



Century Sage Scientific Holdings Limited 世紀睿科控股有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 1450

2019 Interim Report



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lo Chi Sum (盧志森)
Mr. Leung Wing Fai (梁榮輝)
Mr. Wong Kwok Fai (王國輝)
Mr. Sun Qingjun (孫清君)
Mr. Geng Liang (耿亮)
Mr. Zheng Yi (鄭藝)*

* appointed on 16 September 2019

Independent non-executive Directors

Dr. Ng Chi Yeung, Simon (吳志揚)
Mr. Hung Muk Ming (洪木明)
Mr. Mak Kwok Wing (麥國榮)

AUTHORISED REPRESENTATIVES

Mr. Leung Wing Fai
Ms. Ngai Kit Fong

AUDIT COMMITTEE

Mr. Hung Muk Ming (Chairman)
Dr. Ng Chi Yeung, Simon
Mr. Mak Kwok Wing

REMUNERATION COMMITTEE

Dr. Ng Chi Yeung, Simon (Chairman)
Mr. Hung Muk Ming
Mr. Mak Kwok Wing
Mr. Lo Chi Sum
Mr. Leung Wing Fai

NOMINATION COMMITTEE

Mr. Lo Chi Sum (Chairman)
Mr. Hung Muk Ming
Dr. Ng Chi Yeung, Simon

INVESTMENT COMMITTEE

Mr. Lo Chi Sum (Chairman)
Mr. Leung Wing Fai
Mr. Wong Kwok Fai
Mr. Sun Qingjun
Mr. Geng Liang
Mr. Zheng Yi

COMPANY SECRETARY

Ms. Ngai Kit Fong
FCIS, FCS(PE)

REGISTERED OFFICE

Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Opto-Mechatronics Industrial Park
Tongzhou District
Beijing 101111
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Tins Enterprises Centre
777 Lai Chi Kok Road
Cheung Sha Wan
Kowloon
Hong Kong

AUDITORS

PricewaterhouseCoopers

CORPORATE INFORMATION

LEGAL ADVISERS TO THE COMPANY AS TO HONG KONG LAW

Chiu & Partners

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

1450

WEBSITE AND CONTACT

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CHAIRMAN'S STATEMENT

Dear shareholders,

The board (the "**Board**") of directors (the "**Directors**") of Century Sage Scientific Holdings Limited (the "**Company**") hereby presents the interim report of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2019 (the "**Interim Period**" or the "**Current Period**").

REVIEW

The revenue of the Company decreased by approximately 38.1% to RMB118.8 million for the Interim Period from RMB191.9 million for the six months ended 30 June 2018 (the "**Corresponding Period**"), and the gross profit of the Company decreased by approximately 20.4% to RMB34.9 million for the Interim Period from RMB43.9 million for the Corresponding Period.

In the first half of 2019, the global economy experienced a turbulent ride and sluggish global economic growth. However, the Company's restructuring has continued to implement streamlined cost control to further improve the Group's overall operating expenses.

PROSPECTS

As there are continuing uncertainties surrounding the global economy, it is expected that growth in a number of industries will continue to slow down and China's economy will be affected. However, although the Group is confronted with numerous uncertainties and volatility, there are opportunities for the Group to look forward to and government's favourable policies are constantly put in place, including but not limited to "The Action Plan for the Development of Ultra-high-definition Video Industry (2019–2022)" (《超高清視頻產業發展行動計劃(2019–2022年)》), "The Advice to Promote the High Quality Development of the Broadcasting and Online Audio-visual Industry" (《關於推動廣播電視和網絡視聽產業高質量發展的意見》), etc. At the same time, the Group also expects that along with the development of 5G technology, 4K/UHD cloud-computing technologies, fresh impetus and unprecedented opportunities will be brought to the Group's development.

The Company will stay abreast of the latest industry and market demands and be armed with advanced technique to stay at the forefront of the industry. The Company remains cautiously optimistic regarding the Company's prospects in the coming year given the rapidly developing technologies and changing business environment.

CHAIRMAN'S STATEMENT

APPRECIATION

I, on behalf of the Board, would like to take this opportunity to express my sincere gratitude to our valued shareholders, customers and business partners for their trust and support. I would also like to thank all our staff for their professionalism and wholehearted commitment.

Lo Chi Sum

Chairman

30 August 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The technology advances and the government policies guidance have provided the industry with excellent growth drivers. The Company, being one of the leading suppliers in the industry, is very excited about the opportunities ahead.

On 1 March 2019, the Ministry of Industry and Information Technology, the National Radio and Television Administration (the “**NRTA**”), and the Central Radio and Television Station collectively promulgated “The Action Plan for the Development of Ultra-high-definition (“**UHD**”) Video Industry (2019–2022)” (《超高清視頻產業發展行動計劃（2019–2022年）》) (the “**Plan**”), which implicates that the market spending for 4K UHD will exceed RMB4 trillion (equivalent to approximately US\$0.6 trillion) by the year 2022 (both professional and consumer ends inclusive). And the Plan also strongly suggests the support of local engineered products manufactured by local research and development (“**R&D**”) companies, such as the Company, rather than imported products.

The Group has developed the software defined network (“**SDN**”) in several 4K UHD pilot projects of various channels of China Central Television (“**CCTV**”) already (e.g. 4K UHD broadcast van). The Group is the first in China to develop such projects and has set the benchmark in the industry. The Group has also been engaged with CCTV to co-invest in the R&D project for the feasibility study of adopting China local technology for the 4K UHD deployment. The Group also showcased the Chinese local R&D milestones solutions together with CCTV at the Beijing International Radio, TV & Film Exhibition held in Beijing in August 2019. Because of the advancement of technology, the Group has achieved remarkable results in the UHD domain and is representing the Chinese R&D companies joining and contributing to international 4K UHD and internet protocol (“**IP**”) media organisations, such as the Alliance for IP Media Solutions (“**AIMS**”), the Advanced Media Workflow Association (“**AMWA**”) and the IP Live Alliance. The Group is also the first Chinese company which has its own researched and manufactured products receiving the accreditation of the “2019 FOX Tested Program — FULLY complied to ST2110\ST2059-2”, which demonstrated the high standard and full compatibility of the Group’s products in the international advanced media market.

MANAGEMENT DISCUSSION AND ANALYSIS

Meanwhile, the Group can also see investment with explosive growth in 5G infrastructure. Cogent (Beijing) Technology Company Limited* (高駿(北京)科技有限公司) (“**Cogent**”), the Group’s indirect wholly-owned subsidiary, has acted as the first tier ecosystem partner with the China United Network Communications Group Co., Ltd.* (中國聯合網絡通信集團有限公司) (“**China Unicom**”) since 24 April 2019, together with Huawei, Foxconn and Alicloud. Cogent will work together with China Unicom to pioneer the co-development of 5G UHD solutions to deploy on the China Unicom nationwide network. For details, please refer to the announcement of the Company dated 23 July 2019 published on the website of the Stock Exchange.

The Group also feels the heat of convergence media platform investment. At the National Conference on Propaganda and Ideological Work (全國宣傳思想工作會議) held on 21 August 2018, President Xi Jinping raised the campaign to build the convergence media platform in over 2,700 county level cities in China. The idea is to build platforms all over China to allow smooth channels of positive ideas and provoked communications among the government and the citizens. According to the National Budget published on 2 April 2019, a special budget of RMB1.8 billion is allocated to the aforesaid project this year. Regarding merged media, the Group has tremendous track records, for example, the Group has built systems for top-tier customers like People’s Daily, Beijing New Media Group, and some of the pioneer sites of county level. The Group has successful solutions covering news preparation, screening, management, interactive, multipurpose and multiplatform publishing and data analysis built on cloud-based platform.

The Directors are very excited about the business opportunities in relation to UHD, 5G and cloud-based convergence media solutions and are glad that the Group has invested in R&D for many years which enabled the Group to stay in the frontier of the technology revolution. The Directors are confident to take the Company into another level of success with tremendous business opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately 38.1% from approximately RMB191.9 million for the Corresponding Period to approximately RMB118.8 million for the Interim Period. The decrease was due to the all-media projects adopting new technology have not been carried out in large scale. The applications solutions segment decreased by approximately 44.8% while the sales of self-developed products segment decreased by approximately 19.6%. Compared with the Corresponding Period, the revenue from the system maintenance services has increased significantly by approximately 85.2% from approximately RMB6.6 million to RMB12.2 million due to the increased demand for services to maintain the customers facilities. The table below sets out the Group's segment revenue for the six months ended 30 June 2018 and 2019 respectively:

| | For the six months ended 30 June | | | |
|----------------------------------|----------------------------------|--------------------|----------------|--------------------|
| | 2019 | | 2018 | |
| | RMB'000 | % of total revenue | RMB'000 | % of total revenue |
| Segment revenue | | | | |
| Application solutions | 92,891 | 78.2% | 168,314 | 87.7% |
| System maintenance services | 12,200 | 10.3% | 6,588 | 3.4% |
| Sales of self-developed products | 13,680 | 11.5% | 17,024 | 8.9% |
| Total | 118,771 | 100.0% | 191,926 | 100.0% |

MANAGEMENT DISCUSSION AND ANALYSIS

Application solutions

Revenue generated by the Group's application solutions business segment represented approximately 87.7% and 78.2% of the total revenue of the Group for the Corresponding Period and the Interim Period, respectively. Such revenue has decreased from approximately RMB168.3 million for the Corresponding Period to approximately RMB92.9 million for the Interim Period. The decrease was mainly attributable to the situation that the all-media industry is still undergoing gradual technology changes, such as the conversion to 4K UHD and the conversion to IP. The all-media projects adopting new technology have not been carried out in large scale, thus leading to a decline of project roll-outs during the Interim Period. However, the Group has been involved in some of the pilot projects of UHD and IP deployment, which provided the Group with valuable experiences and enabled the Group to continue to lead the technology development. The roadmap of launching 4K UHD is still undergoing. Therefore, the Directors are optimistic that the Group will be able to capture the golden opportunities of new projects when they are rolled out.

