CDV

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

Annual Report 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.

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

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

JOINT COMPANY SECRETARIES

Mr. QIAN Yiyue
Mr. AU Wai Keung

AUTHORISED REPRESENTATIVES

Mr. QIAN Yiyue
Mr. AU Wai Keung

COMPLIANCE OFFICER

Mr. GUO Langhua

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPLIANCE ADVISER

Reorient Financial Markets Limited

REGISTERED OFFICE

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Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 606-607
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152-155 Connaught Road Central
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN PRC

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

GEM STOCK CODE

8280

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

AUDITORS

Grant Thornton Hong Kong Limited

LEGAL ADVISOR

As to Hong Kong Law

King & Wood Mallesons

As to Cayman Islands Law

Maples and Calder

COMPANY'S WEBSITE

www.cdv.com *(information of this website does not form part of this report)*

CHAIRMAN STATEMENT

On behalf of the Board of China Digital Video Holdings Limited (the "**Company**" or "**we**"), I am pleased to report to our valued shareholders and investors the results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the financial year ended 31 December 2016.

OVERVIEW

On 27 June 2016, the Company was listed on the GEM of the Stock Exchange (the "**Listing**"), which was a significant milestone in its development history. On one hand, the Listing demonstrated the recognition from the capital market of the Group's achievement and development model in the TV broadcasting industry in China. On the other hand, the successful Listing laid a solid foundation for the Group's future development.

We have demonstrated a consistent and solid track record in delivering strong results through strong execution of our clear strategy to balance short-term results and long-term objectives. The Group has achieved significant business growth in both financial and operation performance in this year. During the year ended 31 December 2016, the Group recorded a revenue of approximately RMB652.0 million, an increase of 7.6% compared with the previous year. Our adjusted net profit for the year ended 31 December 2016 was approximately RMB81.5 million, represented an increase of 24.2% compared with the previous year.

The Group believes that in an increasingly competitive business environment, establishing strategic alliances with business partners and investing in new opportunities will be critical to the development of the Group. We therefore will continue to expand our market share and strengthen the market position of our business and exploring business cooperation and opportunities from time to time. In 2016, the Group has set up a strategic committee for the strategic planning and development of augmented reality ("**AR**")/virtual reality ("**VR**") products (the "**AR/VR Products Strategic Committee**") with a purpose to build product lines relating to the AR/VR technologies.

Looking ahead, we will continue to focus on the TV broadcasting industry in China, the Group will seize opportunities by expanding and exploring its market in applying AR/VR technologies.

May I take this opportunity to thank the management and the entire staff for their hard work in the past year for the successful Listing and the continuous growth of the Company in the future. I also express my gratitude for the care and support from all shareholders of the Company and business partners of the Group throughout these years.

Zheng Fushuang
Chairman

20 March 2017

Our revenue increased by 7.6% to RMB652.0 million for the year ended 31 December 2016 from RMB606.0million for the year ended 31 December 2015.

Our profit for the year ended 31 December 2016 amounted to RMB333.3 million as compared to the profit of RMB114.1 million for the year ended 31 December 2015.

Our adjusted net profit (as defined in the section headed "Management Discussion and Analysis - Non-IFRS Financial Measure" below) increased by 24.2% to RMB81.5 million for the year ended 31 December 2016 from RMB65.6 million for the year ended 31 December 2015.

Our Directors do not recommend the payment of dividend for the year ended 31 December 2016 (2015: nil).

BUSINESS REVIEW

We are a leading digital video technology solution and service company in the TV broadcasting industry in China. We provide a full range of solutions, services and products to TV broadcasters and other digital video content providers, 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 year ended 31 December 2016 (the "**2016 Annual 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

FINANCIAL REVIEW

We recorded a revenue of RMB652.0 million for the 2016 Annual Period, representing an increase of 7.6% from RMB606.0 million for the year ended 31 December 2015 (the "**2015 Annual Period**"). Profit for the 2016 Annual Period increased significantly by 192.0% from RMB114.1 million in the 2015 Annual Period to RMB333.3 million in the 2016 Annual 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 Annual Period as compared to the RMB70.8 million fair value gain on redeemable convertible preferred shares in the 2015 Annual Period.

Our adjusted net profit increased by 24.2% to RMB81.5 million for the 2016 Annual Period from RMB65.6 million for the 2015 Annual Period. Such increase was mainly attributable to (a) the increase in gross profit; 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 Annual Period.

ANALYSIS ON ANNUAL CONSOLIDATED STATEMENT 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.

