited) Six months ended 30 June 2017 | |
|----------------------------------|--|----------------------------|--|----------------------------|
| | Average exercise price in HK\$ per share option | Number of share options | Average exercise price in HK\$ per share option | Number of share options |
| Directors | | | | |
| At beginning of period | 1.33 | 13,100,000 | — | — |
| Granted during the period | — | — | 1.33 | 13,100,000 |
| Re-designated to employees | 1.33 | (3,300,000) | — | — |
| At end of period | 1.33 | 9,800,000 | 1.33 | 13,100,000 |
| Employees | | | | |
| At beginning of period | 1.33 | 48,870,000 | — | — |
| Granted during the period | — | — | 1.33 | 48,900,000 |
| Re-designated from directors | 1.33 | 3,300,000 | — | — |
| Forfeited during the period | 1.33 | (187,600) | — | — |
| At end of period | 1.33 | 51,982,400 | 1.33 | 48,900,000 |
| Total | | | | |
| At beginning of period | 1.33 | 61,970,000 | — | — |
| Granted during the period | — | — | 1.33 | 62,000,000 |
| Forfeited during the period | 1.33 | (187,600) | — | — |
| At end of period | 1.33 | 61,782,400 | 1.33 | 62,000,000 |
| Exercisable at the end of period | 1.33 | 43,582,000 | 1.33 | 25,340,000 |

Save as the 187,600 options were lapsed, 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 2018 was 8.9 years (30 June 2017: 9.9 years).

The Group recognised an expense of RMB3,771,000 (six months ended 30 June 2017: RMB13,974,000) for the six months ended 30 June 2018 in relation to the 2017 Share Option Scheme.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. 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 2018

16. 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 fulfilment of the performance targets (if any) specified by the Board and on the vesting date a participant 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 year ended 31 December 2017, the Company has issued 12,000,000 new shares to the Trustee for the Share Award Scheme and classified as treasury shares of the Company (note 15(i)). The Group had 12,000,000 share awards outstanding under the Share Award Scheme, which represented approximately 1.90% of the issued ordinary shares of the Company as at 30 June 2018.

The Group recognised an expense of RMB2,164,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB37,846,000) in relation to the 2017 Share Award Scheme.

- (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 a total expense of RMB6,312,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB51,820,000) in relation to the above share options and share awards granted by the Company. 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 2018

17. OPERATING LEASE COMMITMENTS

The Group leases its office and various residential properties under non-cancellable operating lease agreements. 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) As at 30 June 2018 RMB'000 | (Audited) As at 31 December 2017 RMB'000 |
|-----------------|---|---|
| Within one year | 76 | 7,601 |

18. 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 |
| Xinxin Holding Co., Ltd. (“ Xinxin Holding ”) | Company in which Mr. Zheng can exercise significant influence |
| Xin’aote Group Co. Ltd. 北京新奥特集團有限公司, previously known as Xin’aote Silicon Valley Video Technology Co., Ltd. 新奥特硅谷視頻技術有限責任公司 (“ Xin’aote Group ”) | Controlled by Mr. Zheng |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

18. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

a) Transactions with related parties

| | | (Unaudited) | |
|--|---|--------------------------|---------|
| | | Six months ended 30 June | |
| | | 2018 | 2017 |
| | | RMB'000 | RMB'000 |
| Xinxin Holding | Rental expenses and property management fee | 7,286 | 7,702 |
| Xin'aote Group | Sales of goods and provision of service | 332 | 195 |
| CDV Cloud | Sales of goods and provision of service | — | 2,630 |
| CDV Cloud | Purchase of goods | 20 | — |
| Beijing Hermit Culture & Media Co., Ltd. (北京海米文化 傳媒有限公司, “Beijing Hermit”) | Disposal of property, plant and equipment | — | 4 |
| Beijing Hermit | Purchase of goods | — | 904 |
| Beijing Yueying | Purchase of goods | — | 1,524 |

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 | |
| | | 2018 | 2017 |
| | | RMB'000 | RMB'000 |
| Basic salaries and allowances | | 3,055 | 2,766 |
| Discretionary bonus | | — | 180 |
| Retirement benefit scheme contributions | | 56 | 188 |
| Share-based compensation expense | | 907 | 35,680 |
| | | 4,018 | 38,814 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following table presents financial instruments measured at fair value in the condensed consolidated statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial instruments into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial instruments. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The financial instruments measured at fair value in the condensed consolidated statement of financial position on a recurring basis are grouped into the fair value hierarchy as follows:

| | (Unaudited) As at 30 June 2018 Level 2 RMB'000 | (Audited) As at 31 December 2017 Level 2 RMB'000 |
|--|--|--|
| Financial asset at fair value through other comprehensive income | | |
| Equity investments | 15,000 | — |

The fair value of equity investments are determined by using the adjusted net assets value method. The effects of unobservable inputs are not significant for equity investments.