System maintenance services

Revenue from the system maintenance services business segment represented approximately 3.4% and 10.3% of the total revenue of the Group for the Corresponding Period and the Interim Period, respectively, and increased from approximately RMB6.6 million for the Corresponding Period to approximately RMB12.2 million for the Interim Period, representing an increase of approximately 85.2%. Such increase was mainly attributable to the increase in demand for onsite support services during the Interim Period.

Sales of self-developed products

Revenue from the sales of self-developed products business segment represented approximately 8.9% and 11.5% of the total revenue of the Group for the Corresponding Period and the Interim Period, respectively, and decreased from approximately RMB17.0 million for the Corresponding Period to approximately RMB13.7 million for the Interim Period, representing a decrease of approximately 19.6%. Such decrease was mainly attributable to a short term decline in demand, where the all-media industry is still undergoing gradual technology changes. The new technologies including 4K UHD, conversion to IP, virtualisation and cloud computing are still under development.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales

For the six months ended 30 June 2018 and 2019, the Group's cost of sales was approximately RMB148.0 million and RMB83.9 million respectively, representing a decrease of approximately 43.4%. The decline percentage in cost is higher than the decline in sales representing an overall improvement in gross profit margin. The following table sets forth the cost of sales for each business segment for the six months ended 30 June 2018 and 2019 respectively:

| | For the six months ended 30 June | | | |
|----------------------------------|----------------------------------|-----------------|---------|-----------------|
| | 2019 | | 2018 | |
| | RMB'000 | % of total cost | RMB'000 | % of total cost |
| Segment cost of sales | | | | |
| Application solutions | 72,821 | 86.8% | 140,414 | 94.8% |
| System maintenance services | 5,895 | 7.0% | 3,444 | 2.3% |
| Sales of self-developed products | 5,135 | 6.1% | 4,189 | 2.8% |
| Total | 83,851 | 100.0% | 148,047 | 100.0% |

The Group's cost of sales for the application solutions segment decreased by approximately 48.1% for the Interim Period as compared to the Corresponding Period, which was primarily due to the decrease in revenue of the application solutions segment. The cost of sales for the system maintenance services segment increased by approximately 71.2% for the Interim Period as compared to the Corresponding Period, which was primarily due to the increase in revenue of the system maintenance services segment. The cost of sales of the sales of self-developed products segment increased by approximately 22.6% due to the higher amortisation cost of R&D during the Interim Period as compared to the Corresponding Period.

Gross profit and gross profit margin

For the six months ended 30 June 2018 and 2019, the Group's gross profit was approximately RMB43.9 million and RMB34.9 million respectively, representing a decrease of approximately 20.4%. However, the Group's gross profit margin improved from approximately 22.9% from the Corresponding Period to approximately 29.4% for the Interim Period. The following table sets forth the gross profit and gross profit margin of each of the Group's segments during the periods:

MANAGEMENT DISCUSSION AND ANALYSIS

Segment gross profit and gross profit margin

| | For the six months ended 30 June | | | |
|---|----------------------------------|--------------------------------|-----------------|--------------------------------|
| | 2019 RMB'000 | % of Gross profit margin | 2018 RMB'000 | % of Gross profit margin |
| Segment gross profit and gross profit margin | | | | |
| Application solutions | 20,070 | 21.6% | 27,900 | 16.6% |
| System maintenance services | 6,305 | 51.7% | 3,144 | 47.7% |
| Sales of self-developed products | 8,545 | 62.5% | 12,835 | 75.4% |
| Total | 34,919 | 29.4% | 43,879 | 22.9% |

For the application solutions segment, the Group noted an increase in the gross profit margin from approximately 16.6% for the Corresponding Period to approximately 21.6% for the Interim Period. The increase was due to the implementation of some new technology pilot projects which carried higher value and margin.

For the system maintenance services segment, the Group noted a slight increase of gross profit margin from approximately 47.7% for the Corresponding Period to approximately 51.7% for the Interim Period. The Group believes the increase was within a reasonable range in its normal operation.

For the sales of self-developed products segment, the gross profit margin decreased from approximately 75.4% for the Corresponding Period to approximately 62.5% for the Interim Period. The decrease was due to the higher amortisation cost of R&D in the Interim Period as compared to the Corresponding Period.

Selling expenses

The selling expenses for the six months ended 30 June 2018 and 2019 were approximately RMB13.1 million and RMB9.3 million respectively, representing a decrease of approximately 29.3%. The decrease of expenses was due to the decrease of marketing activities.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

The administrative expenses for the six months ended 30 June 2018 and 2019 were approximately RMB26.9 million and RMB22.9 million respectively, representing a decrease of approximately 15.0%. The decrease in administrative expenses was due to the improvement in the Group's operation and the implementation of streamlined cost control.

Research and development expenses

The R&D expenses for the six months ended 30 June 2018 and 2019 were approximately RMB9.4 million and RMB10.0 million respectively, representing an increase of approximately 6.4%. The Group continued to invest in the R&D to maintain the leading edge technology in the industry.

Finance costs

For the six months ended 30 June 2018 and 2019, the net finance costs of the Group were approximately RMB0.7 million and RMB6.4 million respectively, representing an increase of approximately 8.6 times. The finance costs of approximately RMB0.9 million for the Corresponding Period consisted of interest expenses of approximately RMB4.8 million and was offset by the exchange gains of approximately RMB3.9 million. During the Interim Period, the finance costs of approximately RMB6.4 million was composed of interest expenses of approximately RMB6.2 million and exchange loss of RMB0.2 million. The increase in interest expenses was due to the increased interest rate during the Interim Period.

Income tax expense

Income tax expense amounted to RMB0 (Nil) and approximately RMB0.9 million respectively for the six months ended 30 June 2018 and 2019. The increase was due to the profits that the Group had recorded in individual subsidiaries in PRC during the Interim Period.

Loss for the Interim Period

As a result of the aforementioned factors, loss arose from the continuing business of the Company increased from a net loss of approximately RMB2.1 million for the Corresponding Period to a net loss of approximately RMB14.5 million for the Interim Period, representing an increase of approximately 5.9 times. Deducting the minority interests, the loss attributable to the owners of the Company increased from a net loss of approximately RMB6.0 million for the Corresponding Period to a net loss of approximately RMB12.4 million for the Interim Period, representing a gentler degree of increase of approximately 1.1 times.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, financial resource and capital structure

Net cash used in the Group's operating activities amounted to approximately RMB19.5 million for the Interim Period while net cash generated from the Group's operating activities amounted to approximately RMB14.8 million for the Corresponding Period. The net cash outflow of the Group's operating activities during the Interim Period mainly arose from the decrease in trade and other payables and the contract liabilities in a total of approximately RMB55.9 million, which was partly offset by the decrease in inventories, other current assets and trade and other receivables in a total of approximately RMB38.2 million, among others, resulted in a net outflow of approximately RMB19.5 million for the Interim Period.

Net cash used in the Group's investing activities amounted to approximately RMB1.0 million for the Interim Period while net cash generated from the Group's investing activities amounted to approximately RMB3.4 million for the Corresponding Period. The net cash outflow for the Interim Period was mainly used to purchase assets.

Net cash used in the Group's financing activities amounted to approximately RMB31.2 million for the Interim Period while the net cash used in the Group's financing activities amounted to approximately RMB57.0 million for the Corresponding Period. The net cash used in financing activities for the Interim Period was mainly attributable to the increase in the repayment of bank loans.

As at 30 June 2019, the Group had total assets of approximately RMB640.5 million (31 December 2018: approximately RMB738.3 million) which was financed by current liabilities of approximately RMB361.7 million (31 December 2018: approximately RMB460.5 million) and shareholders' equity of approximately RMB254.7 million (31 December 2018: approximately RMB267.3 million).

As at 30 June 2019, the Group's current ratio (which is calculated by dividing current assets by current liabilities) was 1.16 (31 December 2018: 1.11).

The cash and cash equivalents of the Group as at 30 June 2019 were mainly denominated in Hong Kong Dollar ("**HKD**"), the United States Dollar ("**USD**"), Great British Pound ("**GBP**"), Euro and Renminbi ("**RMB**").

MANAGEMENT DISCUSSION AND ANALYSIS

Charge over assets

As at 30 June 2019, bank borrowings of RMB35 million (31 December 2018: RMB25 million) were secured by the buildings of the Group, net book value of which amounted to approximately RMB21.9 million (31 December 2018: approximately RMB22.7 million); trade receivables of approximately RMB31.7 million (31 December 2018: approximately RMB25.8 million) were guaranteed by Beijing Zhongguancun Sic-tech Financing Guarantee Co., Ltd., and independent third party.

Gearing position

The gearing ratio, which represented total borrowings divided by total equity multiplied by 100%, was approximately 72.1% and 62.3% respectively as of 31 December 2018 and 30 June 2019. The total borrowings of the Group decreased from approximately RMB181.4 million as at 31 December 2018 to approximately RMB150.2 million as at 30 June 2019. Such decrease was mainly attributable to the net repayment of term loan to the banks (repayment: approximately RMB47.7 million; new borrowing proceeds: approximately RMB16.6 million).