	Year ended 31 December			
	2016 RMB'000	% of total	2015 RMB'000	% of total
Solutions	463,694	71.1	454,334	75.0
Services	97,646	15.0	77,096	12.7
Products	90,636	13.9	74,553	12.3
Total	651,976	100.0	605,983	100.0

Our revenue increased by 7.6% to RMB652.0 million for the 2016 Annual Period from RMB606.0 million in the 2015 Annual Period. This increase was primarily attributable to the increase in the revenue from sale of products and provision of services. Our revenue from sale of products increased by 21.6% from RMB74.6 million for the 2015 Annual Period to RMB90.6 million for the 2016 Annual Period, primarily attributable to (i) continuing demand from our existing traditional broadcaster customers, (ii) expansion of customer base and (iii) increase of sale of systems incorporating our advanced or upgraded software. Our revenue from provision of services increased substantially by 26.7% from RMB77.1 million for the 2015 Annual Period to RMB97.6 million for the 2016 Annual Period mainly attributable to revenue recognized for services under a software design service contract with a key customer.

Cost of Sales

Our cost of sales increased by 5.7% to RMB416.2 million for the 2016 Annual Period from RMB393.8 million for the 2015 Annual 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 11.1% to RMB235.8 million for the 2016 Annual Period from RMB212.2 million for the 2015 Annual Period, and our gross profit margin increased to 36.2% for the 2016 Annual Period from 35.0% for the 2015 Annual Period. Specifically:

Gross profit for our solution business remained stable at RMB126.2 million during the 2016 Annual Period as compared to that of RMB125.3 million in 2015 Annual Period. Gross profit margin for our solution business in 2016 Annual Period remained stable at 27.2% as compared to 27.6% in the 2015 Annual Period.

Gross profit for our service business increased by 38.2% to RMB50.0 million during the 2016 Annual Period from RMB36.2 million in 2015 Annual Period. Gross profit margin for our service business increased to 51.2% in 2016 Annual Period from 47.0% in 2015 Annual Period, primarily due to the recognition of revenue for a software design service contract with a key customer.

Gross profit for our product business increased by 17.6% to RMB59.5 million during the 2016 Annual Period from RMB50.6 million in 2015 Annual Period. Gross profit margin for our product business decreased to 65.7% in 2016 Annual Period from 67.9% in 2015 Annual 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 51.7% to RMB37.5 million for the 2016 Annual Period from RMB77.6 million for the 2015 Annual Period, primarily due to (i) the absence of certain income in the 2016 Annual Period which was available in the 2015 Annual Period, namely, (a) the gain of RMB10.8 million on the disposal of intangible assets; (b) gain of RMB7.9 million on disposal of our equity investment; and (ii) a decrease of RMB6.7 million in subsidy income from government in the 2016 Annual Period as compared to the 2015 Annual Period.

Selling and Marketing Expenses

Our selling and marketing expenses remains relatively stable at RMB62.1 million for the 2016 Annual Period as compare to RMB62.0 million for 2015 Annual Period.

Administrative Expenses

Our administrative expenses increased by 13.0% to RMB74.9 million for the 2016 Annual Period from RMB66.3 million for the 2015 Annual Period, primarily due to the increase in the staff cost for administrative staffs and provision for impairment loss on trade and other receivables.

Share-Based Compensation Expense

Our share-based compensation expense increased by 240.5% to RMB13.1 million for the 2016 Annual Period from RMB3.8 million for the 2015 Annual Period, primarily due to our Pre-IPO Share Option Scheme.

Research and Development Expenses

Our research and development expenses decreased by 10.5% to RMB50.3 million for the 2016 Annual Period from RMB56.2 million for the 2015 Annual 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 49.8% to RMB8.2 million for the 2016 Annual Period from RMB16.3 million for the 2015 Annual Period, primarily due to the absence of a loss on non-recourse factoring of trade receivables in the 2016 Annual Period.

Fair Value Gain 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 Annual Period. We recorded a fair value gain of RMB70.8 million for the 2015 Annual Period.

Share of Losses of Joint Ventures

Our share of losses of joint ventures was RMB3.6 million for the 2016 Annual Period and RMB6.5 million for the 2015 Annual Period. Our share of losses of joint ventures for the 2016 Annual 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 RMB337.2 million for the 2016 Annual Period as compared to profit before income tax of RMB127.4 million for the 2015 Annual Period.

