

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



China Digital Video Holdings Limited

中國數字視頻控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8280)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

This announcement will remain on the website of the GEM of Stock Exchange at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting. This announcement will also be published and remains on the website of the Company at www.cdv.com.

In this announcement, “we”, “us” or “our” refers to the Company and where the context otherwise requires, the Group (as defined below). Save as stated otherwise in this announcement, the defined terms herein shall have the same meaning as in the prospectus of the Company dated 15 June 2016 (the “**Prospectus**”).

INTERIM RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2016, together with the unaudited comparative figures for the corresponding period in 2015, as follows. These interim results have been reviewed by the Company’s auditors, Grant Thornton Hong Kong Limited.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2016

		(Unaudited)		(Unaudited)	
		Three months ended 30 June		Six months ended 30 June	
	Notes	2016	2015	2016	2015
		RMB'000	RMB'000	RMB'000	RMB'000
Revenue	3	158,698	173,017	311,845	279,970
Cost of sales		<u>(84,821)</u>	<u>(107,976)</u>	<u>(198,038)</u>	<u>(181,062)</u>
Gross profit		73,877	65,041	113,807	98,908
Other income	4	7,804	31,374	15,418	39,708
Selling and marketing expenses		(22,059)	(6,669)	(35,587)	(30,389)
Administrative expenses		(20,234)	(17,475)	(32,680)	(26,062)
Share-based compensation expense	18	(3,842)	—	(7,586)	—
Research and development expenses		(12,327)	(15,153)	(22,953)	(31,536)
Finance costs	5	(1,165)	(3,411)	(3,069)	(3,566)
Fair value gain/(loss) on redeemable convertible preferred shares	17	209,533	6,797	276,108	(10,582)
Share of losses of joint ventures	12	(764)	(2,633)	(3,647)	(2,966)
Profit before income tax	5	230,823	57,871	299,811	33,515
Income tax credit/(expense)	6	1,669	(6,595)	(1,773)	(6,471)
Profit for the period		232,492	51,276	298,038	27,044
Other comprehensive (loss)/income					
Items that may be subsequently reclassified to profit or loss:					
Exchange difference arising on the translation of foreign operation		(3,783)	996	(10,928)	521
Total comprehensive income for the period		228,709	52,272	287,110	27,565

Note	(Unaudited)		(Unaudited)	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period attributable to:				
Equity holders of the Company	233,870	53,794	300,331	30,862
Non-controlling interests	(1,378)	(2,518)	(2,293)	(3,818)
	<u>232,492</u>	<u>51,276</u>	<u>298,038</u>	<u>27,044</u>
Total comprehensive income for the period attributable to:				
Equity holders of the Company	230,087	54,790	289,403	31,383
Non-controlling interests	(1,378)	(2,518)	(2,293)	(3,818)
	<u>228,709</u>	<u>52,272</u>	<u>287,110</u>	<u>27,565</u>
Earnings per share for profit attributable to ordinary equity holders of the Company (expressed in RMB cents per share)				
Basic	<u>90.00</u>	<u>21.25</u>	<u>118.69</u>	<u>10.59</u>
Diluted	<u>5.16</u>	<u>10.82</u>	<u>5.17</u>	<u>8.75</u>

8

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

		(Unaudited)	(Audited)
		As at	As at
		30 June	31 December
Notes		2016	2015
		RMB'000	RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	4,540	6,677
Intangible assets	10	70,286	67,978
Goodwill	11	74,220	74,220
Interests in joint ventures	12	—	3,647
Other financial assets		3,534	3,461
Deferred tax assets		5,201	8,327
		<u>157,781</u>	<u>164,310</u>
Current assets			
Inventories		30,980	32,749
Trade and other receivables	13	495,424	420,206
Structured deposits	14	50,000	—
Pledged bank deposits		21,498	6,359
Bank balances and cash		361,926	181,085
		<u>959,828</u>	<u>640,399</u>
Current liabilities			
Trade and other payables	15	291,432	222,230
Income tax liabilities		8,600	17,493
Other interest-bearing borrowings		78,707	70,946
		<u>378,739</u>	<u>310,669</u>
Net current assets		<u>581,089</u>	<u>329,730</u>
Total assets less current liabilities		<u>738,870</u>	<u>494,040</u>

		(Unaudited)	(Audited)
		As at	As at
		30 June	31 December
	Notes	2016	2015
		RMB'000	RMB'000
Non-current liabilities			
Redeemable convertible preferred shares	17	—	607,832
Other interest-bearing borrowings		—	4,363
Deferred tax liabilities		<u>5,355</u>	<u>5,729</u>
		<u>5,355</u>	<u>617,924</u>
Net assets/(liabilities)		<u>733,515</u>	<u>(123,884)</u>
EQUITY			
Share capital – Ordinary shares	16	42	6
Share capital – Non-redeemable convertible preferred shares	17	—	26,235
Reserves		<u>739,721</u>	<u>(146,170)</u>
Equity attributable to equity holders of the Company		739,763	(119,929)
Non-controlling interests		<u>(6,248)</u>	<u>(3,955)</u>
Total equity/(Capital deficiency)		<u>733,515</u>	<u>(123,884)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2016

	Equity attributable to equity holders of the Company									
	Share capital – Ordinary Shares	Share capital – redeemable preferred shares	Share premium	Statutory reserve	Translation reserve	Share option reserve	(Accumulated losses)/ Retained earnings	Sub-total	Non-controlling interests	(Capital deficiency)/ Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at										
1 January 2016	6	26,235	—	19,731	2,865	21,723	(190,489)	(119,929)	(3,955)	(123,884)
Comprehensive income for the period										
Profit for the period	—	—	—	—	—	—	300,331	300,331	(2,293)	298,038
Other comprehensive loss for the period	—	—	—	—	(10,928)	—	—	(10,928)	—	(10,928)
Total comprehensive income for the period	—	—	—	—	(10,928)	—	300,331	289,403	(2,293)	287,110
Transactions with owners										
Conversion of convertible preferred shares (note 16(i))	5	(26,235)	368,469	—	—	—	—	342,239	—	342,239
Capitalization issue (note 16(iii))	21	—	(21)	—	—	—	—	—	—	—
Issuance of new shares in connection with the listing of the Company's shares (note 16(iv))	10	—	251,921	—	—	—	—	251,931	—	251,931
Share issuance expenses (note 16(iv))	—	—	(31,467)	—	—	—	—	(31,467)	—	(31,467)
Share-based compensation (Note 18)	—	—	—	—	—	7,586	—	7,586	—	7,586
Transfer upon forfeiture of share options	—	—	—	—	—	(31)	31	—	—	—
Appropriation to statutory reserve	—	—	—	5,347	—	—	(5,347)	—	—	—
Total transactions with owners	36	(26,235)	588,902	5,347	—	7,555	(5,316)	570,289	—	570,289
Balance at 30 June 2016	42	—	588,902	25,078	(8,063)	29,278	104,526	739,763	(6,248)	733,515

Equity attributable to equity holders of the Company

	Share capital – Ordinary Shares RMB'000 (Unaudited)	Share capital – Non- redeemable convertible preferred shares RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Statutory reserve RMB'000 (Unaudited)	Translation reserve RMB'000 (Unaudited)	Share option reserve RMB'000 (Unaudited)	Accumulated losses RMB'000 (Unaudited)	Sub-total RMB'000 (Unaudited)	Non- controlling interests RMB'000 (Unaudited)	Capital deficiency RMB'000 (Unaudited)
Balance at 1 January 2015	6	26,235	—	9,791	37,697	18,154	(301,034)	(209,151)	(2,818)	(211,969)
Comprehensive income for the period										
Profit for the period	—	—	—	—	—	—	30,862	30,862	(3,818)	27,044
Other comprehensive income for the period	—	—	—	—	521	—	—	521	—	521
Total comprehensive income for the period	—	—	—	—	521	—	30,862	31,383	(3,818)	27,565
Transactions with owners										
Transfer upon forfeiture of share options	—	—	—	—	—	(260)	260	—	—	—
Capital contribution from a non-controlling shareholder	—	—	—	—	—	—	—	—	3,000	3,000
Disposal of a subsidiary	—	—	—	—	—	—	—	—	1,968	1,968
Total transactions with owners	—	—	—	—	—	(260)	260	—	4,968	4,968
Balance at 30 June 2015	6	26,235	—	9,791	38,218	17,894	(269,912)	(177,768)	(1,668)	(179,436)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2016