Foreign exchange exposure

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, HKD, GBP and Euro. Foreign exchange risk arose from future commercial transactions, recognised assets and liabilities which are denominated in non-RMB. The management of the Group has set up a policy to require the Company's subsidiaries to manage their foreign exchange risk against their functional currency. The Company's subsidiaries are required to control the exposure of the foreign currency during their business operation. The foreign currency exposure is mainly due to the purchase of equipment from all over the world and the management controls the payment schedule to reduce the foreign exchange risk. Save for certain bank balances and accounts payables in USD and HKD, the Group considers that the impact of foreign exchange exposure to the Group was minimal and there was no significant adverse effect on normal operations. During the Interim Period, the Group did not commit to any financial instruments to hedge its exposure to foreign exchange risk. However, the management of the Group will monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest rate risk

Other than the bank balances with variable interest rates, the Group has no other significant interest-bearing assets. The management does not anticipate significant impact on interest-bearing assets resulting from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. The Group has not hedged its cash flow interest rate risks.

Significant investments, mergers and acquisitions

During the Interim Period, the Group had no significant investments, mergers and acquisitions.

Contingent liabilities

In March 2014, one of the subsidiaries of the Group was involved in a contractual dispute with a supplier of television broadcasting systems (the "**Claimant**"). The Claimant supplied certain television broadcasting systems to such subsidiary, who provided the application solutions services for the systems to a client in Hunan (the "**Client**"), the end-user of the systems. The contractual claim amounting to RMB6.77 million was brought by the Claimant against such subsidiary and the Client to the outstanding amount payable for the sale of the systems.

In October 2017, the court decided that such subsidiary was not liable for compensation. The Claimant then appealed to the higher people's court and brought with total claims of about RMB9.99 million against such subsidiary and the Client. As at 31 December 2017, the Directors consider that the expected outcome of the legal dispute will not have a material adverse effect on the financial statements and therefore, no provision has been made.

According to the written judgement of the higher people's court in June 2018, it was decided that such subsidiary and the Client were jointly liable for the compensation and other expenses amounted to approximately RMB7.60 million. In September 2018, the Claimant and such subsidiary entered into a settlement agreement to reduce the compensation to RMB5.57 million in instalments within one year, out of which RMB3.80 million was paid as at 30 June 2019. According to the opinion of the Group's legal counsel, upon settling total compensation according to the settlement agreement, the Group has the right to ask for compensation from the Client of the same amount. As at 30 June 2019, no contingent assets regarding the compensation receivable was recognised for prudence.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2019, except for the legal dispute as disclosed above, the Directors were not aware of any other significant events that would have resulted in material contingent liabilities.

Dividends

The Board does not recommend the distribution of interim dividend for the Interim Period (2018: Nil).

Employees and remuneration policies

As at 30 June 2019, the Group had a total of 253 employees (as at 31 December 2018: 261 employees).

The emoluments payable to employees of the Group are determined based on their responsibilities, qualifications, experiences and the role taken as well as the industry practices.

FUTURE OUTLOOK

The current technology advancements including UHD, 5G and cloud computing technologies have reshaped many sectors and industries, including the audio-visual sector. In addition to the favorable policies launched by the government during the Interim Period, on 19 August 2019, the NRTA has promulgated “The Advice to Promote the High Quality Development of the Broadcasting and Online Audio-visual Industry” (《關於推動廣播電視和網絡視聽產業高質量發展的意見》), which emphasized speeding up and promoting the deployment and application of big data, cloud computing, artificial intelligence, 5G and other new generation information technologies in the audio-visual industry.

The Directors expect that the industry will be continuously driven by the government’s favorable policies and powered by advanced techniques. The groundbreaking nature of the UHD, 5G and cloud computing technologies will give a fresh impetus to the audio-visual industry and bring unprecedented opportunities to the Group’s development.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders of the Company through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from the prior years. The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued capital and reserves.

EVENTS AFTER THE INTERIM PERIOD

Mr. Zheng Yi (鄭藝) was appointed as the executive Director and a member of the Investment Committee of the Company on 16 September 2019. Save as disclosed above, the Group does not have any material events after the Interim Period.

SHARE AWARD PLAN AND SHARE OPTION SCHEME

SHARE AWARD PLAN

In order to recognise and reward the contribution of certain eligible participants to the growth and development of the Group, the Company adopted the share award plan (the “**Share Award Plan**”) on 24 March 2014. The Share Award Plan does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”).

(a) Summary of terms

(i) Purpose and participants

The purpose of the Share Award Plan is to recognise and reward the contribution of certain selected participants to the growth and development of the Group, to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group through an award of the shares of the Company (the “**Shares**”). The Board shall, subject to and in accordance with the rules of the Share Award Plan, be entitled to make an award of Shares to any person belonging to any of the following classes of participants:

- (aa) any employee (whether full-time or part-time, including any executive director of the Company, any of the subsidiaries or any entity (the “**Share Award Plan Invested Entity**”) in which any member of us holds an equity interest (the “**Share Award Plan Eligible Employee**”);
- (bb) any non-executive directors (including independent non-executive directors) of the Company, any of the subsidiaries or any Share Award Plan Invested Entity;
- (cc) any supplier of goods or services to any member of us or any Share Award Plan Invested Entity;
- (dd) any customer of any member of us or any Share Award Plan Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of us or any Share Award Plan Invested Entity;

SHARE AWARD PLAN AND SHARE OPTION SCHEME

- (ff) any shareholder of any member of us or any Invested Entity or any holder of any securities issued by any member of us or any Share Award Plan Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of us or any Share Award Plan Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to our development and growth;

and, for the purposes of the Share Award Plan, the award may be made to any company wholly owned by one or more of the above participants.

The eligibility of any of the above classes of participants to an award shall be determined by the Board from time to time on the basis of the Board's opinion as to his contribution and/or future contribution to the development and growth of the Group.

(ii) **Award of Shares and pool of awarded Shares**

The Board shall notify Teeroy Limited, (the "**Share Award Plan Trustee**") in writing upon the making of an award to an eligible participant (the "**Selected Participant**") under the Share Award Plan. Upon the receipt of such notice, the Share Award Plan Trustee shall set aside the appropriate number of awarded Shares pending the transfer and vesting of the same to the Selected Participant out of a pool of Shares comprising the following:

- (aa) such Shares as may be (1) transferred to the Share Award Plan Trustee from any person (other than the Group) by way of gift, or (2) purchased by the Share Award Plan Trustee by utilising the funds received by the Share Award Plan Trustee from any person (other than the Group) by way of gift, but subject to the limitations set out in paragraph (iv) below;
- (bb) such Shares as may be purchased by the Share Award Plan Trustee on the Stock Exchange by utilising the funds allocated by the Board out of our resources (the "**Group Contribution**"), but subject to the limitations set out in paragraph (iv) below;

SHARE AWARD PLAN AND SHARE OPTION SCHEME

- (cc) such Shares as may be subscribed for at par value by the Share Award Plan Trustee by utilising Group Contribution, but subject to the limitations set out in (iv) below; and
- (dd) such Shares which remain unvested and revert to the Share Award Plan Trustee in accordance with the rules of the Share Award Plan.

The making of an award to any connected person must be approved by majority of the independent non- executive directors of the Company at the relevant time. The Company will comply with the applicable provisions of Chapter 14A of the Listing Rules or otherwise in compliance with the requirements of the Listing Rules when making awards to connected persons.

After an award is made, the Board shall notify the Selected Participant who may decline to accept such award by notifying us in writing within the prescribed period in accordance with the rules of the Share Award Plan. Unless so declined by the Selected Participant, the award shall be deemed irrevocably accepted by the Selected Participant.

(iii) Subscription and purchase of Shares by the Share Award Plan Trustee

- (aa) The Share Award Plan Trustee may purchase Shares on the Stock Exchange at the prevailing market price or off the market. In respect of off-market transactions, purchases shall not be made with any connected person, nor shall the purchase price be higher than the lower of the following: (1) the closing market price on the date of such purchase, and (2) the average closing market price for the five preceding trading days on which the Shares were traded on the Stock Exchange.
- (bb) In the event that the Board considers it appropriate for the Share Award Plan Trustee to subscribe Shares by utilising the Group Contribution, the Share Award Plan Trustee shall, upon the instructions of the Board, apply to the Company for the allotment and issue of the appropriate number of new Shares as instructed by the Board. Such allotment and issue shall only be made upon (i) shareholders' approval in general meeting to authorise the Directors to allot and issue new Shares to the Share Award Plan Trustee, subject to the limitations set out in paragraph (iv) below and (ii) the Listing Committee of the Stock Exchange has granted the listing of and permission to deal in such Shares, which may be allotted and issued by the Company to the Share Award Plan Trustee pursuant to the Share Award Plan.

SHARE AWARD PLAN AND SHARE OPTION SCHEME

(iv) Maximum number of Shares to be subscribed and purchased

In any given financial year of the Company, the maximum number of Shares (the “**Max Shares Annual Threshold**”) to be subscribed for and/or purchased by the Share Award Plan Trustee by applying the Group Contribution for the purpose of the Share Award Plan shall be fixed by the Board at the beginning of such financial year (after having regard to all the relevant circumstances and affairs including the business and financial performance during the preceding financial year, business plans and cash flow requirements). The Board shall not instruct the Share Award Plan Trustee to subscribe for and/or purchase any Shares for the purpose of the Share Award Plan when such purchase and/or subscription will result in the Max Shares Annual Threshold being exceeded.