Income Tax Expense

We recorded an income tax expense of RMB3.9 million for the 2016 Annual Period as compared to an income tax expense of RMB13.3 million for the 2015 Annual Period, representing a decrease of 70.2%. 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, which resulted in the decrease of the income tax in 2016. 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 Annual Period.

Profit for the Year

As a result of the foregoing factors, our profit for the 2016 Annual Period amounted to RMB333.3 million as compared to the profit of RMB114.1 million for the 2015 Annual Period.

Other Comprehensive Loss

We recorded other comprehensive loss of RMB0.4 million for the 2016 Annual Period as compared to other comprehensive loss of RMB34.8 million for the 2015 Annual 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 Year

We recorded a total comprehensive income of RMB332.9 million for the 2016 Annual Period as compared to RMB79.3 million for the 2015 Annual Period. Such increase was primarily attributable to the fair value gain on redeemable convertible preferred shares as a result of the completion of the QIPO in the 2016 Annual Period.

Loss Attributable to Non-controlling Interests

Loss attributable to non-controlling interests totalled RMB5.4 million for the 2016 Annual Period and RMB6.1 million for the 2015 Annual Period. Non-controlling interests in the 2016 Annual Period primarily represented the minority interests in Beijing Meicam.

ANALYSIS ON ANNUAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Non-current Assets

As at 31 December 2016, our non-current assets were RMB165.3 million (as compared to RMB164.3 million as at 31 December 2015), primarily consisting of goodwill of RMB74.2 million (as compared to RMB74.2 million as at 31 December 2015), and intangible assets of RMB75.8 million (as compared to RMB68.0 million as at 31 December 2015).

Current Assets

As at 31 December 2016, our current assets were RMB1,129.9 million (as compared to RMB640.4 million as at 31 December 2015), primarily consisting of trade and other receivables of RMB608.7 million (as compared to RMB420.2 million as at 31 December 2015), structured deposits of RMB215.0 million (as compared to nil as at 31 December 2015) and pledged bank deposits of RMB112.1 million (as compared to RMB6.4 million as at 31 December 2015).

Current Liabilities

As at 31 December 2016, our current liabilities amounted to RMB505.5 million (as compared to RMB310.7 million as at 31 December 2015), primarily consisting of trade and other payables of RMB301.6 million (as compared to RMB222.2 million as at 31 December 2015), other interest-bearing borrowings of RMB192.1 million (as compared to RMB70.9 million as at 31 December 2015) and income tax liabilities of RMB11.9 million (as compared to RMB17.5 million as at 31 December 2015).

Non-current Liabilities

As at 31 December 2016, our non-current liabilities, consisting of deferred tax liabilities only, amounted to RMB5.0 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

As at 31 December 2016, the current assets of the Group amounted to RMB1,129.9 million, including RMB374.6 million in bank balances and cash, available-for-sale financial assets and structured deposits and other current assets of RMB755.3 million. Current liabilities of the Group amounted to RMB505.5 million, of which RMB192.1 million were other interest bearing borrowings, and other current liabilities of RMB313.4 million. As at 31 December 2016, the Group had interest-bearing bank and other borrowings of RMB192.1 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 31 December 2016 are repayable within one year.

The gearing ratio of our Group (calculated as total borrowings divided by total equity) was 24.5% as at 31 December 2016 (2015: N/A).

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

COMMITMENTS

As at 31 December 2016, we had operating lease commitments in respect of rented office and various residential properties of approximately RMB9.0 million (2015: RMB7.1 million). As at 31 December 2016, we did not have any significant capital commitments (2015: nil).

MATERIAL ACQUISITIONS AND DISPOSAL

Save as disclosed in the Prospectus, we had no material acquisitions and disposal of subsidiaries and affiliated companies during the 2016 Annual 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 at 31 December 2016, we did not have significant foreign currency risk from our operations. During the 2016 Annual Period, we did not enter into any arrangements to hedge against any fluctuation in foreign currency.