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Cash flows from operating activities		
Profit before income tax	299,811	33,515
Adjustments for non-cash items	(245,646)	19,024
Operating profit before working capital changes	54,165	52,539
Net changes in working capitals	(23,753)	(137,661)
Cash generated from/(used in) operations	30,412	(85,122)
Income tax paid	(7,914)	—
Net cash from/(used in) operating activities	22,498	(85,122)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,818)	(1,271)
Purchase of intangible assets	(94)	—
Addition in development costs through internal development	(8,968)	(4,731)
Purchase of structured deposits	(50,000)	—
Decrease in time deposits with original maturities exceeding three months	130,150	—
Other investing activities	(1,420)	(13,476)
Net cash from/(used in) investing activities	67,850	(19,478)
Cash flows from financing activities		
Redemption of redeemable convertible preferred shares	—	(12,496)
Proceed from issuance of new shares in connection with the listing of the Company's shares	251,931	—
Payment of share issuance expenses	(31,467)	—
Other financing activities	164	45,233
Net cash from financing activities	220,628	32,737

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Net increase/(decrease) in cash and cash equivalents	310,976	(71,863)
Cash and cash equivalents at the beginning of period	30,935	97,372
Effect of foreign exchange rate changes on cash and cash equivalents held	15	6
Cash and cash equivalents at the end of period	341,926	25,515
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	361,926	75,515
Less: time deposits with original maturities exceeding three months	(20,000)	(50,000)
Cash and cash equivalents at the end of period	341,926	25,515

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

for the six months ended 30 June 2016

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2016 (the “Interim Financial Information”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of Stock Exchange, including compliance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “IASB”). The Interim Financial Information was authorised for issue by the Company’s Board of Directors on 10 August 2016.

The accounting policies and methods of computation used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the accountant’s report for the year ended 31 December 2015 included in the prospectus dated 15 June 2016 except for the adoption of the following amendments to International Financial Reporting Standards (“IFRSs”) that have become effective for accounting period beginning on 1 January 2016 and are relevant to the Group:

Amendments to IFRSs	Annual improvements to IFRSs 2012–2014 cycle
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation

The Group has applied all the amendments to standards, which are mandatory for the financial year beginning 1 January 2016. The adoption had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

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

The Interim Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the accountant's report for the year ended 31 December 2015 included in the prospectus dated 15 June 2016.

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

The Interim Financial Information is unaudited, but has been reviewed by Grant Thornton Hong Kong Limited in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

3. REVENUE AND SEGMENT INFORMATION

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

	(Unaudited)		(Unaudited)	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Solutions	91,011	127,781	221,151	202,895
Services	36,068	8,625	45,175	30,832
Products	31,619	36,611	45,519	46,243
	<u>158,698</u>	<u>173,017</u>	<u>311,845</u>	<u>279,970</u>

Geographical information

The Group primarily operates in the PRC. As at 31 December 2015 and 30 June 2016, substantially all of the non-current assets (other than financial instruments and deferred tax assets) of the Group were located in the PRC.

4. OTHER INCOME

	(Unaudited)		(Unaudited)	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Other revenue				
Interest income	666	470	862	746
Reversal of provision for doubtful debt	54	73	972	73
Value-added tax ("VAT") refunds (note a)	5,141	8,856	9,481	12,904
	<u>5,861</u>	<u>9,399</u>	<u>11,315</u>	<u>13,723</u>
Other net income/gain				
Gain on disposal of intangible assets	—	10,800	—	10,800
Gain on disposal of a subsidiary	—	7,872	—	7,872
Subsidy income from government (note b)	1,916	3,006	4,065	6,562
Sundry income	27	297	38	751
	<u>1,943</u>	<u>21,975</u>	<u>4,103</u>	<u>25,985</u>
	<u>7,804</u>	<u>31,374</u>	<u>15,418</u>	<u>39,708</u>

Notes:

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

5. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

	(Unaudited)		(Unaudited)	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Finance costs				
Interest on bank and other borrowings, wholly repayable within five years	<u>1,165</u>	<u>3,411</u>	<u>3,069</u>	<u>3,566</u>
Employee benefit expenses				
Salaries, bonus and allowances	25,483	27,837	50,619	56,930
Retirement benefit scheme contributions	5,459	5,334	11,898	12,285
Severance payments	9	389	18	497
Share-based compensation expense	<u>3,842</u>	<u>—</u>	<u>7,586</u>	<u>—</u>
	<u>34,793</u>	<u>33,560</u>	<u>70,121</u>	<u>69,712</u>

	(Unaudited)		(Unaudited)	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Other items				
Listing-related expenses	3,948	2,663	9,938	2,663
Cost of software and hardware equipments recognised as an expense, including	65,626	80,780	151,887	136,093
– Provision for inventory obsolescence	425	2,052	858	2,052
Depreciation of property, plant and equipment	2,685	3,922	4,508	6,340
Amortisation of intangible assets	3,251	3,127	6,754	6,139
Provision for doubtful trade and other receivables	5,838	6,424	5,838	6,424

6. INCOME TAX (CREDIT)/EXPENSE

	(Unaudited)		(Unaudited)	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Current tax - PRC enterprise income tax				
Current period	1,256	11,203	4,823	11,203
Over-provision in respect of prior year	(5,802)	—	(5,802)	—
	(4,546)	11,203	(979)	11,203

	(Unaudited)		(Unaudited)	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax				
Origination and reversal of temporary differences	102	(2,146)	(23)	(2,270)
Effect on deferred tax balances resulting from changes in tax rates	2,775	(2,462)	2,775	(2,462)
	<u>2,877</u>	<u>(4,608)</u>	<u>2,752</u>	<u>(4,732)</u>
Income tax (credit)/expense	<u>(1,669)</u>	<u>6,595</u>	<u>1,773</u>	<u>6,471</u>

Notes:

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

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

(c) Singapore profits tax

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

(d) PRC enterprise income tax

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

Pursuant to the relevant laws and regulations in the PRC, China Digital Video (Beijing) Limited (“CDV WFOE”), a subsidiary of the Company, obtained the “High and New Technology Enterprise” qualification (“HNTE”) in 2012 and renewed its qualification in 2015. In 2016, CDV WFOE was also accredited as a “Key Software Enterprise under the National Plan” (國家規劃佈局內重點軟體企業) and was therefore retrospectively entitled to a preferential income tax rate of 10% from 2015 and continues to enjoy this preferential income tax rate until it no longer meets the requirements of the qualification.

Pursuant to the relevant laws and regulations in the PRC, ZhengQi (Beijing) Video Technology Co., Ltd (北京正奇聯訊科技有限公司, “Beijing Zhengqi”), a subsidiary of the Company, obtained the HNTE in 2014 and accordingly enjoyed preferential income tax rate of 15% for the years 2014 to 2016.

According to relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 150% of the research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). CDV WFOE and Beijing Zhengqi have made its best estimate for the Super Deduction to be claimed in ascertaining their assessable profits for the three months and six months ended 30 June 2015 and 2016.

7. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

8. EARNINGS PER SHARE

For the purpose of computing basic and diluted earnings per share, the number of ordinary shares during each period have also been adjusted retrospectively for the proportional change in the number of shares outstanding as a result of the capitalisation issue as detailed in Note 16(iii), in the computation of both basic and diluted earnings per share for the three months and six months ended 30 June 2015 and 2016.