(v) Vesting of the awarded Shares

Subject to the rules of the Share Award Plan, the legal and beneficial ownership of the relevant awarded Shares shall vest in the relevant Selected Participant within ten business days after the latest of:

- (aa) the date specified on the notice of the award given by the Board to the Share Award Plan Trustee (which shall not be earlier than the first business day immediately following the expiry of six months after the listing date of the Company on the Stock Exchange (i.e. 7 July 2014); and
- (bb) where applicable, the date on which the condition(s) or performance target(s) (if any) to be attained by such Selected Participant as specified in the related notice of award have been attained and notified to the Share Award Plan Trustee by the Board in writing.

(vi) Remaining life

Subject to any earlier termination in accordance with its rules, the Share Award Plan will remain in force for a period of 10 years commencing on 24 March 2014. As at the date of this interim report, the Share Award Plan had a remaining life of approximately five years.

SHARE AWARD PLAN AND SHARE OPTION SCHEME

(b) Movement of the awarded Shares

A total of 891,344 Shares were remain unvested as at 30 June 2019.

Movement of the awarded shares under the Share Award Plan during the Interim Period is as follows:

| Selected Participants | Date of Award | Vesting Dates | Number of Awarded Shares | | | | Outstanding as at 30 June 2019 |
|---------------------------------|----------------|---|----------------------------------|-----------------------------------|----------------------------------|---|--------------------------------|
| | | | Outstanding as at 1 January 2019 | Awarded during the Interim Period | Vested during the Interim Period | Lapsed/ cancelled during the Interim Period | |
| Executive Director | | | | | | | |
| Wong Kwok Fai | 18 May 2016 | 100% on 18 May 2019 | 100,000 | - | 100,000 | - | - |
| | 21 August 2017 | 100% on 21 August 2020 | 100,000 | - | - | - | 100,000 |
| Senior management member | | | | | | | |
| So Yun Wah | 21 August 2017 | 100% on 21 August 2020 | 100,000 | - | - | - | 100,000 |
| Others | | | | | | | |
| Employees | 26 March 2015 | 25% each on 21 November 2017, 2018, 2019 & 2020 | 591,344 | - | - | - | 591,344 |
| Employees | 18 May 2016 | 100% on 18 May 2019 | 3,170,000 | - | 2,270,000 | 900,000 | - |
| Employee | 21 August 2017 | 100% on 21 August 2020 | 100,000 | - | - | - | 100,000 |
| | | | 4,161,344 | - | 2,370,000 | 900,000 | 891,344 |

Save as disclosed above, none of the above Selected Participants are Directors.

SHARE AWARD PLAN AND SHARE OPTION SCHEME

SHARE OPTION SCHEME

The share option scheme (the “**Share Option Scheme**”) was conditionally adopted by resolutions in writing passed by the shareholders of the Company on 13 June 2014.

(a) Summary of terms

(i) Purpose and participants

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. Eligible participants of the Share Option Scheme include the following classes of participants:

- (aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of the subsidiaries or any entity (the “**Invested Entity**”) in which any member of the Group holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of the Company, any of the subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of the Group or any Invested Entity;
- (dd) any customer of any member of the Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to the Group or any member of any Invested Entity;
- (ff) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and

SHARE AWARD PLAN AND SHARE OPTION SCHEME

- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group,

and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

The eligibility of any of the above class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of the Directors' opinion as to his contribution to the development and growth of the Group.

(ii) **Total number of Shares available for issue**

The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group shall not in aggregate exceed 30% of the issued share capital (the "Issued Share Capital") of the Company from time to time. The total number of Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Group) to be granted under the Share Option Scheme and any other share option schemes of the Group as may from time to time be adopted by the Company as permitted under the Listing Rules initially must not, in aggregate, exceed 10% of the Issued Share Capital as at the time dealings in the Shares first commence on the Main Board of the Stock Exchange (and thereafter, if refreshed, shall not exceed 10% of the Issued Share Capital as at the date of approval of the refreshed limit by the shareholders). The maximum number of Shares that may be granted under the Share Option Scheme was 100 million Shares, representing 10% of the issued shares of the Company as at 7 July 2014, being the listing date of the Company on the Stock Exchange. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting with such participant and his associates abstaining from voting. As at the date of this interim report, the number of share options available for issue under the Share Option Scheme was 7,372,000, representing approximately 0.71% of the total issued Shares as at the date of this interim report.

SHARE AWARD PLAN AND SHARE OPTION SCHEME

(iii) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under Share Option Scheme and any other share option schemes of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the Issued Share Capital for the time being (the “**Individual Limit**”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the shareholders in general meeting of the Company with such grantee and his associates abstaining from voting.

(iv) Period within which the Shares must be taken up under an option

An option may be exercised in accordance with the terms of Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

(v) Minimum period for which an option must be held before being exercised

Unless otherwise determined by the Directors and stated in the offer of the grant of options to an eligible participant, there is no minimum period required under Share Option Scheme for the holding of an option before it can be exercised.

(vi) Amount payable on acceptance of the option and the period within which payments must be paid

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon receipt by the Company of the payment of a nominal consideration of HK\$1 and signed acceptance of offer by the eligible participant.

(vii) Basis of determining the exercise price

The subscription price per Share under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of the offer of grant; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share.

SHARE AWARD PLAN AND SHARE OPTION SCHEME

(viii) Remaining life

Subject to any earlier termination in accordance with its rules, the Share Option Scheme shall remain in force for a period of 10 years commencing on 13 June 2014. As at the date of this interim report, the Share Option Scheme had a remaining life of approximately five years.

(b) 2015 Scheme

On 9 April 2015, the Board approved the grant of options to subscribe for an aggregate of 14,216,000 underlying Shares at the exercise price of HK\$1.84 per Share (the “**2015 Scheme**”). The options were divided into two tranches at the grant date. The respective exercise dates of the options are as follows:

- (i) Tranche I: beginning on the 3rd anniversary of the grant date (i.e. 9 April 2018): 50% of such options granted; and
- (ii) Tranche II: beginning on the 4th anniversary of the grant date (i.e. 9 April 2019): 50% of such options granted.

These share options shall expire on the 5th anniversary of the date of the offer letter to the grantee granting to him the options to subscribe for the underlying Shares (i.e. 9 April 2020), or the earlier determination of the Share Option Scheme.

(c) 2016 Scheme

On 7 April 2016, the Board approved the grant of options to subscribe for an aggregate of 13,542,000 underlying Shares at the exercise price of HK\$0.77 per Share (the “**2016 Scheme**”). 12,912,000 share options (the “**Type A Options**”) under the 2016 Scheme as replacement of the outstanding share options under the 2015 Scheme shall be exercisable in two tranches as follows:

- (i) Tranche I: beginning on the 2nd anniversary of the grant date (i.e. 7 April 2018): up to 50% of such Type A Options granted; and
- (ii) Tranche II: beginning on the 3rd anniversary of the grant date (i.e. 7 April 2019): the rest of such Type A Options granted.

The Type A Options shall expire on the 4th anniversary of the date of the offer letter to each of the grantees granting to them the options to subscribe for the underlying Shares (i.e. 7 April 2020), or the earlier determination of the Share Option Scheme.

SHARE AWARD PLAN AND SHARE OPTION SCHEME

630,000 share options (the “**Type B Options**”) under the 2016 Scheme shall be exercisable in two tranches as follows:

- (i) Tranche I: beginning on the 3rd anniversary of the grant date (i.e. 7 April 2019): up to 50% of such Type B Options granted; and
- (ii) Tranche II: beginning on the 4th anniversary of the grant date (i.e. 7 April 2020): the rest of such Type B Options granted.

The Type B Options shall expire on the 5th anniversary of the grant date (i.e. 7 April 2021), or the earlier determination of the Share Option Scheme.

(d) 2017 Scheme

On 21 August 2017, the Board approved the grant of options to subscribe for an aggregate of 7,200,000 underlying Shares at the exercise price of HK\$0.435 per Share (the “2017 Scheme”). The options were divided into two tranches at the grant date. The respective exercise dates of the options are as follows:

- (i) Tranche I: beginning on the 3rd anniversary of the date of the employment agreement between the respective grantee and the Group: not more than 50% of the respective options granted; and
- (ii) Tranche II: beginning on the 4th anniversary of the date of the employment agreement between the respective grantee and the Group: the rest of the respective options granted.

These share options shall expire on the 5th anniversary of the date of grant (i.e. 21 August 2022), or the earlier determination of the Share Option Scheme.

(e) 2018 Scheme

On 28 November 2018, the Board approved the grant of options to subscribe for an aggregate of 57,670,000 underlying Shares at the exercise price of HK\$0.222 per Share (the “**2018 Scheme**”). The options shall be exercisable from the 2nd anniversary of the date of grant (i.e. 28 November 2020).

These share options shall expire on the 5th anniversary of the date of grant (i.e. 28 November 2023), or the earlier determination of the Share Option Scheme.