CHARGE ON ASSETS

As at 31 December 2016, we had the borrowings of RMB4.4 million (2015: RMB29.1 million) and RMB86.0 million (2015: nil) which was secured by certain of our patents with nil carrying amount (2015: nil) and pledged by bank deposit of RMB104.1 million (2015: nil). 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 years excluding share-based compensation expense, fair value gain on redeemable convertible preferred shares, loss on extinguishment of 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 consolidated statement of comprehensive income for the years 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 years. 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 years under IFRS to the adjusted net profit:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit for the year	**333,262**	114,114
Add:		
Share-based compensation expense	**13,060**	3,835
Fair value gain on redeemable convertible preferred shares	**(276,108)**	(70,820)
Loss on extinguishment of redeemable convertible preferred shares	**—**	21,969
Listing expenses	**11,309**	15,209
Gain on disposal of intangible assets	**—**	(10,800)
Gain on disposal of a subsidiary	**—**	(7,872)
Adjusted net profit	**81,523**	65,635

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 Annual Period is set out below:

Business Objectives	Actual Progress
• enter into additional omnimedia solutions contracts with major customers	• We have entered into a couple of omnimedia solution contracts with major customers.
• enter into solutions contracts with major customers to help them upgrading to high definition and 4K ultra-high definition standards	• We have entered into a significant amount of solution contracts with major customers regarding the update of high definition and 4k ultra-high definition standards.
• increase spending to market new products such as "Aquila" and the Tianmu meteorological graphics system	• Our marketing expense for new products such as "Aquila" and Tianmu meteorological graphics system increased substantially in the 2016 Annual Period compare to that of the 2015 Annual Period.
• improve the quality of our multi-camera recording and editing service	• Our R&D team are in the process of identifying the key areas for the improvement of the quality of our multi-camera recording and editing service.
• recruit additional talented personnel and invest in additional equipments for our multi-camera recording and editing service	• We have recruited 19 research staff in 2016 for our multi-camera recording and editing service.
• increase R&D spending for our live sports broadcasting service to expand its service range and capabilities	• we did not record significant increase in the R&D spending for live sports broadcasting service for the 2016 Annual Period.
• increase R&D spending to develop additional cloud service products based on SaaS model	• The R&D spending to develop cloud service products based on SaaS model does not record significant increase for the 2016 Annual Period than that of the 2015 Annual Period.
• initiate search for investment and acquisition targets in China, mainly upstream and downstream market participants in the post-production industry	• We have approached certain acquisition targets and are in preliminary negotiation stage for certain investment and acquisition targets.

USE OF PROCEEDS

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

As of 31 December 2016, the net proceeds were applied as follows：

	Application of funds as of 31 December 2016 percentage to total amount of the net proceeds
Business expansion and development	5.1%
Potential strategic investment and acquisition	—
Enhancing the R&D capabilities and upgrading the information technology systems	3.1%
Repayment of certain of existing bank borrowings	10%
Promotion and marketing	1.7%
General working capital	6.6%
Total:	26.5%

HUMAN RESOURCES

As at 31 December 2016, we had 1,047 full-time employees and 48 dispatched workers (2015: 941 full-time employees and 52 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the year ended 31 December 2016 and 31 December 2015, the remuneration expense, including both capitalized and expensed but excluding share-based compensation expense, were approximately RMB166.1 million and RMB141.6 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.

CONTINGENT LIABILITIES

As at 31 December 2016, we did not have any material contingent liabilities (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) omni-media 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.

EXECUTIVE DIRECTORS

Mr. Zheng Fushuang (鄭福雙), aged 51, is the founder of our Group. He is the chairman of our Board and an executive Director. He is the chairman of the nomination committee of the company. He is primarily responsible for the overall corporate strategies and management of our Group. Mr. Zheng was appointed to our Board on 8 January 2008.

Mr. Zheng has been the chairman of CDV WFOE, our principal operating PRC subsidiary, since December 2008. Mr. Zheng has served as a director of Xinxin Holding since 2005. Prior to that, Mr. Zheng was the chairman of Xin'aote Electronic from December 1990 to November 2005, where he was mainly responsible for the overall management of the company. Before the incorporation of Xin'aote Electronic, Mr. Zheng worked in Beijing Liming Electronic Technology Company Limited (北京黎明電子技術公司) as a general staff who provided technical support to the company from October 1988 to June 1989 and worked in Beijing Aote Electronic Company Limited (北京奧特電子公司) as a manager in the application technology department from January 1990 to November 1990.

Mr. Zheng has over 20 years of experiences in the digital video technology industry. He has received various honors, including the "May Fourth Medal" in Beijing (北京市"五四獎章") in April 2004, "The Bauhinia Cup Outstanding Entrepreneur Award"(香港金紫荊花杯傑出企業家獎) in December 2002, the "Best Technology Entrepreneur of Private Enterprise in China (中國優秀民營科技企業家) in November 2002 and October 2004, and the "Broadcasting Science and Technology Award (廣播電視科學技術大獎)" in January 2010. Mr. Zheng has been the member of the 15th People's Congress of Haidian District, Beijing since 8 November 2011, and was the member of the 6th and the 10th Chinese People's Political Consultative Conference in Beijing in December 1998 and December 2002, respectively.