(a) Basic earnings per share

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

	(Unaudited)		(Unaudited)	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Earnings				
Profit attributable to equity holders of the Company	233,870	53,794	300,331	30,862
Undeclared dividend of preferred shares	(2,554)	(2,719)	(5,193)	(5,416)
Profit used to determine basic earnings per share	<u>231,316</u>	<u>51,075</u>	<u>295,138</u>	<u>25,446</u>

	(Unaudited) Three months ended 30 June 2016		(Unaudited) Six months ended 30 June 2016	
		2015		2015
Number of shares (in thousands)				
Weighted average number of ordinary shares outstanding for basic earnings per share	<u>257,007</u>	<u>240,318</u>	<u>248,663</u>	<u>240,318</u>

(b) Diluted earnings per share

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

	(Unaudited) Three months ended 30 June 2016 RMB'000		(Unaudited) Six months ended 30 June 2016 RMB'000	
		2015 RMB'000		2015 RMB'000
Earnings				
Profit attributable to ordinary equity holders of the Company used to determine basic earnings per share	231,316	51,075	295,138	25,446
Change in fair value on redeemable convertible preferred shares	(209,533)	(6,797)	(276,108)	3,878
Undeclared dividend of preferred shares	<u>2,554</u>	<u>2,719</u>	<u>5,193</u>	<u>4,178</u>
Profit used to determine diluted earnings per share	<u>24,337</u>	<u>46,997</u>	<u>24,223</u>	<u>33,502</u>

	(Unaudited)		(Unaudited)	
	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Number of shares				
(in thousands)				
Weighted average				
number of ordinary				
shares used to				
determine basic				
earnings per share	257,007	240,318	248,663	240,318
Effect of deemed				
conversion of preferred				
shares (after				
capitalization issue				
adjustment)	214,807	193,929	219,745	142,674
	471,814	434,247	468,408	382,992

For three months and six months ended 30 June 2015 and 2016, the Company has the following three categories of dilutive potential ordinary shares: non-redeemable convertible Series A-1 Preferred Shares, redeemable convertible preferred shares (including Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares and Series C Preferred Shares) and the 2010 Share Option Plan of the Company.

For the three months ended 30 June 2015 and 2016 and the six months ended 30 June 2016, the computation of diluted earnings per share has assumed the conversion of non-redeemable convertible Series A-1 preferred shares, redeemable convertible Series A, Series A-1, Series B and Series C preferred shares. For the six months ended 30 June 2015, the computation of diluted earnings per share has assumed the conversion of non-redeemable convertible Series A-1 preferred shares, redeemable convertible Series B and Series C preferred shares, but not on the remaining preferred shares since their conversion would result in an increase in earnings per share.

Share options of the Company are considered as anti-dilutive as the estimated market price of the ordinary shares of the Company is less than the exercise price of the share options at the end of each reporting period.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired property, plant and equipment at a cost of RMB2,447,000 (six months ended 30 June 2015: RMB1,749,000), of which RMB629,000 (six months ended 30 June 2015: RMB478,000) were transferred from the inventories.

10. INTANGIBLE ASSETS

During the six months ended 30 June 2016, additions to intangible assets by acquisition and capitalisation in respect of development costs amounted to RMB94,000 (six months ended 30 June 2015: nil) and RMB8,968,000 (six months ended 30 June 2015: RMB4,731,000) respectively.

11. GOODWILL

The carrying amount of goodwill arose from the acquisition of the digital broadcasting business in 2013.

The carrying amount of goodwill is allocated to the research and sales of video-related and broadcasting equipment and software and provision of related technical services in the PRC. The recoverable amount of goodwill was determined based on value-in-use calculations, using an annual cash flow budget plan covering a 5-year period with estimated long-term growth rate of 3.0% per annum (31 December 2015: 3.0%) for cash flows beyond the five-year period. A discount factor of 20.0% (31 December 2015: 20.0%) was applied in the value in use model, respectively. The key assumptions include stable profit margins, which have been determined based on the expectations for market share after taking into consideration current economic environment and market forecast. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount.

12. INTERESTS IN JOINT VENTURES

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Share of net assets	—	3,647

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

During the six months ended 30 June 2016, the share of loss of joint ventures recognized in profit or loss by the Group amounted to RMB3,647,000 (six months ended 30 June 2015: RMB2,966,000).

13. TRADE AND OTHER RECEIVABLES

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
Notes	2016	2015
	RMB'000	RMB'000
Trade and bills receivables		
From third parties	424,602	337,723
From related parties	5,959	6,842
	430,561	344,565
Less: provision for impairment of trade receivables	(22,916)	(18,050)
(a)	407,645	326,515
Other receivables	(b)	
Deposits, prepayments and other receivables	44,182	35,520
Deposit for guarantee certificate over tendering and performance	12,627	14,111
Amounts due from customers for contract work	201	—
Amounts due from related parties	1,691	9,526
Amounts due from joint ventures	10,668	12,779
VAT receivables	8,203	11,501
Advances to employees	13,835	7,690
Deferred IPO costs	—	6,192
	91,407	97,319
Less: provision for impairment of other receivables	(3,628)	(3,628)
	87,779	93,691
	495,424	420,206

The directors of the Group considered that the fair values of trade and other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

Included in trade and other receivables are the following amounts that are expected to be recovered after more than one year:

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Trade receivables	9,463	7,914
Deposit for guarantee certificate over tendering and performance	6,273	5,815
	<u>15,736</u>	<u>13,729</u>

The fair values of trade and other receivables which are expected to be recovered after more than one year are not materially different from their carrying amounts.

(a) Trade and bills receivables

Invoices issued to customers are in accordance with the payment terms stipulated in the contracts and payable on issuance. Deposits are normally required upon signing of the contract. For customers with good credit history and selected large television stations in the PRC with sound financial standing, its settlement may be longer than 180 days after issuance of invoices. As at 30 June 2016, trade and bills receivables contained retention money receivables (net of provisions) of RMB49,683,000 (31 December 2015: RMB42,990,000). Retention money receivables are normally collected within one to three

years after the completion of the relevant solution sales. Ageing analysis based on invoiced date of the trade and bills receivables and net of provisions at the respective reporting dates is as follows:

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Billed:		
0 to 90 days	98,707	149,951
91 to 180 days	49,878	50,437
181 to 365 days	114,756	19,435
1 to 2 years	7,021	2,300
	<u>270,362</u>	<u>222,123</u>
Unbilled	137,283	104,392
	<u>407,645</u>	<u>326,515</u>

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

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Balance at the beginning of the period/year	18,050	23,483
Provision for impairment	5,838	11,717
Reversal of provision for impairment	(972)	(16,650)
Written off as uncollectible	—	(500)
	<u>22,916</u>	<u>18,050</u>

(b) Other receivables

Deposit for guarantee certificate

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

Amounts due from customers for contract work

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

Amounts due from joint ventures/related parties

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

Provision for impairment of other receivables

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

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Balance at the beginning of the period/year	3,628	1,340
Provision for impairment	—	2,288
Balance at the end of the period/year	<u>3,628</u>	<u>3,628</u>

14. STRUCTURED DEPOSITS

The structured deposits as at 30 June 2016 consisted of deposits RMB50,000,000 (31 December 2015: nil) denominated in Renminbi and issued by banks in the PRC. The structured deposits carries interest at expected interest rate of 2.88% to 2.92% per annum, depending on the market price of the underlying instruments invested by the banks, payable on maturity 180 days from the date of purchase. The structured deposits were designated at financial assets through profit or loss on initial recognition as they contain non-closely related embedded derivative.

The structured deposits are measured by reference to the discounted cash flow approach with the unobservable input of expected yields. The higher the expected yield is, the higher the fair value. The directors considered the fair values of the structured deposits approximate to their carrying values. No change in fair value for the structured deposits is recognised for the six months ended 30 June 2016 as the effect is not significant to the profit or loss.

15. TRADE AND OTHER PAYABLES

		(Unaudited) As at 30 June 2016 RMB'000	(Audited) As at 31 December 2015 RMB'000
	Note		
Trade and bills payables			
To third parties	(a)	<u>128,586</u>	<u>104,960</u>
Other payables			
Amounts due to customers for contract work		722	1,319
Advances from customers		24,744	11,009
Other payables and accrued charges		45,643	20,986
Other tax liabilities		72,365	62,716
Staff costs and welfare accruals		9,970	8,198
Deferred income related to government grants		<u>9,402</u>	<u>13,042</u>
		<u>162,846</u>	<u>117,270</u>
		<u>291,432</u>	<u>222,230</u>

All amounts are short-term and hence the carrying values of the Group's trade and other payables as at 31 December 2015 and 30 June 2016 were considered to be a reasonable approximation of its fair value.