SHARE AWARD PLAN AND SHARE OPTION SCHEME

(f) Movement of the share options

Movement of the share options under the 2015 Scheme, 2016 Scheme, 2017 Scheme and 2018 Scheme respectively during the Interim Period is as follows:

2015 Scheme

| Grantee | Date of grant | Exercise price (HK\$) | Outstanding as at 1 January 2019 | Number of share options | | | | Outstanding as at 30 June 2019 |
|---------------------------|---------------|-----------------------|----------------------------------|-------------------------|-----------|-----------|--------|--------------------------------|
| | | | | Granted | Exercised | Cancelled | Lapsed | |
| Executive Director | | | | | | | | |
| Sun Qingjun | 9 April 2015 | 1.84 | 1,018,000 | - | - | - | - | 1,018,000 |
| Total | | | 1,018,000 | - | - | - | - | 1,018,000 |

2016 Scheme — Type A Options

| Grantee | Date of grant | Exercise price (HK\$) | Outstanding as at 1 January 2019 | Number of share options | | | | Outstanding as at 30 June 2019 |
|---------------------------------|---------------|-----------------------|----------------------------------|-------------------------|-----------|-----------|---------|--------------------------------|
| | | | | Granted | Exercised | Cancelled | Lapsed | |
| Executive Directors | | | | | | | | |
| Wong Kwok Fai | 7 April 2016 | 0.77 | 1,358,000 | - | - | - | - | 1,358,000 |
| Sun Qingjun | 7 April 2016 | 0.77 | 1,018,000 | - | - | - | - | 1,018,000 |
| Senior Management Member | | | | | | | | |
| So Yun Wah | 7 April 2016 | 0.77 | 678,000 | - | - | - | - | 678,000 |
| Others | | | | | | | | |
| Employees | 7 April 2016 | 0.77 | 3,740,000 | - | - | - | 974,000 | 2,786,000 |
| Total | | | 6,814,000 | - | - | - | 974,000 | 5,840,000 |

SHARE AWARD PLAN AND SHARE OPTION SCHEME

2017 Scheme

| Grantee | Date of grant | Exercise price (HK\$) | Outstanding as at 1 January 2019 | Number of share options | | | | Outstanding as at 30 June 2019 |
|-----------|----------------|-----------------------|----------------------------------|-------------------------|-----------|-----------|--------|--------------------------------|
| | | | | Granted | Exercised | Cancelled | Lapsed | |
| Employees | 21 August 2017 | 0.435 | 5,000,000 | - | - | - | - | 5,000,000 |
| Total | | | 5,000,000 | - | - | - | - | 5,000,000 |

2018 Scheme

| Grantee | Date of grant | Exercise price (HK\$) | Outstanding as at 1 January 2019 | Number of share options | | | | Outstanding as at 30 June 2019 |
|--|------------------|-----------------------|----------------------------------|-------------------------|-----------|-----------|--------|--------------------------------|
| | | | | Granted | Exercised | Cancelled | Lapsed | |
| Executive Director | | | | | | | | |
| Wong Kwok Fai | 28 November 2018 | 0.222 | 5,000,000 | - | - | - | - | 5,000,000 |
| Independent Non-executive Directors | | | | | | | | |
| Dr. Ng Chi Yeung, Simon | 28 November 2018 | 0.222 | 1,000,000 | - | - | - | - | 1,000,000 |
| Mr. Hung Muk Ming | 28 November 2018 | 0.222 | 1,000,000 | - | - | - | - | 1,000,000 |
| Mr. Mak Kwok Wing | 28 November 2018 | 0.222 | 1,000,000 | - | - | - | - | 1,000,000 |
| Senior Management Member | | | | | | | | |
| So Yun Wah | 28 November 2018 | 0.222 | 2,000,000 | - | - | - | - | 2,000,000 |
| Others | | | | | | | | |
| Employees | 28 November 2018 | 0.222 | 47,670,000 | - | - | - | - | 47,670,000 |
| Total | | | 57,670,000 | - | - | - | - | 57,670,000 |

Please refer to note 15(ii) for the accounting policy adopted for the share options.

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MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") (with certain modifications).

The Company has made specific enquiry of all Directors and all Directors have confirmed with the Company that they complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions for the Interim Period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2019, the Directors and the Company's chief executive, and their respective associates had the following interests in the Shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 and short positions which they are taken or deemed to have been taken under such provisions of the SFO) or pursuant to the Model Code, or were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO:

| Name of Director | Name of Group member/ associated corporation | Capacity/ nature of interest | Number of shares held (Note 1) | Approximate percentage of shareholding |
|-------------------------------------|---|---------------------------------------|---------------------------------------|--|
| Mr. Lo Chi Sum ("Mr. Lo") | The Company | Interest of controlled corporation | 667,500,000 Shares (L) (Note 2) | 64.11% |
| Mr. Lo | Cerulean Coast Limited | Beneficial owner | 1 share | 100% |
| Mr. Leung Wing Fai ("Mr. Leung") | The Company | Interest of controlled corporation | 60,000,000 Shares (L) (Note 3) | 5.76% |
| Mr. Leung | Future Miracle Limited | Beneficial owner | 1 share | 100% |

OTHER INFORMATION

| Name of Director | Name of Group member/ associated corporation | Capacity/ nature of interest | Number of shares held (Note 1) | Approximate percentage of shareholding |
|---------------------------------------|---|---------------------------------|--------------------------------------|--|
| Mr. Wong Kwok Fai ("Mr. Wong") | The Company | Beneficial owner | 6,708,000 Shares (L) (Note 5) | 0.64% |
| Mr. Sun Qingjun ("Mr. Sun") | The Company | Beneficial owner | 2,036,000 Shares (L) (Note 6) | 0.20% |
| Mr. Geng Liang ("Mr. Geng") | The Company | Beneficial owner | 17,801,047 Shares (L) (Note 7) | 1.71% |
| Dr. Ng Chi Yeung, Simon ("Dr. Ng") | The Company | Beneficial owner | 1,000,000 Shares (L) (Note 8) | 0.10% |
| Mr. Hung Muk Ming ("Mr. Hung") | The Company | Beneficial owner | 1,000,000 Shares (L) (Note 8) | 0.10% |
| Mr. Mak Kwok Wing ("Mr. Mak") | The Company | Beneficial owner | 1,000,000 Shares (L) (Note 8) | 0.10% |

Save as disclosed above, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations as at 30 June 2019.

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

As at 30 June 2019, so far as the Directors are aware of, the interests or short positions of the persons (other than a Director or chief executive of the Company whose interests are disclosed above) and corporations in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

| Name of shareholder | Capacity/ Nature of interest | Number of Shares held (Note 1) | Approximate percentage of shareholding |
|------------------------|---------------------------------|---------------------------------------|--|
| Cerulean Coast Limited | Beneficial owner | 667,500,000 Shares (L) (Note 2) | 64.11% |
| Future Miracle Limited | Beneficial owner | 60,000,000 Shares (L) (Note 3) | 5.76% |
| Ms. Wang Hui | Interest of spouse | 60,000,000 Shares (L) (Note 4) | 5.76% |

Notes:

1. The letter "L" denotes a person's or a corporation's long position in the Shares.
2. These Shares were held by Cerulean Coast Limited, which was wholly owned by Mr. Lo.
3. These Shares were held by Future Miracle Limited, which was wholly owned by Mr. Leung.
4. Ms. Wang Hui is the spouse of Mr. Leung and was deemed or taken to be interested in the 60,000,000 Shares held by Future Miracle Limited, which was wholly owned by Mr. Leung.
5. These Shares include (i) the share options granted to Mr. Wong to subscribe for 1,358,000 Shares and 5,000,000 Shares under the Share Option Scheme on 7 April 2016 and on 28 November 2018, respectively; (ii) a total of 200,000 awarded Shares granted to Mr. Wong under the Share Award Plan on 18 May 2016 and 21 August 2017; and (iii) 150,000 Shares directly and beneficially held by Mr. Wong. Details of the exercise price and exercise dates of the share options and the vesting dates of the awarded Shares were set out in the section headed "Share Award Plan and Share Option Scheme" in this interim report.

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6. These Shares include (i) the share options to subscribe for 1,018,000 Shares granted to Mr. Sun under the Share Option Scheme on 9 April 2015; and (ii) the share options to subscribe for 1,018,000 Shares granted to Mr. Sun under the Share Option Scheme on 7 April 2016. Details of the exercise price and exercise dates of the share options were set out in the section headed “Share Award Plan and Share Option Scheme” in this interim report.
7. These Shares represented an aggregate of 17,801,047 Shares issued to Mr. Geng on 20 June 2019 as part of the consideration shares for the acquisition of 100% equity interest of Satron Technologies Co., Ltd.* (泰德星創(北京)科技有限公司) pursuant to the equity transfer agreement dated 14 May 2019.
8. These Shares represented the share options to subscribe for 1,000,000 Shares respectively granted to each of Dr. Ng, Mr. Hung and Mr. Mak on 28 November 2018. Details of the exercise price and exercise dates of the share options were set out in the section headed “Share Award Plan and Share Option Scheme” in this interim report.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Interim Period.

CHANGE OF DIRECTOR'S INFORMATION

The change in directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the publication of the annual report of the Company for the year ended 31 December 2018 is set out below:

- (1) Mr. Wong Kwok Fai has been appointed as the chief technology officer of the Group since 11 June 2019.

CORPORATE GOVERNANCE

Throughout the Interim Period, the Company continued to apply the principles set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the “CG Code”).

* For identification purposes only

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The Group has applied these principles and adopted all code provisions, where applicable, of the CG Code as our own code of corporate governance. The Directors consider that the Company has complied with the applicable code provisions under the CG Code, save as the following:

- Under the code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing. The roles of the chairman and the chief executive officer (the “**CEO**”) of the Group was not separated and was performed by the same individual, Mr. Lo Chi Sum who acted as both the chairman and CEO of the Group throughout the Interim Period. The Directors will meet regularly to consider major matters affecting the operations of the Group. As such, the Directors consider that this structure will not impair the balance of power and authority between the Directors and the management of the Group and believes that this structure will enable the Group to make and implement decisions promptly and efficiently.