Mr. Zheng is affiliated with certain social organizations, including as a member of the CDNCA International Liaison Department Committee and the GAPPRFT Professional Committee of Science and Television Technology (國家廣電總局科技委電視專業委員會) and an executive committee member of the Beijing Federation of Industry and Commence (北京工商業聯合會).

Mr. Zheng graduated from the National University of Defense Technology (國防科技大學) with a bachelor's degree in radar and electromagnetic countermeasure in July 1985. Mr. Zheng graduated from the Institute of Electronics, Chinese Academy of Sciences (中國科學院電子學研究所) with a master's degree in engineering in December 1988. Mr. Zheng was awarded an executive master's degree in business administration (EMBA) from Peking University (北京大學) in January 2005.

From 2006, Mr. Zheng has been the executive director of Peking University Resources (Holdings) Company Limited (北大資源(控股)有限公司), a company listed on the Stock Exchange (stock code: 0618) which is principally engaged in real estate development and commercial real estate operations.

Save as disclosed above, Mr. Zheng did not hold directorship in any listed public company in the last three years.

Mr. Guo Langhua (郭朗華), aged 50, is the vice chairman of our Board and an executive Director. He is the compliance officer of the company. He is primarily responsible for the overall management and operation of our Group. Mr. Guo was appointed to our Board on 8 January 2008.

Mr. Guo has been the vice chairman of CDV WFOE, our principal operating PRC subsidiary, since 2008. Mr. Guo has served as the president of Xinxin Holdings since January 2015, where he was primarily responsible for the evaluation, improvement and monitoring of the company's management and operation.

Mr. Guo graduated from Wuhan University (武漢大學) with a bachelor's degree in economy in June 1988 and obtained a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in October 2003.

Mr. Guo did not hold directorship in any listed public company in the last three years.

Mr. Liu Baodong (劉保東), aged 53, is the chief executive officer of our Group and an executive Director. He is primarily responsible for the overall management and operation of our Group. Mr. Liu was appointed to our Board on 16 February 2007. He has served as the chief executive officer of CDV WFOE, our principal operating PRC subsidiary, since 2008. From 2004 to 2008, Mr. Liu was the general manager of Xin'aote Video, a predecessor company of our Group, where he was responsible for the overall management and operation of the company.

Mr. Liu worked at Sanycom Technology Co., Ltd. (三一通訊技術有限公司) (principally engaged in the communication equipment manufacturing) as the deputy general manager and later the general manager from 2001 to 2004. During the period from 1999 to 2001, Mr. Liu was the project manager and product manager of Nortel Networks Holdings (Canada) (北電網路集團(加拿大)), a multinational telecommunications and data networking equipment manufacturer. Prior to that, Mr. Liu spent two years serving as a senior engineer and project manager for Motorola (Canada) (principally engaged in inventing, building and delivering mobile devices) from 1997 to 1999.

Mr. Liu graduated from Northwestern Polytechnic University (西北工業大學) with a bachelor's degree in automation control in July 1983 and was awarded a master's degree and a Ph.D. degree in applied computer science from University of Brussels (Vrije Universiteit Brussel) (比利時布魯塞爾大學) in September 1996. He also received a master's degree of business administration from China Europe International Business School (中歐國際工商學院) in September 2007.

Mr. Liu did not hold directorship in any listed public company in the last three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Frank Christiaens, aged 50, is an independent non-executive Director of our Company. He was appointed to our Board on 28 January 2011. He is the chairman of remuneration committee, and a member of the audit committee.

Mr. Christiaens is currently the CEO, chairman and a member of the board of CLEARink Display Corporation (USA) which is principally engaged in developing reflective display technology. He is also the chairman and a member of the board of ELIX Wireless Charging Systems Inc. (Canada) whose principal business is to develop wireless charging technology. In addition, Mr. Christiaens is a managing partner (overseeing the company's overall administrative operation and coordination) of XPCP Management Corporation (Canada), a company which is principally engaged in investing in technology with relevance to Asia. Mr. Christiaens was the president for Greater China for Barco N.V. (NYSE Euronext Brussels: BAR), which is a provider of professional display products, from May 2002 to December 2009. From March 1996 to August 2000, Mr. Christiaens worked as regional vice-president, marketing, sales & customer services for Alcatel-Lucent Bell (Euronext ALU) (the "Alcatel"), a telecommunications equipment manufacturer, where he was responsible for Alcatel's internet division for Asia Pacific.