(a) Trade payables

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

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
0 to 90 days	85,153	76,543
91 to 180 days	21,175	8,658
181 to 365 days	8,270	6,782
1 to 2 years	4,147	5,096
2 to 3 years	2,758	1,264
Over 3 years	7,083	6,617
	<u>128,586</u>	<u>104,960</u>

16. SHARE CAPITAL

	Notes	Number of shares	Nominal value of shares US\$
Authorised:			
<i>Ordinary shares of the Company:</i>			
As at 31 December 2015 and 1 January 2016, at US\$0.00001 each		4,887,515,214	48,875
Re-designation and reclassification on 27 June 2016	(ii)	112,484,786	1,125
As at 30 June 2016 (Unaudited)		<u>5,000,000,000</u>	<u>50,000</u>
Redeemable convertible preferred shares:			
– Series A			
As at 31 December 2015 and 1 January 2016, at US\$0.00001 each		40,000,000	400
Re-designation and reclassification on 27 June 2016	(ii)	(40,000,000)	(400)
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>
– Series A-1			
As at 31 December 2015 and 1 January 2016, at US\$0.00001 each		27,500,000	275
Re-designation and reclassification on 27 June 2016	(ii)	(27,500,000)	(275)
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>

	Notes	Number of shares	Nominal value of shares US\$
– Series B			
As at 31 December 2015 and 1 January 2016, at US\$0.00001 each		34,833,333	348
Re-designation and reclassification on 27 June 2016	(ii)	<u>(34,833,333)</u>	<u>(348)</u>
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>
– Series C			
As at 31 December 2015 and 1 January 2016, at US\$0.00001 each		10,151,453	102
Re-designation and reclassification on 27 June 2016	(ii)	<u>(10,151,453)</u>	<u>(102)</u>
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>
Total redeemable convertible preferred shares			
As at 31 December 2015 and 1 January 2016, at US\$0.00001 each		112,484,786	1,125
Re-designation and reclassification on 27 June 2016	(ii)	<u>(112,484,786)</u>	<u>(1,125)</u>
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>

		Number of shares	Nominal value of shares US\$	Equivalent nominal value of shares RMB'000
	Notes			
Issued and fully paid:				
Ordinary shares of the Company:				
Ordinary shares as at				
1 January 2015,				
31 December 2015 and				
1 January 2016		80,000,000	800	6
Conversion of preferred shares	(i)	74,795,203	748	5
Issuance of shares upon				
capitalisation issue	(iii)	310,204,797	3,102	21
Issuance of new shares in				
connection with the listing of				
the Company's shares	(iv)	155,000,000	1,550	10
As at 30 June 2016 (Unaudited)		620,000,000	6,200	42

	Notes	Number of shares	Nominal value of shares US\$
<i>Non-redeemable convertible preferred shares:</i>			
– Series A-1			
As at 1 January 2015, 31 December 2015 and 1 January 2016		6,250,000	62
Converted into ordinary shares	(i)	(6,250,000)	(62)
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>
Redeemable convertible preferred shares:			
– Series A			
As at 1 January 2015		40,000,000	400
Full redemption completed during the year		(17,600,000)	(176)
As at 31 December 2015 and 1 January 2016		22,400,000	224
Converted into ordinary shares	(i)	(22,400,000)	(224)
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>
– Series A-1			
As at 1 January 2015		21,250,000	213
Full redemption completed during the year		(7,250,000)	(73)
As at 31 December 2015 and 1 January 2016		14,000,000	140
Converted into ordinary shares	(i)	(14,000,000)	(140)
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>

	Notes	Number of shares	Nominal value of shares US\$
– Series B			
As at 1 January 2015, 31 December 2015 and 1 January 2016		34,833,333	348
Converted into ordinary shares	(i)	<u>(34,833,333)</u>	<u>(348)</u>
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>
– Series C			
As at 1 January 2015, 31 December 2015 and 1 January 2016		10,151,453	102
Converted into ordinary shares	(i)	<u>(10,151,453)</u>	<u>(102)</u>
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>
Total redeemable convertible preferred shares			
As at 31 December 2015		<u>81,384,786</u>	<u>814</u>
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>

Notes:

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

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

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

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

(iii) Capitalization issue

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

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

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

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

17. REDEEMABLE CONVERTIBLE PREFERRED SHARES

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

	Notes	Number of shares	Nominal value of shares US\$
Redeemable convertible preferred shares			
– Series A			
As at 1 January 2015, at US\$0.00001 each		14,000,000	140
Modification during the year	(ii)	8,400,000	84
As at 31 December 2015 and 1 January 2016		22,400,000	224
Converted into ordinary share	16(i)	(22,400,000)	(224)
As at 30 June 2016 (Unaudited)		—	—
– Series A-1			
As at 1 January 2015, at US\$0.00001 each	(i)	8,750,000	87
Modification during the year	(ii)	5,250,000	53
As at 31 December 2015 and 1 January 2016		14,000,000	140
Converted into ordinary share	16(i)	(14,000,000)	(140)
As at 30 June 2016 (Unaudited)		—	—
– Series B			
As at 1 January 2015, 31 December 2015, 1 January 2016, at US\$0.00001 each	(i)	34,833,333	348
Converted into ordinary share	16(i)	(34,833,333)	(348)
As at 30 June 2016 (Unaudited)		—	—

	Notes	Number of shares	Nominal value of shares US\$
– Series C			
As at 1 January 2015,			
31 December 2015, 1 January 2016,			
at US\$0.00001 each	(i)	10,151,453	102
Converted into ordinary share	16(i)	<u>(10,151,453)</u>	<u>(102)</u>
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>
Aggregate redeemable convertible preferred shares			
As at 31 December 2015		<u>81,384,786</u>	<u>814</u>
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>
<i>Non-redeemable convertible preferred shares</i>			
– Series A-1			
As at 1 January 2015,			
31 December 2015,			
1 January 2016, at US\$0.00001 each		6,250,000	62
Converted into ordinary share	16(i)	<u>(6,250,000)</u>	<u>(62)</u>
As at 30 June 2016 (Unaudited)		<u>—</u>	<u>—</u>

Notes:

(i) Issue of preferred shares

On 8 January 2008, the Company issued 33,333,334 Series A redeemable convertible preferred shares (“Series A Preferred Shares”) of par value of US\$0.00001 each at a price of US\$0.30 per share at an aggregate purchase price of US\$10,000,000 (equivalent to approximately RMB72,540,000) to third-party investors. The holders of the Series A Preferred Shares also received 6,666,666 warrants to purchase the Company’s Series A Preferred Shares of par value of US\$0.00001 each at an exercise price of US\$0.30 each, in which the holders have fully exercised on 8 January 2011 at an aggregate consideration of US\$2,000,000 (equivalent to approximately RMB13,236,000). As at 1 January 2013, the holders of Series A Preferred Shares comprised of International Finance Corporation (“IFC”), Intel Capital Corporation (“Intel Capital”), Vertex Technology Fund (III) Ltd. (“Vertex Tech”) and Vertex Asia Growth Ltd (“Vertex Asia”).

On 18 August 2009, the Company issued 27,500,000 Series A-1 redeemable convertible preferred shares (“Series A-1 Preferred Shares”) of par value of US\$0.00001 each at a price of US\$0.40 per share at an aggregate purchase price of US\$11,000,000 (equivalent to approximately RMB74,982,930) to IFC, Intel Capital, Vertex Tech and Federal Hong Kong.

On 23 November 2011, the Company issued 34,833,333 Series B redeemable convertible preferred shares (“Series B Preferred Shares”) of par value of US\$0.00001 each at a price of US\$1.4354 per share at an aggregate purchase price of US\$50,000,000 (equivalent to approximately RMB318,320,000) to Carvillo Success Limited (“Carvillo”).

On 27 October 2014, the Company issued 10,151,453 Series C redeemable convertible preferred shares (“Series C Preferred Shares”) of par value of US\$0.00001 each at a price of approximately US\$1.6018 per share at an aggregate purchase price of US\$16,285,319 (equivalent to RMB100,000,000) to Founder Group (Hong Kong) Limited (“Founder Hong Kong”).

The major terms of the Series A, Series A-1, Series B and Series C Preferred Shares (collectively, the “Preferred Shares”) are set out in Appendix I to the Prospectus.