AUDIT COMMITTEE

The Audit Committee comprises three members, all of whom are independent non-executive Directors, namely Mr. Hung Muk Ming, Dr. Ng Chi Yeung, Simon and Mr. Mak Kwok Wing. Mr. Hung Muk Ming is the chairman of the Audit Committee. The Audit Committee has written terms of reference in compliance with the Listing Rules and the CG Code.

The Audit Committee has in conjunction with the management reviewed the accounting principles and practices adopted by the Group and discussed risk management, internal controls and financial reporting matters of the Group. The Audit Committee has no disagreement with the accounting treatment adopted by the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Six months ended 30 June | |
|---|------|------------------------------|------------------------------|
| | | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Revenue | 4 | 118,771 | 191,926 |
| Cost of sales | 4 | (83,851) | (148,047) |
| Gross profit | 4 | 34,920 | 43,879 |
| Selling expenses | | (9,265) | (13,107) |
| Administrative expenses | | (22,879) | (26,925) |
| Research and development | | (9,998) | (9,400) |
| Other gains — net | | 2,484 | 6,302 |
| Operating (loss)/profit | 6 | (4,738) | 749 |
| Finance income | 7 | 28 | 248 |
| Finance costs | 7 | (6,466) | (922) |
| Finance loss — net | | (6,438) | (674) |
| Share of loss of investments accounted for using the equity method | 5 | (2,413) | (2,188) |
| Loss before income tax | | (13,589) | (2,113) |
| Income tax expense | 8 | (888) | — |
| Loss from continuing operations for the period | | (14,477) | (2,113) |
| Profit from discontinued operations | | — | (3,762) |
| Loss for the period | | (14,477) | (5,875) |
| Loss attributable to: | | | |
| Owners of the Company | | (12,434) | (5,978) |
| Non-controlling interests | | (2,043) | 103 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Six months ended 30 June | |
|---|------|------------------------------|------------------------------|
| | | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Other comprehensive income: | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Currency translation differences | | 990 | (92) |
| Other comprehensive loss for the six-month period then ended, net of tax | | 990 | (92) |
| Total comprehensive loss for the period | | (13,487) | (5,967) |
| Total comprehensive (loss)/income attributable to: | | | |
| Owners of the Company | | (11,444) | (6,070) |
| Non-controlling interests | | (2,043) | 103 |
| Loss per share (expressed in RMB cents per share) | | | |
| Continuing operations: | | | |
| Basic and diluted earnings per share | 18 | (1.19) | (0.22) |
| Discontinued operations: | | | |
| Basic and diluted earnings per share | | – | (0.37) |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | 30 June 2019 RMB'000 | 31 December 2018 RMB'000 |
|--|------|----------------------------|--------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 38,959 | 40,112 |
| Intangible assets | 10 | 48,344 | 50,170 |
| Deferred income tax assets | | 578 | 1,229 |
| Trade and other receivables | 11 | 26,935 | 27,197 |
| Financial assets at fair value through profit or loss | | 45,821 | 45,263 |
| Investments accounted for using the equity method | 5 | 59,429 | 61,842 |
| Other non-current assets | | 684 | 693 |
| Total non-current assets | | 220,750 | 226,506 |
| Current assets | | | |
| Inventories | | 122,782 | 148,359 |
| Other current assets | 12 | 38,229 | 46,694 |
| Trade and other receivables | 11 | 250,899 | 255,102 |
| Pledged bank deposits | | 349 | 2,211 |
| Cash and cash equivalents | | 7,521 | 59,452 |
| Total current assets | | 419,780 | 511,818 |
| Total assets | | 640,530 | 738,324 |
| Equity | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 14 | 8,290 | 8,106 |
| Share premium | 14 | 269,212 | 265,396 |
| Other reserves | | (67,977) | (65,851) |
| Retained earnings | | 31,473 | 43,906 |
| Total equity | | 240,998 | 251,557 |
| Non-controlling interests | | 13,680 | 15,723 |
| Total equity | | 254,678 | 267,280 |

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | 30 June 2019 RMB'000 | 31 December 2018 RMB'000 |
|--|------|----------------------------|--------------------------------|
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | 16 | 23,305 | 9,387 |
| Deferred income tax liabilities | | 804 | 1,152 |
| Total non-current liabilities | | 24,109 | 10,539 |
| Current liabilities | | | |
| Contract liabilities | 13 | 66,277 | 89,528 |
| Trade and other payables | 17 | 152,548 | 185,148 |
| Current income tax liabilities | | 16,017 | 13,842 |
| Borrowings | 16 | 126,901 | 171,987 |
| Total current liabilities | | 361,743 | 460,505 |
| Total liabilities | | 385,852 | 471,044 |
| Total equity and liabilities | | 640,530 | 738,324 |
| Net current assets | | 58,037 | 51,313 |
| Total assets less current liabilities | | 278,787 | 277,819 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | |
|---|---------------------------------------|--------------------------|---------------------------|------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
| Unaudited | | | | | |
| Balance at January 1, 2019 | 8,106 | 265,396 | (65,851) | 43,906 | 251,557 |
| Comprehensive income | | | | | |
| Profit for the period | - | - | - | (12,433) | (12,433) |
| Other comprehensive income | | | | | |
| — currency translation differences | - | - | 990 | - | 990 |
| Total comprehensive income for the period ended 30 June 2019 | - | - | 990 | (12,433) | (11,443) |
| Transactions with owners | | | | | |
| Dividend to the the shareholders | - | - | - | - | - |
| Employees share option scheme | | | | | |
| — value of employee services | - | - | 700 | - | 700 |
| Issue of ordinary share for the equity consideration for investment in an associate | 184 | 3,816 | (3,816) | - | 184 |
| Total transactions with owners, recognised directly in equity | 184 | 3,816 | (3,116) | - | 884 |
| Balance as at 30 June 2019 | 8,290 | 269,212 | (67,977) | 31,473 | 240,998 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | |
|--|---------------------------------------|--------------------------|---------------------------|------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
| Unaudited | | | | | |
| Balance at January 1, 2018 | 8,106 | 265,396 | (62,769) | 101,443 | 312,176 |
| Comprehensive income | | | | | |
| Profit for the period | – | – | – | (5,979) | (5,979) |
| Other comprehensive income | | | | | |
| — currency translation differences | – | – | 59 | – | 59 |
| Total comprehensive income for the period ended 30 June 2018 | – | – | 59 | (5,979) | (5,920) |
| Transactions with owners | | | | | |
| Dividend to the the shareholders | – | – | – | – | – |
| Employees share option scheme | | | | | |
| — value of employee services | – | – | 1,380 | – | 1,380 |
| Total transactions with owners, recognised directly in equity | – | – | 1,380 | – | 1,380 |
| Balance as at 30 June 2018 | 8,106 | 265,396 | (61,330) | 95,464 | 307,636 |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended 30 June | |
|---|------------------------------|------------------------------|
| | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Cash flows from operating activities | | |
| Cash generated from operations | (13,219) | 21,665 |
| Interest paid | (6,191) | (5,133) |
| Income tax paid | (133) | (1,739) |
| Net cash (used in)/generated from operating activities | (19,543) | 14,793 |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment | (738) | (1,392) |
| Payment of pledged bank deposits | (349) | (1,348) |
| Collection of pledged bank deposits | 2,211 | 1,015 |
| Purchase of intangible assets | (2,100) | (1,829) |
| Proceeds from sale of property, plant and equipment | – | 182 |
| Acquisition of an associate | – | – |
| Net cash used in investing activities | (976) | (3,372) |
| Cash flows from financing activities | | |
| Proceeds from borrowings | 16,566 | 50,544 |
| Repayments of borrowings | (47,732) | (107,589) |
| Acquisition of interest in a subsidiary | – | – |
| Dividends paid to the then shareholders | – | – |
| Net cash used in financing activities | (31,166) | (57,045) |
| Net decrease in cash and cash equivalents | (51,685) | (45,624) |
| Cash and cash equivalents at beginning of period | 59,452 | 57,986 |
| Exchange loss on cash and cash equivalents | (246) | 4,212 |
| Cash and cash equivalents at end of the period | 7,521 | 16,574 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

Century Sage Scientific Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 18 December 2012 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands.

The address of the Company’s registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (the “**Group**”) are principally engaged in the provision of (i) application solutions, (ii) system maintenance services and (iii) sales of self-developed products, for the all-media industry in the PRC. The Group has operations mainly in the mainland China.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 7 July 2014.

This interim financial information was approved for issue by the Board on 30 August 2019.

This interim financial information has not been audited.

2. BASIS OF PREPARATION AND PRESENTATION

This interim financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard 34 (“**HKAS 34**”), “Interim financial reporting”. The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements.

Amendments to HKFRSs effective for the financial year ending 31 December 2019 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rates that would be applicable to expected total annual earnings.

4. SEGMENT INFORMATION

The chief operating decision-maker (“**CODM**”) mainly includes the executive directors, who are responsible for allocating resources, assessing performance of the operating segments and making strategic decisions, the CODM considers the business from both business and geographical perspective.

The Group has the following reportable segments for the relevant periods:

- Application solutions
- System maintenance services
- Sales of self-developed products

The sports and events business segment of the Group was disposed in November 2018. The sports and events business is classified as discontinued operations and the financial information of the Corresponding Period is restated accordingly.