Mr. Christiaens graduated from the University of Leuven (Belgium) with bachelor's and master's degrees in electronics engineering in July 1990, and wrote his thesis on digital signal processing and artificial intelligence at the Imperial College of London. Mr. Christiaens obtained a master's degree in business administration from Vlerick School of Business, Belgium which was previously part of the University of Leuven (Belgium) in July 1992.

Mr. Christiaens did not hold directorship in any listed public company in the last three years

Mr. Zhang Yaqin (張亞勤), aged 51, is an independent non-executive Director of our Company. He was appointed to our Board on 28 January 2011. He is a member of audit committee, remuneration committee and nomination committee.

Mr. Zhang has extensive experience in networking, digital video and multimedia industries. Mr. Zhang is currently the president of Baidu, Inc., a company listed in NASDAQ (NASDAQ: BIDU). Mr. Zhang is in charge of new business. Prior to joining Baidu, Inc., Mr. Zhang was the corporate vice president of Microsoft Corporation and the chairman of Microsoft Asia-Pacific Research & Development Group, where he was responsible for driving Microsoft's overall research and development efforts in China and the Asia-Pacific region. Mr. Zhang served as the managing director and the chief scientist of Microsoft Research Asia as one of its original founders from 2000 to 2004, where he was in charge of Microsoft's mobile and embedded division in Microsoft's headquarters. He joined Microsoft in January 1999 which brought with him a wealth of technical knowledge and business expertise in wireless and satellite communications, security, networking and digital video.

Mr. Zhang is also a member of Committee 100, a group of leading Chinese-Americans to promote the political, science, social and economic exchanges between the US and China. Mr. Zhang received his bachelor's degree in radio electronics and master's degree in telecommunication and electrical systems from the University of Science and Technology of China (中國科技大學) in July 1983 and January 1986, respectively. He also received his Ph.D. degree in science from George Washington University, Washington D.C. in February 1990.

Mr. Zhang has been the non-executive director of Chinasoft International Limited (中軟國際有限公司), a company listed on the Stock Exchange (stock code: 354) providing end-to-end software and information services, ranging from consulting to solution, outsourcing and IT talent training, since 2009. He is also on the board of directors of two listed companies, namely, Chinacache (NASDAQ: CCIH) and Tarena (NASDAQ: TEDU).

Save as disclosed above, Mr. Zhang did not hold directorships in any listed public companies in the last three years.

Ms. Cao Qian (曹茜), aged 53, is an independent non-executive Director of our Company. She was appointed to our Board 23 May 2016. She is the chair of the audit committee and a member of nomination committee.

Ms. Cao has extensive experience in auditing, accounting and financial management. Ms. Cao has been appointed as the vice general manager of the supervision and examination department of China Travel Service Ltd (中國旅行社總社監察審計部) which is principally engaged in tourism development, since February 2015. From April 2014 to February 2015, Ms. Cao was the general manager of China Travel Services Meetings, Incentives, Conferences & Exhibitions Services Co., Ltd (中旅國際會議展覽有限公司), a company specialized in providing professional services to business travelers, meeting planners and exhibition organizations. Ms. Cao also served as the vice president of the China Travel Service Head Office Co., Ltd (中國旅行社總社(北京) 有限公司) from December 2009 to April 2014. In addition to these positions, Ms. Cao was the certified public accountant of Jingdu Public Accounting Firm (京都會計事務所) (an accounting firm in China) from early 1994 to April 1998.

Ms. Cao graduated from the Central University of Finance & Economics (中央財經大學) with a bachelor's degree in finance and revenue in July 1986, and received an executive master' degree of business administration (EMBA) from Peking University Guanghua School of Management (北京大學光華管理學院) in January 2005. Ms. Cao is a certified public accountant in the PRC.

Ms. Cao has been an independent non-executive director of Peking University Resources (Holdings) Company Limited (北大資源(控股) 有限公司), a company listed on the Stock Exchange (stock code: 0618), from 31 March 2005 to 10 June 2016.

Save as disclosed above, Ms. Cao did not hold directorships in any listed public companies in the last three years.

Save as disclosed in this section, each of our Directors confirmed that he/she does not have any relationship with other Directors, senior management or Controlling Shareholders.

SENIOR MANAGEMENT

Mr. Zheng Fushuang (鄭福雙), aged 51, is the founder of our Group. He is the chairman of our Board and an executive Director. His biographical details are set out under the paragraph headed "Executive Directors" above.