(ii) Redemption and settlement of Series A and Series A-1 Preferred Shares

Series A and Series A-1 Preferred Shares held by Vertex Funds

On 23 September 2013, the Company received a notice from Vertex Funds (being Vertex Tech and Vertex Asia) in which Vertex Tech has exercised its right to redeem 6,000,000 Series A Preferred Shares (at a redemption price of US\$0.60 per share) and 3,750,000 Series A-1 Preferred Shares (at a redemption price of US\$0.80 per share) at a total redemption price of US\$6,600,000 (equivalent to approximately RMB40,574,000), and Vertex Asia has exercised its right to redeem 6,000,000 Series A Preferred Shares (at a redemption price of US\$0.60 per share) at a total redemption price of US\$3,600,000 (equivalent to approximately RMB22,131,000). The total redemption prices were due within twenty (20) days of the date of the redemption notice.

Subsequent to the date of redemption notice and up to 4 March 2014, the Group has made payments to Vertex Funds of US\$3,060,000 (equivalent to approximately RMB18,719,000). On 5 March 2014, the Company has entered into a settlement agreement and release with Vertex Funds, in which the Company shall pay to Vertex Funds the remaining redemption price of US\$7,140,000 divided into equal monthly instalments of US\$510,000 (the “Settlement Payment”) commencing from 31 March 2014 to 30 April 2015. The Company shall also reimburse Vertex Funds a further Settlement Payment not exceeding US\$20,000 (equivalent to approximately RMB123,000) for legal and professional fees by end of March 2014. If any Settlement Payment is not made on or before its due date in accordance with the repayment schedule, the Company shall pay, on or before a date not exceeding 59 days from the original due date of that Settlement Payment (the “Cure Date”), the amount of that Settlement Payment plus interest of 2% per month on the amount of that Settlement Payment from the original due date to the Cure Date.

On 26 June 2015, the Board approved the cancellation of 12,000,000 Series A Preferred Shares and 3,750,000 Series A-1 Preferred Shares upon the redemption amounts to Vertex Funds were fully paid by the Group during the year ended 31 December 2015.

Series A and Series A-1 Preferred Shares held by IFC and Intel Capital

On 23 September 2013, the Company received a notice from IFC to redeem its 20,000,000 Series A Preferred Shares (at a redemption price of US\$0.60 per share) and 12,500,000 Series A-1 Shares (at a redemption price of US\$0.80 per share) at a total redemption price of US\$22,000,000 (equivalent to approximately RMB135,245,000). On the same date, the Company received a notice from Intel Capital to redeem its 8,000,000 Series A Preferred Shares and 5,000,000 Series A-1 Shares at a total redemption price of US\$8,800,000 (equivalent to approximately RMB54,098,000). The total redemption prices were due within twenty (20) days of the date of the redemption notice.

Subsequent to the date of redemption notice and up to 27 July 2014, the Company has not made any payments to IFC and Intel Capital. On 28 July 2014, IFC, Intel Capital and the Company (the “Parties”) have entered into a settlement agreement to modify the redemption arrangements. The Parties agreed that the Company will redeem from IFC its 10,000,000 Series A Preferred Shares and 6,250,000 Series A-1 Preferred Shares at a total redemption price of US\$11,000,000 (equivalent to approximately RMB67,783,000). For Intel Capital, the Company will redeem its 4,000,000 Series A Preferred Shares and 2,500,000 Series A-1 Preferred Shares at a total redemption price of US\$4,400,000 (equivalent to approximately RMB26,880,000). It was also agreed that the Company will not be required to redeem the remaining 10,000,000 Series A Preferred Shares and 6,250,000 Series A-1 Preferred Shares held by IFC and the remaining 4,000,000 Series A Preferred Shares and 2,500,000 Series A-1 Preferred Shares held by Intel Capital within eighteen (18) months after the date of the settlement agreement i.e. 28 January 2016.

The redemption of the redeemed shares shall take place on a date (the “Closing Date”) designated by the Company which shall be no later than six months after the date of the settlement agreement. The total redemption consideration of US\$15,400,000 (equivalent to approximately RMB94,896,000) shall be paid to IFC and Intel Capital as follows: (a) within 10 days from the settlement agreement, without any deduction, IFC will be paid the sum of US\$4,400,000 (equivalent to approximately RMB27,113,000) and Intel Capital will be paid the sum of US\$1,760,000 (equivalent to approximately RMB10,845,000); (b) on the Closing Date, without any deduction, IFC will be paid the sum of US\$6,600,000 (equivalent to approximately RMB40,670,000) and Intel Capital will be paid the sum of US\$2,640,000 (equivalent to approximately RMB16,268,000).

On 28 July 2015, the Parties entered into an amended and restated settlement agreement to modify the redemption arrangements. The Parties agreed that (a) the partial redemption payments made by the Company to IFC in prior years totalling US\$4,400,000 (equivalent to approximately RMB27,073,000) will be deemed as the full redemption payment of 4,000,000 Series A Preferred Shares and 2,500,000 Series A-1 Preferred Shares, and the partial redemption payments made by the Company to Intel Capital in prior years totalling US\$1,760,000 (equivalent to approximately RMB10,829,000) will be deemed as the full redemption payment of 1,600,000 Series A Preferred Shares and 1,000,000 Series A-1 Preferred Shares. The redemption is deemed to have occurred on 23 July 2015; (b) IFC and Intel Capital withdrawn the redemption notice given to the Company on 23 September 2013 and will not require the Company to redeem any of the remaining preferred shares until and unless the Company fails to effect a closing of a Qualified IPO on or before 31 March 2017; and (c) in lieu of redeeming the 13,650,000 Series A and Series A-1 Preferred Shares (including 6,000,000 Series A Preferred Shares and 3,750,000 Series A-1 Preferred Shares held by IFC and 2,400,000 Series A Preferred Shares and 1,500,000 Series A-1 Preferred Shares held by Intel Capital), such shares were sold by IFC and Intel Capital to Hong Kong Aoxin Share Limited, an independent third party.

(iii) Accounting for Preferred Shares

The Preferred Shares are designated as financial liabilities at fair value through profit or loss on initial recognition. The Preferred Shares are measured at fair value with changes in fair value recognised in the profit or loss. Upon the exercise of the redemption option by the holders of the Preferred Shares, the financial liabilities are measured at amortised costs.

The Preferred Shares were valued at fair value by the Company with reference to an independent valuation provided by an independent firm of professional valuers. The fair value of equity value at 31 December 2015 was determined by using valuation technique of discounted cash flow analysis. The fair value of equity value is then considered for the lack of marketability. The fair value of the Preferred Shares was determined by option pricing method. The present value of the estimated future cash flow is discounted at the weighted average cost of capital ("WACC") of 15.5% at 31 December 2015.

The assumptions and key parameters adopted for the valuation of the Preferred Shares as at 31 December 2015 are as follows:

Methodology	Option-pricing method
Estimated probability of Preferred Shares	
– for liquidation	2.5%
– for redemption	17.5%
– for conversion	80.0%
Risk-free rate	
– for liquidation	0.7%
– for redemption	0.7%
Time to expiration (number of years)	1.3 years
Preferred shares dividend yield	Nil
Volatility	
– for liquidation	42.0%
– for redemption	42.0%

On 27 June 2016, the Preferred Shares were converted into the Company's ordinary shares at par value of US\$0.00001 each (Note 16(i)). Immediately before the conversion, the fair value of the redeemable convertible preferred shares was approximately RMB342,239,000, which was measured by the Company with reference to the closing price on the conversion date of HK\$1.90 per share.

The movement of the Preferred Shares are set out below:

	Redeemable convertible preferred shares			Non-redeemable convertible preferred shares included in equity
	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000	RMB'000
At 1 January 2015	564,233	69,022	633,255	26,235
Changes in fair value recognised in profit or loss	10,582	—	10,582	—
Repayment during the period	—	(12,496)	(12,496)	—
Currency translation differences	(519)	(36)	(555)	—
At 30 June 2015 (Unaudited)	<u>574,296</u>	<u>56,490</u>	<u>630,786</u>	<u>26,235</u>
At 31 December 2015 and 1 January 2016	607,832	—	607,832	26,235
Changes in fair value recognised in profit or loss	(276,108)	—	(276,108)	—
Converted into ordinary shares (note 16(i))	(342,239)	—	(342,239)	(26,235)
Currency translation differences	10,515	—	10,515	—
At 30 June 2016 (Unaudited)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

18. SHARE-BASED COMPENSATION TRANSACTIONS

Equity-settled share option scheme

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

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

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

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

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

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

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

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

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

On 1 October 2015, 2,935,000 options were granted by the Company to the key employees of the Group under the 2010 Share Option Plan with estimated total fair value of approximately US\$3,000,000 (equivalent to approximately RMB19,195,000). The exercise price of the share options granted is US\$0.00001 per share. The share options are valid for a period of 10 years from 1 October 2015. Included in the 2,935,000 options, 1,435,000 options granted will vest on the 1 October 2016, and the remaining 1,500,000 options are subject to a vesting scale in which 40%, 30% and 30% of options granted shall vest on 1 October 2016, 1 October 2017 and 1 October 2018 respectively. The options granted are exercisable from 1 October 2016 to 30 September 2025.