The CODM assess the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling expenses, administrative expenses and finance cost are common costs incurred for the operating segment as a whole and therefore they are not included in the measure of the segments’ performance which is used by the CODM.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. SEGMENT INFORMATION *(Continued)*

The segment information provided to the CODM for the reportable segments for the periods is as follows:

| | Six months ended 30 June | |
|----------------------------------|---------------------------------|-----------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Segment revenue | | |
| Application solutions | 92,891 | 168,314 |
| System maintenance services | 12,200 | 6,588 |
| Sales of self-developed products | 13,680 | 17,024 |
| Total | 118,771 | 191,926 |
| Segment cost | | |
| Application solutions | (72,821) | (140,414) |
| System maintenance services | (5,895) | (3,444) |
| Sales of self-developed products | (5,135) | (4,189) |
| Total | (83,851) | (148,047) |
| Segment gross profit | | |
| Application solutions | 20,070 | 27,900 |
| System maintenance services | 6,305 | 3,144 |
| Sales of self-developed products | 8,545 | 12,835 |
| Total | 34,920 | 43,879 |
| Depreciation | | |
| Application solutions | 1,658 | 1,151 |
| System maintenance services | 65 | 45 |
| Sales of self-developed products | 168 | 116 |
| Total | 1,891 | 1,312 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. INVESTMENT IN ASSOCIATES

| | Six months ended 30 June 2019 RMB'000 |
|---|---|
| At 1 January 2019 | 61,842 |
| Addition | – |
| Share of post-tax profits of an associate | (2,413) |
| At 30 June 2019 | 59,429 |

The Group's share of the results in Beijing Gefei Technology Corporation* (北京格非科技股份有限公司) and its aggregated assets and liabilities are shown below:

| | Six months ended 30 June 2019 RMB'000 |
|-----------------|---|
| Assets | 87,245 |
| Liabilities | 46,971 |
| Revenues | 13,047 |
| Share of profit | (2,988) |
| Percentage held | 49% |

The Group's share of the results in Beijing Evertop Sports Culture Media Co., Ltd.* (北京永達天恒體育文化傳媒有限公司) and its aggregated assets and liabilities are shown below:

| | Six months ended 30 June 2019 RMB'000 |
|-----------------|---|
| Assets | 123,169 |
| Liabilities | 95,120 |
| Revenues | 27,957 |
| Share of profit | 575 |
| Percentage held | 45% |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6. OPERATING PROFIT

An analysis of the amounts presented as operating items in the financial information is given below:

| | Six months ended 30 June | |
|-------------------------------|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Equipment costs | 78,062 | 136,894 |
| Servicing and agency costs | 3,135 | 3,374 |
| Business development | 1,797 | 2,382 |
| Depreciation and amortisation | 5,817 | 5,302 |
| | 88,811 | 147,951 |

7. FINANCIAL COSTS

| | Six months ended 30 June | |
|---|------------------------------|------------------------------|
| | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Finance expenses | | |
| — Interest expenses on bank borrowings | (6,220) | (4,858) |
| — Net foreign exchange (loss)/gain | (246) | 3,936 |
| | (6,466) | (922) |
| Finance income | | |
| — Interest income on short-term bank deposits | 28 | 248 |
| Net finance costs | (6,438) | (674) |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8. INCOME TAX EXPENSE

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 the Cayman Islands income tax.

Hong Kong profits tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% for the six months ended 30 June 2019 on the estimated assessable profit for the period. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the Interim Period.

PRC enterprise income tax ("EIT")

Entities incorporated in the PRC are subject to EIT. According to the Law of the PRC on EIT (the "EIT Law") effective from 1 January 2008, all PRC enterprises are subject to a standard enterprise income tax rate of 25%, except for enterprises which are allowed to enjoy the preferential policies and provisions as discussed below:

Certain subsidiaries of the Group were qualified as the High and New Technology Enterprise ("HNTE") and the EIT was provided at a preferential tax rate as 15%.

PRC withholding tax

In addition, according to the EIT Law, dividends, interests, rent, royalties and gains on transfers of property received by a foreign enterprise, i.e. a non-China tax resident enterprise, will be subject to PRC withholding tax at 10% or a reduced treaty rate depending on provisions of tax treaty entered between the PRC and the jurisdiction where the foreign enterprise was incorporated. The withholding tax rate is 5% for the parent company in Hong Kong if it is the beneficial owner of the dividend received from the invested enterprises in the PRC and obtained the approval of enjoying the treaty rate from the PRC tax authorities. The withholding tax imposed on the dividend income received from the Group's PRC entities will reduce the Company's net income.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8. INCOME TAX EXPENSE *(Continued)*

PRC withholding tax *(Continued)*

The income tax expense of the Group for the Interim Period is analysed as follows:

| | Six months ended 30 June | |
|---------------------|------------------------------|------------------------------|
| | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Current income tax | 585 | 1,458 |
| Deferred income tax | 303 | (1,458) |
| Income tax expense | 888 | – |

Income tax expense is recognised based on management's estimate at the weighted average annual income tax rate expected for the full financial year.

9. DIVIDENDS

The Board does not recommend the distribution of interim dividend for the Interim Period (2018: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. PROPERTY, PLANT AND EQUIPMENT

| | Property, plant and equipment RMB'000 | Other intangible assets RMB'000 |
|--|--|--|
| Six months ended 30 June 2019 | | |
| Net book value or valuation | | |
| Opening amount as at 1 January 2019 | 40,112 | 50,170 |
| Additions | 738 | 2,100 |
| Disposals | – | – |
| Depreciation | (1,891) | (3,926) |
| Closing amount as at 30 June 2019 | 38,959 | 48,344 |
| Six months ended 30 June 2018 | | |
| Net book value or valuation | | |
| Opening amount as at 1 January 2018 | 52,209 | 55,081 |
| Additions | 302 | 1,815 |
| Disposals | (182) | – |
| Depreciation | (1,350) | (3,952) |
| Closing amount as at 30 June 2018 | 50,979 | 52,944 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11. TRADE AND OTHER RECEIVABLES

| | As at | |
|--|----------------------------|--------------------------------|
| | 30 June 2019 RMB'000 | 31 December 2018 RMB'000 |
| Included in current assets | | |
| Trade receivables | 262,601 | 262,499 |
| Trade receivables from associates | – | 7,912 |
| Less: provision for impairment of trade receivable | (26,211) | (27,154) |
| Trade receivables — net | 236,390 | 243,257 |
| Other receivables | | |
| Deposit for guarantee certificate over tendering and performance | 23,261 | 20,985 |
| Receivable related to deposit paid for acquisition of a subsidiary | – | 16,934 |
| Cash advance to staff | 5,278 | 5,424 |
| Receivable for disposal of a subsidiary | 2,900 | 2,900 |
| Others | 10,005 | 9,733 |
| | 277,834 | 299,233 |
| Less: provision for impairment of prepayment for acquisition of a subsidiary | – | (16,934) |
| | 277,834 | 282,299 |
| Less: Non-current portion | | |
| Trade receivables | 9,234 | 9,496 |
| Receivable for disposal of a subsidiary | 17,755 | 17,755 |
| Less: provision for impairment of trade receivable | (54) | (54) |
| | 26,935 | 27,197 |
| Current portion | 250,899 | 255,102 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2018 and 30 June 2019, the aging analysis of the trade receivables based on revenue recognition date is as follows:

| | As at | |
|--------------------|----------------------------|--------------------------------|
| | 30 June 2019 RMB'000 | 31 December 2018 RMB'000 |
| Up to 3 months | 44,721 | 55,279 |
| 3 to 6 months | 33,072 | 10,671 |
| 6 months to 1 year | 21,400 | 48,130 |
| 1 to 2 years | 83,759 | 79,035 |
| 2 to 3 years | 39,570 | 39,831 |
| Over 3 years | 40,079 | 37,465 |
| | 262,601 | 270,411 |

12. OTHER CURRENT ASSETS

| | As at | |
|--|---|---|
| | 30 June 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
| Prepayment for purchase of goods or services | 38,229 | 46,694 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13. CONTRACT LIABILITIES

| | As at | |
|-----------------------------------|---|---|
| | 30 June 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
| Contract liability to third party | 66,277 | 81,600 |
| Contract liability to associates | – | 7,928 |
| | 66,277 | 89,528 |

Contract liabilities primarily consist of the advance from customers for goods or services to be provided.

14. SHARE CAPITAL AND SHARE PREMIUM

| | Number of ordinary shares | Nominal value of ordinary shares HK\$'000 | Equivalent nominal value of ordinary shares RMB'000 | Share premium RMB'000 | Total RMB'000 |
|---|---------------------------------|---|--|-----------------------------|------------------|
| Balance at 1 January 2019 | 1,020,300,761 | 10,203 | 8,106 | 265,396 | 273,502 |
| Issue of ordinary shares for the equity consideration for acquisition of a subsidiary (a) | 20,942,408 | 209 | 184 | 3,816 | 4,000 |
| Balance at 30 June 2019 | 1,041,243,169 | 10,412 | 8,290 | 269,212 | 277,502 |
| Balance at 1 January 2018 and 30 June 2018 | 1,020,300,761 | 10,203 | 8,106 | 265,396 | 273,502 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14. SHARE CAPITAL AND SHARE PREMIUM *(Continued)*

- (a) Issue of ordinary shares for the equity consideration for acquisition of a subsidiary

On 14 May 2019, the Group acquired 100% of the share capital of Satron Technologies Co., Ltd.* (泰德星創(北京)科技有限公司) for a total consideration of RMB5,880,000, of which RMB4,000,000 was settled by way of issuing 20,942,408 new shares of the Company of an equivalent value of RMB4,000,000 to the vendors. The relevant shares were issued on 20 June 2019.