Mr. Guo Langhua (郭朗華), aged 50, is the vice chairman of our Board and an executive Director. His biographical details are set out under the paragraph headed "Executive Directors" above.

Mr. Liu Baodong (劉保東), aged 53, is the chief executive officer of our Group and an executive Director. His biographical details are set out under the paragraph headed "Executive Directors" above.

Mr. Sun Jichuan (孫季川), aged 48, is the vice president and chief technology officer of our Company. Mr. Sun joined CDV WFOE, our principal operating PRC subsidiary, as a vice president and the chief technology officer in March 2008. Prior to joining our Group, Mr. Sun was a deputy general manager of Xin'aote Video, the predecessor company of our Group, from January 2005 to January 2008, where he was mainly responsible for overall management and operation. Mr. Sun was a senior software designer of both Canada Matrox Electronic Systems Ltd (加拿大Matrox電子系統公司) (principally engaged in designing software and hardware solutions for graphics, video, and imaging/machine vision applications) from October 2000 to December 2004 and the Research and Development Centre, Canon Australia Pty Ltd (澳大利亞佳能研發中心) (offering digital cameras speedlites, printers, faxes, scanners, video cameras, and related accessories) from September 1999 to June 2000. He was a senior software engineer in Xin'aote Electronic from September 1992 to May 1997.

Mr. Sun graduated from National University of Defense Technology (國防科技大學) with a bachelor's degree in image display and identification in June 1989. Mr. Sun received his master's degree in signal and information processing from the Institute of Electronics, Chinese Academy of Science (中國科學院電子學研究所) in June 1992.

Mr. Sun did not hold directorships in any listed public companies in the last three years.

Mr. David Cui (崔大偉), aged 47, is the chief financial officer of our Company, primarily responsible for the financial management. He was appointed to such position on August 21, 2015. Mr. Cui did not hold any other position with the members of our Group.

Mr. Cui has extensive experience in public accounting and financial management. Prior to join our Company, Mr. Cui was an independent financial advisor to high growth companies on business and fund raising strategies, internal control and corporate governance, accounting matters and public offerings. From April 2011 to August 2013, Mr. Cui served as the chief financial officer in iKang Healthcare Group, Inc., Beijing (愛康國賓健康管理集團) (a company listed on Nasdaq) which is principally engaged in providing preventive healthcare services, where he was responsible for managing the overall finance function of the company. He was an audit senior manager of Deloitte & Touche, Shanghai, a global professional service provider principally engaged in offering auditing, accounting, financial advisory, risk management and tax services, where he was responsible for advising clients throughout the IPO or other offering process, from April 2007 to April 2011. Mr. Cui was the financial reporting manager of Symantec Corporation, California, which is a global leader in security, backup and availability solutions, from August 2006 to September 2006, and an audit manager of Ernst & Young LLP, California from April 2004 to August 2006. Mr. Cui was the senior auditor in the Audit and Advisory Services practice of Health Net, Inc, California, which is a managed healthcare service company listed on NYSE, from May 2001 to April 2004, where he was responsible for planning and executing financial and operation audits. From January 1996 to May 2001, Mr. Cui worked at various public accounting firms including Arthur Andersen LLP in California, BDO Dunwoody LLP and Berris Mangan Elliott (now part of KPMG) in Canada.

Mr. Cui graduated from Simon Fraser University, British Columbia, Canada (加拿大賽門費沙大學) with a bachelor's degree in business administration in September 1997. He became a Chartered Accountant in Canada (加拿大特許會計師) in February 2000 and a Certified Public Accountant in the United States (美國註冊會計師) in July 2005.

Mr. Cui did not hold directorship in any listed public company in the last three years.

Mr. Qian Yiyue (錢禕玥), aged 38, is a joint company secretary of our Company. He was appointed to such position on 21 August 2015. For position with other members of our Group, Mr. Qian has been the Board secretary and investment relationship director (overseeing secretarial matters and investment relationship) of CDV WFOE, our principal operating PRC subsidiary, since May 2008. Prior to join our Group, Mr. Qian was appointed as the board secretary and vice director in overseas marketing department of Vtion Technology (China) Co., Ltd (網訊技術(中國) 有限公司), a supplier of wireless computing solutions and products for mobile Internet access via broadband wireless networks in the PRC, from May 2007 to April 2008. Mr. Qian was a president assistant (mainly responsible for business development) of Canalliance Petroleum Development Inc. China office (加拿大聯合石油開發有限公司北京辦事處) from December 2005 to April 2007. During the time from September 2004 to November 2005, Mr. Qian served as the trading account manager of Swifttrade Inc., Cambridge, ON, Canada, where he was mainly responsible for commodity trading.Mr. Qian graduated from East China University of Science & Technology (上海華東理工大學) in Shanghai with a bachelor's degree in business English in June 2001, and obtained a master's degree in business administration from University of Hertfordshire in UK in conjunction with Malaspina University College in Canada in October 2004.