The Company has adjusted, pursuant to the authority granted to the board of director under the 2010 Share Option Plan, the total number of shares subject to options granted under the 2010 Share Option Plan to 77,893,000 as a result the Capitalization Issue (as detailed in Note 16(ii)). Upon completion of such grant and adjustment, no further options will be granted under the 2010 Share Option Plan. The number of share option outstanding disclosed below has been adjusted to reflect the Capitalisation Issue which was completed on 27 June 2016.

Movements in the number of share options during the period are as follows:

	(Unaudited) Six months ended 30 June 2016		(Unaudited) Six months ended 30 June 2015	
	Average exercise price in US\$ per share option	Number of share options	Average exercise price in US\$ per share option	Number of share options
Directors				
At beginning and end of period	<u>1.16</u>	<u>30,940,914</u>	<u>1.16</u>	<u>30,940,914</u>
Employees				
At beginning of period	0.94	47,102,285	1.16	39,352,036
Forfeited during the period	<u>1.16</u>	<u>(150,199)</u>	<u>1.16</u>	<u>(1,006,330)</u>
At end of period	<u>1.03</u>	<u>46,952,086</u>	<u>1.16</u>	<u>38,345,706</u>
Total				
At beginning of period	1.03	78,043,199	1.16	70,292,950
Forfeited during the period	<u>1.16</u>	<u>(150,199)</u>	<u>1.16</u>	<u>(1,006,330)</u>
At end of period	<u>1.03</u>	<u>77,893,000</u>	<u>1.16</u>	<u>69,286,620</u>
Excisable at the end of period	<u>1.16</u>	<u>77,893,000</u>	<u>1.16</u>	<u>69,286,620</u>

None of the above share options were exercised during the period. The weighted average remaining contractual life of options outstanding at 30 June 2016 was 5.0 years (31 December 2015: 5.5 years).

The Group recognised a total expense of RMB7,586,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil) in relation to the above share options granted by the Company, and the share-based compensation expense were shown as a separate item on the face of the condensed consolidated statement of comprehensive income.

19. COMMITMENTS

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

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
Within one year	14,317	7,079
In the second to fifth year inclusive	4,083	—
	<u>18,400</u>	<u>7,079</u>

20. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Name of related parties	Relationship with the Group
Mr. Zheng Fushuang (“Mr. Zheng”)	Substantial shareholder of the Company and director of the Company
China Digital Video Cloud (Beijing) Technology Co., Ltd (“CDV Cloud”)	Company in which Mr. Zheng can exercise significant influence since May 2015
Xinxin Holding Co., Ltd. (“Xinxin Holding”)	Controlled by Mr. Zheng up to 25 January 2016. Mr. Zheng can exercise significant influence in the company with effect from 25 January 2016
Xin’aote Silicon Valley Video Technology Co., Ltd. (“Xin’aote Video”)	Controlled by Mr. Zheng
Shining Wisdom Group Limited (“Wisdom Group Limited”)	Controlled by Mr. Zheng

a) Transactions with related parties

		(Unaudited)	
		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
Xinxin Holding	Rental expenses and property management fee	6,082	6,528
Xin'aote Video	Rental expenses and property management fee	932	1,062
Xin'aote Video	Sales of goods and provision of service	1,259	3,754
CDV Cloud	Sales of goods and provision of service	9,500	—
CDV Cloud	Purchase of services	100	—
Mr. Zheng	Sale of a subsidiary (note)	—	6,000
Beijing Hermit	Disposal of property, plant and equipment	—	237
Beijing Yueying	Disposal of property, plant and equipment	—	333
Xin'aote Cloud	Disposal of property, plant and equipment	291	148

Note: During the six months ended 30 June 2015, the Group disposed of its entire 80% interest in CDV Cloud, a non-wholly owned subsidiary of CDV WFOE, to Mr. Zheng and a third party at a total consideration of RMB8,000,000 out of which 60% interest is sold to Mr. Zheng for a cash consideration of RMB6,000,000.

In addition to the above, during six months ended 30 June 2015, CDV WFOE has assigned the amounts due from Mr. Zheng and Wisdom Group of approximately RMB6,114,000 and RMB3,048,000 respectively to Xinxin Holding (the "Assignment"). Accordingly, CDV WFOE has set off an aggregate amount of RMB9,162,000 against its amounts due to Xinxin Holding. Subsequent to the Assignment, CDV WFOE, Xinxin Holding and the Company have entered into an agreement in which CDV WFOE has assigned its amounts due to Xinxin Holding of RMB68,101,000 to the Company. Accordingly, the Company has set off the same amount against its amounts due from Xinxin Holding.

b) Key management personnel remuneration

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

	(Unaudited)	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Basic salaries and allowances	1,911	1,379
Discretionary bonus	282	—
Retirement benefit scheme contributions	135	46
Share-based compensation expense	7,586	—
	9,914	1,425

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	(Unaudited)	(Audited)
	As at	As at
	30 June	31 December
	2016	2015
	Level 3	Level 3
	RMB'000	RMB'000
Financial assets		
Financial assets designated at fair value through profit or loss		
– Structured deposits	50,000	—
Financial liabilities		
Financial liabilities designated at fair value through profit or loss		
– Redeemable convertible preferred shares	—	607,832

The Group's financial instruments classified within Level 3 of the fair value hierarchy represent the redeemable convertible preferred shares and structured deposit. The valuation process and the reconciliation of the carrying amount of the redeemable convertible preferred shares are disclosed in Note 17. As detailed in Note 14, no gains or losses are recognised in profit or loss relating to the change in fair value of structured deposits in the current period as the amount involved is insignificant, and therefore no reconciliation of Level 3 fair value measurements is presented.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

We have established business relationship with most of the central- and provincial-level TV stations in China and with some of the provincial-level TV broadcasters in China for over 20 years. We have also served alternative broadcasting platforms, such as cable networks operators, Internet media content providers and IPTV operators. During the six months ended 30 June 2016 (the “**2016 Interim Period**”), we continued to serve a large number of central-, provincial- and municipal-level TV broadcasters and operators in China, including CCTV, the largest broadcaster in China, and Shanghai Media Group.

We believe the following strengths differentiate us from other industry participants and have enable us to compete effectively in our industry:

- Leading market position with strong brand recognition and a distinguished history
- Highly responsive R&D supported by strong technology expertise and a large intellectual property portfolio
- Large, diverse and high-quality customer base with long-term relationships
- New businesses leveraging our technical expertise to drive future growth
- Nationwide sales coverage with efficient and effective customer services
- Professional and experienced management team

We successfully completed our Global Offering in the 2016 Interim Period and our Shares commenced to be listed on the GEM of the Stock Exchange on 27 June 2016.

FINANCIAL REVIEW

We recorded a total revenue of RMB311.8 million for the 2016 Interim Period, representing an increase of 11.4% from RMB280.0 million for the six months ended 30 June 2015 (the “**2015 Interim Period**”). Profit for the 2016 Interim Period increased significantly by 1,002.0% from RMB27.0 million in the 2015 Interim Period million to RMB298.0 million in the 2016 Interim Period. Such increase was primarily attributable to the RMB276.1 million fair value gain on redeemable convertible preferred shares as a result of the completion of the QIPO in the 2016 Interim Period as compared to the RMB10.6 million fair value loss on redeemable convertible preferred shares in the 2015 Interim Period.

Our adjusted net profit increased by 82.9% to RMB39.5 million for the 2016 Interim Period from RMB21.6 million for the 2015 Interim Period. Such increase was mainly attributable to (a) the increase in gross profit and the improvement of gross profit margin; and (b) the decrease in the income tax expenses due to the recognition of preferential income tax rate of a subsidiary of the Company in the 2016 Interim Period.