15. SHARE BASED PAYMENTS

(i) Share Award Plan

The Company has adopted a share award plan (the “Share Award Plan”) on 24 March 2014, which is administered by a trustee (the “Trustee”). The major shareholder of the Company, Cerulean Coast Limited, has reserved and set aside a total of 22,500,000 award shares and held by the Trustee. The Share Award Plan involves granting of existing shares held by the Trustee.

Movement of the awarded shares under the Share Award Plan during the period is as the following:

| | Number of awarded shares |
|-------------------|--------------------------------|
| At 1 January 2019 | 4,161,344 |
| Vested | (2,370,000) |
| Forfeited | (900,000) |
| At 30 June 2019 | 891,344 |
| At 1 January 2018 | 5,927,687 |
| Vested | – |
| Forfeited | (820,671) |
| At 30 June 2018 | 5,107,016 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15. SHARE BASED PAYMENTS *(Continued)*

(i) **Share Award Plan** *(Continued)*

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date. There were no shares awarded under the Share Award Plan during the Interim Period.

(ii) **Share Option Scheme**

The Company has adopted a share option scheme (the "**Share Option Scheme**") on 13 June 2014.

On 9 April 2015, the Board approved the grant of an option in respect of 14,216,000 shares at the exercise price of HK\$1.84 per share under the option (the "**2015 Scheme**"). The options were divided into 2 tranches at the grant date. The first tranche of 50% of the option can be exercised beginning on the 3rd anniversary of the grant date and the remaining tranche will become exercisable on the 4th anniversary of the grant date.

On 7 April 2016, the Board approved the grant of an option in respect of 13,542,000 shares at the exercise price of HK\$0.77 per share under the option (the "**2016 Scheme**") representing the following:

Type A: 12,912,000 share options under the 2016 Scheme were divided into 2 tranches at the grant date. The first tranche of 50% of the option can be exercised beginning on the 2nd anniversary of the grant date and the remaining tranche will become exercisable on the 3rd anniversary of the grant date. 8,540,000 share options under Type A was taken as replacement of the outstanding share options under the 2015 Scheme. The related incremental fair value at the date of modification (compared with the 2015 Scheme) would be spread over the vesting period of the new 2016 Scheme.

Type B: The remaining 630,000 share options under the 2016 Scheme were divided into 2 tranches at the grant date. The first tranche of 50% of the option can be exercised beginning on the 3rd anniversary of the grant date and the remaining tranche will become exercisable on the 4th anniversary of the grant date.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15. SHARE BASED PAYMENTS *(Continued)*

(ii) Share Option Scheme *(Continued)*

On 21 August 2017, the Board approved the grant of an option in respect of 7,200,000 shares at the exercise price of HK\$0.435 per share under the option (the "2017 Scheme"). The options were divided into 2 tranches at the grant date. The first tranche of 50% of the option can be exercised beginning on the 3rd anniversary of the date of the employment agreement between the respective grantee and the Group. The remaining tranche will become exercisable on the 4th anniversary of the date.

On 28 November 2018, the Board approved the grant of an option in respect of 57,670,000 shares at the exercise price of HK\$0.222 per share under the option (the "2018 Scheme"). The options can be exercised beginning on the 2nd anniversary of the grant date.

Movements in the number of share options outstanding for the Interim Period is as follows:

| | Number of share options | | | |
|-------------------|-------------------------|----------------|----------------|----------------|
| | 2015 Scheme | 2016 Scheme | 2017 Scheme | 2018 Scheme |
| At 1 January 2019 | 1,018,000 | 6,814,000 | 5,000,000 | 57,670,000 |
| Granted | – | – | – | – |
| Lapsed | – | (974,000) | – | – |
| At 30 June 2019 | 1,018,000 | 5,840,000 | 5,000,000 | 57,670,000 |

The Directors have used the binomial model to determine the fair value of the options granted, which is to be expensed over the vesting period. Significant judgement on parameters, such as risk free rate, dividend yield and expected volatility, was agreed by the management of the Group in applying the Binomial Model, which are summarised below.

| | 2017 Scheme | 2018 Scheme |
|---------------------|----------------|----------------|
| Risk free rate | 1.30% | 2.24% |
| Dividend yield | 1.38% | 0.00% |
| Expected volatility | 48.38% | 53.50% |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16. BORROWINGS

| | As at | |
|--|----------------------------|--------------------------------|
| | 30 June 2019 RMB'000 | 31 December 2018 RMB'000 |
| Non-current | | |
| Bank borrowings — secured | 23,305 | 9,387 |
| | 23,305 | 9,387 |
| Current | | |
| Bank borrowings — secured | | |
| — short term bank borrowings | 126,901 | 81,356 |
| — current portion of long term bank borrowings | — | 90,631 |
| | 126,901 | 171,987 |
| Total borrowings | 150,206 | 181,374 |

As at 30 June 2019, bank borrowings of RMB35,000,000 (31 December 2018: RMB25,000,000) were secured by the buildings of the Group, net book value of which amounted to RMB21,888,000 (31 December 2018: RMB22,695,000); trade receivables of RMB31,696,880 (31 December 2018: RMB25,750,000) were guaranteed by Beijing Zhongguancun Sic-tech Financing Guarantee Co., Ltd, an independent third party.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17. TRADE AND OTHER PAYABLES

| | As at | |
|--|---|---|
| | 30 June 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
| Trade payables | 81,285 | 94,130 |
| Trade payables to associates | 1,168 | 10,483 |
| Other taxes payable | 28,792 | 34,927 |
| Employee benefits payable | 6,436 | 6,656 |
| Amounts due to an associate | – | 11,236 |
| Amounts due to shareholders/directors | 14,864 | 7,622 |
| Accrual for professional service fee | 1,512 | 1,199 |
| Compensation payable for a legal dispute | 1,774 | 2,774 |
| Others | 16,717 | 16,121 |
| | 152,548 | 185,148 |

At 30 June 2019, the aging analysis of the trade payables based on invoice date is as follows:

| | As at | |
|--------------------|----------------------------|--------------------------------|
| | 30 June 2019 RMB'000 | 31 December 2018 RMB'000 |
| Up to 3 months | 57,917 | 67,281 |
| 3 to 6 months | 5,930 | 13,959 |
| 6 months to 1 year | 7,160 | 13,293 |
| 1 to 2 years | 7,010 | 991 |
| 2 to 3 years | 2,013 | 7,600 |
| Over 3 years | 2,423 | 1,489 |
| | 82,453 | 104,613 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18. EARNINGS PER SHARE

(a) Basic

Basic earnings per share for the six months ended 30 June 2018 and 2019 are calculated by dividing the profit of the Group attributable to owners of the Company by the weighted average number of ordinary shares deemed to be in issue during each respective year:

| | Six months ended 30 June | |
|---|------------------------------|------------------------------|
| | 2019 RMB'000 Unaudited | 2018 RMB'000 Unaudited |
| Loss attributable to owners of the Company (in RMB'000) | (12,434) | (5,978) |
| Weighted average number of ordinary shares in issue | 1,041,243 | 1,020,301 |
| Basic earnings per share (RMB cents per share) | (1.19) | (0.59) |

(b) Diluted

Potential dilutive ordinary shares are not included in the calculation of diluted earnings per share because they are anti-dilutive. The diluted earnings per share equal to the basic earnings per share.

19. OPERATING LEASE COMMITMENTS

The Group leases various offices and warehouses under both cancellable and non-cancellable operating lease agreements. The non-cancellable lease terms are between 1 and 4 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The Group is required to give at least one month prior notice for the termination of these agreements. The lease expenditure and related management fee, water and electricity (if necessary) charged to the income statement during the period is disclosed.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19. OPERATING LEASE COMMITMENTS *(Continued)*

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | As at | |
|--|---|---|
| | 30 June 2019 RMB'000 Unaudited | 31 December 2018 RMB'000 Audited |
| No later than 1 year | 3,260 | 3,382 |
| Later than 1 year and no later than 2 years | 1,840 | 2,032 |
| Later than 2 years and no later than 3 years | 230 | 244 |
| Later than 3 years | – | – |
| | 5,330 | 5,658 |

20. CONTINGENCIES

In March 2014, one of the subsidiaries of the Group was involved in a contractual dispute with a supplier of television broadcasting systems (the “**Claimant**”). The Claimant supplied certain television broadcasting systems to such subsidiary, who provided the application solutions services for the systems to a client in Hunan (the “**Client**”), the end-user of the systems. The contractual claim amounting to RMB6.77 million was brought by the Claimant against such subsidiary and the Client to the outstanding amount payable for the sale of the systems.

In October 2017, the court decided that such subsidiary was not liable for compensation. The Claimant then appealed to the higher people’s court and brought with total claims of about RMB9.99 million against such subsidiary and the Client. As at 31 December 2017, the Directors consider that the expected outcome of the legal dispute will not have a material adverse effect on the financial statements and therefore, no provision has been made.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20. CONTINGENCIES *(Continued)*

According to the written judgement of the higher people's court in June 2018, it was decided that such subsidiary and the Client were jointly liable for the compensation and other expenses amounted to approximately RMB7.60 million. In September 2018, the Claimant and such subsidiary entered into a settlement agreement to reduce the compensation to RMB5.57 million in instalments within one year, out of which RMB3.80 million was paid as at 30 June 2019. According to the opinion of the Group's legal counsel, upon settling total compensation according to the settlement agreement, the Group has the right to ask for compensation from the Client of the same amount. As at 30 June 2019, no contingent assets regarding the compensation receivable was recognised for prudence.

As at 30 June 2019, except for the legal dispute as disclosed above, the Directors were not aware of any other significant events that would have resulted in material contingent liabilities.