Analysis on Interim Condensed Consolidated Statements of Comprehensive Income Items

Revenue

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

	Six months ended 30 June			
	2016		2015	
	(Unaudited)		(Unaudited)	
	Amount	% of total	Amount	% of total
	(RMB in thousands, except percentages)			
Solutions	221,151	70.9	202,895	72.5
Services	45,175	14.5	30,832	11.0
Products	45,519	14.6	46,243	16.5
Total	<u>311,845</u>	<u>100.0</u>	<u>279,970</u>	<u>100.0</u>

Our revenue increased by 11.4% to RMB311.8 million for the 2016 Interim Period from RMB280.0 million in the 2015 Interim Period. This increase was primarily attributable to the increase in the revenue from sale of solutions and provision of services. Our revenue from sale of solutions increased by 9.0% from RMB202.9 million for the 2015 Interim Period to RMB221.2 million for the 2016 Interim Period, primarily attributable to the growth in the digital broadcast automation solution business. Our revenue from provision of services increased substantially by 46.8% from RMB30.8 million for the 2015 Interim Period to RMB45.2 million for the 2016 Interim Period mainly attributable to revenue recognized for services under a software design service contract with a key customer. Our revenue from sale of products remained stable for the 2016 Interim Period.

Cost of Sales

Our cost of sales increased by 9.4% to RMB198.0 million for the 2016 Interim Period from RMB181.1 million for the 2015 Interim Period, primarily due to increases in our cost of software and hardware equipment as a result of our increased solution and service sales.

Gross Profit and Gross Profit Margin

Our gross profit represents revenue less cost of sales. Our gross profit increased by 15.1% to RMB113.8 million for the 2016 Interim Period from RMB98.9 million for the 2015 Interim Period, and our gross profit margin increased to 36.5% for the 2016 Interim Period from 35.3% for the 2015 Interim Period. Specifically:

Gross profit for our solution business increased by 5.1% to RMB59.4 million during the 2016 Interim Period from RMB56.5 million in 2015 Interim Period. Gross profit margin for our solution business in 2016 Interim Period remained stable at 26.9% as compared to 27.8% in the 2015 Interim Period.

Gross profit for our service business increased by 129.1% to RMB25.2 million during the 2016 Interim Period from RMB11.0 million in 2015 Interim Period. Gross profit margin for our service business increased to 55.8% in 2016 Interim Period from 35.7% in 2015 Interim Period, primarily due to the recognition of revenue for a software design service contract with a key customer.

Gross profit for our product business decreased by 7.0% to RMB29.2 million during the 2016 Interim Period from RMB31.4 million in 2015 Interim Period. Gross profit margin for our product business decreased to 64.1% in 2016 Interim Period from 67.9% in 2015 Interim Period, primarily due to the decrease in revenue for our product business and more stable cost base as a result of our continuance procurement management efforts.

Other Income

Other income decreased by 61.2% to RMB15.4 million for the 2016 Interim Period from RMB39.7 million for the 2015 Interim Period, primarily due to (i) the absence of certain income in the 2016 Interim Period which was available in the 2015 Interim Period, namely, (a) the gain of RMB10.8 million on the disposal of intangible assets and (b) gain of RMB7.9 million on disposal of our equity investment; and (ii) a decrease of RMB2.5 million in subsidy income from government in the 2016 Interim Period as compared to the 2015 Interim Period.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 17.1% to RMB35.6 million for the 2016 Interim Period from RMB30.4 million for 2015 Interim Period. Such increase was in line with the increase in our revenue.

Administrative Expenses

Our administrative expenses increased by 25.4% to RMB32.7 million for the 2016 Interim Period from RMB26.1 million for the 2015 Interim Period, primarily due to the incurrence of listing expenses of RMB9.9 million relating to the Global Offering for the 2016 Interim Period as compared to such listing expenses of RMB2.7 million for the 2015 Interim Period.

Share-Based Compensation Expense

During the 2016 Interim Period, we recognized share-based compensation expense of RMB7.6 million in connection with our Pre-IPO Share Option Scheme. We did not recognize any share-based compensation expense during the 2015 Interim Period.

Research and Development Expenses

Our research and development expenses decreased by 27.2% to RMB23.0 million for the 2016 Interim Period from RMB31.5 million for the 2015 Interim Period, primarily due to a decrease in employee compensation for our R&D personnel, reflecting the effect of our measure to optimize our R&D team and improve the efficiency.

Finance Costs

Our finance costs decreased by 13.9% to RMB3.1 million for the 2016 Interim Period from RMB3.6 million for the 2015 Interim Period, primarily due to the decrease in the interest expense on our borrowings.

Fair Value Gain/Loss on Redeemable Convertible Preferred Shares

As a result of the completion of the QIPO, we recorded fair value gain of RMB276.1 million on our redeemable convertible preferred shares for the 2016 Interim Period. We recorded a fair value loss of RMB10.6 million for the 2015 Interim Period.

Share of Losses of Joint Ventures

Our share of losses of joint ventures was RMB3.7 million for the 2016 Interim Period and RMB3.0 million for the 2015 Interim Period. Our share of losses of joint ventures for the 2016 Interim Period was due to loss from Beijing Hermit, Beijing Yueying and Xin'aote Cloud, all of which were at early stages of development of their business.

Profit before Income Tax

As a result of the foregoing factors, our profit before income tax amounted to RMB299.8 million for the 2016 Interim Period as compared to profit before income tax of RMB33.5 million for the 2015 Interim Period.

Income Tax Expense

We recorded an income tax expense of RMB1.8 million for the 2016 Interim Period as compared to an income tax expense of RMB6.5 million for the 2015 Interim Period, representing a decrease of 72.3%. The decrease was primarily due to a tax benefit we recognized in 2016, which resulted in the decrease of the income tax rate enjoyed by CDV WFOE. CDV WFOE, a subsidiary of the Company, was accredited as a “Key Software Enterprise under the National Plan (國家規劃局內重點軟體企業)” in 2016. As a result, it was granted a preferential income tax rate of 10%, which was 5% lower than that of 2015. In addition, the preferential income tax rate applied to CDV WFOE was effective retrospectively from 2015, resulted an over-provision of PRC enterprise income tax in 2015 and such over-provision is deducted from income tax expense for the 2016 Interim Period.

Profit for the Period

As a result of the foregoing factors, our profit for the 2016 Interim Period amounted to RMB298.0 million as compared to the profit of RMB27.0 million for the 2015 Interim Period.

Other Comprehensive (Loss)/Income

We recorded other comprehensive loss of RMB10.9 million for the 2016 Interim Period as compared to other comprehensive income of RMB0.5 million for the 2015 Interim Period, primarily due to exchange rate differences arising on the translation of foreign operation as a result of Renminbi's depreciation against U.S. dollars during 2016 as compared to 2015.

Total Comprehensive Income for the Period

We recorded a total comprehensive income of RMB287.1 million for the 2016 Interim Period as compared to RMB27.6 million for the 2015 Interim Period. Such increase was primarily attributable to the fair value gain of on redeemable convertible preferred shares as a result of the completion of the QIPO in the 2016 Interim Period.

Loss Attributable to Non-controlling Interests

Loss attributable to non-controlling interests totaled RMB2.3 million for the 2016 Interim Period and RMB3.8 million for the 2015 Interim Period. Non-controlling interests in the 2016 Interim Period primarily represented the minority interests in Beijing Meicam.

Analysis on Interim Condensed Consolidated Statement of Financial Position Items

Non-current Assets

As at 30 June 2016, our non-current assets were RMB157.8 million (as compared to RMB164.3 million as at 31 December 2015), primarily consisting of property, plant and equipment of RMB4.5 million (as compared to RMB6.7 million as at 31 December 2015), intangible assets of RMB70.3 million (as compared to RMB68.0 million as at 31 December 2015) and other financial assets of RMB3.5 million (as compared to RMB3.5 million as at 31 December 2015).

Current Assets

As at 30 June 2016, our current assets were RMB959.8 million (as compared to RMB640.4 million as at 31 December 2015), primarily consisting of trade and other receivables of RMB495.4 million (as compared to RMB420.2 million as at 31 December 2015), bank balances and cash of RMB361.9 million (as compared to RMB181.1 million as at 31 December 2015), structured deposits of RMB50.0 million (as compared to nil as at 31 December 2015), inventories of RMB31.0 million (as compared to RMB32.7 million as at 31 December 2015) and pledged bank deposits of RMB21.5 million (as compared to RMB6.4 million as at 31 December 2015).

Current Liabilities

As at 30 June 2016, our current liabilities amounted to RMB378.7 million (as compared to RMB310.7 million as at 31 December 2015), primarily consisting of trade and other payables of RMB291.4 million (as compared to RMB222.2 million as at 31 December 2015), income tax liabilities of RMB8.6 million (as compared to RMB17.5 million as at 31 December 2015) and other interest-bearing borrowings of RMB78.7 million (as compared to RMB70.9 million as at 31 December 2015).

Non-current Liabilities

As at 30 June 2016, our non-current liabilities, consisting of deferred tax liabilities only, amounted RMB5.4 million (as compared to RMB617.9 million as at 31 December 2015 consisting of redeemable convertible preferred shares of RMB607.8 million, other interest-bearing borrowings of RMB4.4 million and deferred tax liabilities of RMB5.7 million).

Liquidity, Financial Resources and Capital Structure

During the 2016 Interim Period, we financed our operations primarily through cash generated from our operating activities. We have generated cash inflow from operating activities in the amount of RMB22.5 million during the 2016 Interim Period as compared to the cash outflow used in operating activities in the amount of RMB85.1 million during the 2015 Interim Period. We have also strengthened our cash position by the net proceeds we received from the Global Offering which was completed in June 2016. As at 30 June 2016, we had (i) cash and cash equivalents of RMB341.9 million as compared to RMB25.5 million as at 31 December 2015), and (ii) interest-bearing bank and other borrowings of RMB78.7 million (as compared to RMB75.3 million as at 31 December 2015), which were denominated in Renminbi and U.S. dollars bearing fixed and floating interest rates. All of our bank borrowings and other borrowings as at 30 June 2016 are repayable within one year.

The gearing ratio of our Group (calculated as total borrowings divided by total equity) was 10.7% as at 30 June 2016 (31 December 2015: N/A).

During the 2016 Interim Period, we did not employ any financial instrument for hedging purposes.

Commitments

As at 30 June 2016, we had operating lease commitments in respect of rented office and various residential properties of approximately RMB18.4 million (at 31 December 2015: RMB7.1 million). As at 30 June 2016, we did not have any significant capital commitments (at 31 December 2015: nil).

Material Acquisitions and Disposal of Subsidiaries, Associates and Joint Ventures

Save as disclosed in the Prospectus, we had no material acquisitions and disposal of subsidiaries, associates and joint ventures during the 2016 Interim Period.

Future Plans for Material Investments or Capital Assets and Expected Source of Funding

Save as disclosed in the Prospectus, we do not have plans for material investments or acquisition of capital assets.

Foreign Currency Risk

Our subsidiaries mainly operate in the PRC and majority of the transactions are settled in Renminbi except for certain bank balances and bank borrowings which are denominated in the U.S. dollar. Foreign currency risk arises when commercial transactions and recognized assets and liabilities are denominated in a currency that is not either our Company's or our subsidiaries' functional currency. As of 30 June 2016, we did not have significant foreign currency risk from our operations. During the 2016 Interim Period, we did not enter into any arrangements to hedge against any fluctuation in foreign currency.

Charge on Assets

As at 30 June 2016, we had the borrowing of RMB 17.3 million was secured by certain of our patents with nil carrying amount (at 31 December 2015: RMB 24.7 million). Save as disclosed in above, we did not have any charges on our assets.

Non-IFRS Financial Measures

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

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Profit for the period	298,038	27,044
Add:		
Share-based compensation expense	7,586	—
Fair value (loss)/gain on redeemable convertible preferred shares	(276,108)	10,582
Listing expenses	9,938	2,663
Gain on disposal of intangible assets	—	(10,800)
Gain on disposal of a subsidiary	—	(7,872)
Adjusted net profit (unaudited)	<u>39,454</u>	<u>21,617</u>

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as set out in the Prospectus with our actual business progress for the 2016 Interim Period is set out below:

Business Objectives	Actual Progress
commercialize “Aquila,” our new cloud-based video editing system	We have not commercialized “Aquila”. We have decided to perform more internal testing of “Aquila”.
upgrade the technology and equipments for our digitization and cataloging of media asset service	We are in the process of identifying the suitable technology service providers and equipment suppliers.
recruit additional talented personnel for Meicam’s research and development team	We have recruited more talented R&D engineers.
improve the existing functions and add new features for Meicam	We are optimizing the existing functions of Meicam based on the market reviews and plan to upgrade it after more internal tests.

Use of Proceeds

The net proceeds from the Global Offering amounted to approximately HK\$225.2 million. We will apply such net proceeds in accordance with the proposed applications as set out in “Future Plans and Use of Proceeds” in the Prospectus.

Human Resources

As at 30 June 2016, we had 930 full-time employees and 54 dispatched workers (30 June 2015: 839 full-time employees and 151 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the six months ended 30 June 2016 and 30 June 2015, the remuneration expenses, excluding share-based compensation expense, were approximately RMB62.5 million and RMB69.7 million, respectively. In general, employees’ salaries are determined based on individual performance, qualification, position and seniority. We place strong emphasis on recruiting skilled personnel. We typically recruit talents from universities and technical schools and conduct annual reviews to assess the employees’ performance and determine their salary, bonus and promotion. We also place a strong emphasis on providing training to its employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards.

We have adopted the Pre-IPO Share Option Scheme. The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate the directors, senior management and employees of the Group and other participants.

Contingent Liabilities

As at 30 June 2016, we did not have any material contingent liabilities (31 December 2015: nil).

OUTLOOK

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

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

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

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

In addition, leveraging our core strengths in high-end post-production technology, we will seek to penetrate the mid-tier market of professional users by developing products that meet their demands. For example, we have developed a new cloud-based video editing system under the brand “Aquila.” Aquila utilizes cloud technology to create a collaborative workflow platform that allows multiple users to simultaneously conduct both sophisticated and basic video editing from any location with network connectivity. We intend to market “Aquila” to both professional and casual users who demand both mobility and collaboration with their work.

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

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

Further develop and invest in innovative products and businesses

We plan to continue to develop and invest in innovative products and businesses by leveraging our core digital video technology. Our mobile application business targeted at the mass-market audience, Meicam, is currently at a preliminary stage where it is gaining user base and activity level.

Our next objectives for Beijing Meicam include:

- diversifying and refining revenue models;
- increasing user base and activity level by offering various kinds of online and offline marketing and promotional activities;
- improving technology and user experience by analyzing user activities, conducting market research, collecting data on user habits and reviewing user feedbacks;
- strengthening brand recognition by increasing marketing activities; and
- expanding user base through partnerships with branded mobile handset manufacturers.

Selectively pursue strategic investments and acquisitions

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

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

OTHER INFORMATION

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of an interim dividend for the 2016 Interim Period (the 2015 Interim Period: Nil).

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

Saved for the listing of the Company on 27 June 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 30 June 2016.

EVENT AFTER THE REPORTING PERIOD

There is no significant event since 30 June 2016 and up to the date of this announcement.

COMPETING BUSINESSES

For the 2016 Interim Period, none of the Directors or controlling shareholders of the Company and their respective associates (as defined under the GEM listing Rules) had any interest in a business which competes or may compete with the business of the Group, or had any other conflict of interest with the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with all the code provisions set out in the Corporate Governance Code from the Listing Date up to the date of this announcement.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

INTERESTS OF THE COMPLIANCE ADVISER

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

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The audit committee has reviewed the unaudited interim financial statements for the 2016 Interim Period and is of the opinion that (i) the unaudited financial statements of the Group for the 2016 Interim Period comply with the applicable accounting standards and the GEM Listing Rules; and (ii) adequate disclosure been made in such unaudited financial statements.

By order of the Board
China Digital Video Holdings Limited
ZHENG Fushuang
Chairman

Hong Kong, 10 August 2016

As at the date of this announcement, the executive Directors of the Company are Mr. ZHENG Fushuang, Mr. GUO Langhua and Mr. LIU Baodong, and the independent non-executive Directors are Mr. Frank CHRISTIAENS, Mr. ZHANG Yaqin and Ms. CAO Qian.