Mr. Qian did not hold directorship in any listed public company in the last three years.

COMPANY SECRETARY

Mr. Qian Yiyue (錢禕玥), aged 38, is a joint company secretary of our Company. He was appointed as joint company secretary on 21 August 2015. Mr. Qian's biographical details are set forth in the paragraph headed "Senior Management" above.

Mr. Au Wai Keung (區偉強), aged 45, is a joint company secretary of our Company. He was appointed as joint company secretary on 21 August 2015. Mr. Au has extensive experience in corporate secretarial practice and has achieved various professional qualifications, including a fellow member of Hong Kong Institute of Certified Public Accountant (香港會計師公會) in May 2015 and an associate member of The Institute of Charted Accountants in England and Wales (英格蘭及威爾士特許會計師協會) in August 2008. Mr. Au is currently the director of Arion & Associates Limited (亞利安會計事務所有限公司). He is now also the company secretary of Honworld Group Limited (老恒和釀造有限公司) (stock code: 2226), China Shengmu Organic Milk Limited (中國聖牧有機奶業有限公司), and SDM Group Holdings Limited (stock code: 8363).

Mr. Au received a bachelor's degree in social science from the Chinese University of Hong Kong (香港中文大學) in December 1993 and a master's degree in business administration from City University of Hong Kong (香港城市大學) in November 1999.

Mr. Au did not hold directorship in any listed public company in the last three years.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

We are committed to achieving and maintaining high standards of corporate governance, as our Board believes that good and effective corporate governance practices are key to obtaining and maintaining the trust of the shareholders of the Company and other stakeholders, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the shareholders of the Company.

CORPORATE GOVERNANCE PRACTICE

The Company has applied the principles and code provisions in the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules.

In the opinion of the Board, the Company has complied with the Corporate Governance Code from 27 June 2016 (the "**Listing Date**") up to the date of this annual report.

BOARD OF DIRECTORS

The Board supervises the management of the business and affairs of the Company and ensures that it is managed in the best interests of the shareholders as a whole while taking into account the interest of other stakeholders. The Board is primarily responsible for formulating the business strategy, reviewing and monitoring the business performance of the Group, approving the financial statements and annual budgets as well as directing and supervising the management of the Company. Execution of operational matters and the powers thereof are delegated to the management by the Board with clear directions. The Board is regularly provided with management update report to give a balanced and understandable assessment of the performance, position, recent development and prospect of the Group in sufficient details.

The Board is also responsible for the corporate governance functions under code provision D.3.1 of the Code. The Board has reviewed and discussed the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy.

Composition

The composition of the Board from the Listing Date to 31 December 2016 is set out as follows:

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

Independent non-executive Directors
Mr. ZHANG Yaqin
Mr. Frank CHRISTIAENS
Ms. CAO Qian

Biographical details of the Directors are set out in "**Biographical Details of the Directors and Senior Management**" on pages 18 to 23 of this annual report. There is no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

CHAIRMAN AND CHIEF EXECUTIVE

The code provision A.2.1 of the Code stipulates that the roles of the Chairman of the Board and the Chief Executive Officer should be separate and should not be performed by the same individual, and that the division of responsibilities between the Chairman and the Chief Executive Officer should be clearly stated. The Company fully supports such a division of responsibilities between the Chairman and the Chief Executive Officer in order to ensure a balance of power and authority. The positions of the Chairman and the Chief Executive Officer are segregated and are held by Mr. ZHENG Fushuang and Mr. LIU Baodong respectively.

The main responsibility of the Chairman is to lead the Board and manage its work to ensure that it effectively operates and fully discharges its responsibilities. Supported by the members of committees of the Board, the Chief Executive Officer is responsible for the day-to-day management of the Group's business, recommending strategies to the Board, and determining and implementing operational decisions.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers all the independent non-executive Directors independence in accordance with each and the various guidelines set out in rule 5.09 of the GEM Listing Rules. None of the independent non-executive Directors has served the Company for more than nine years.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings regarding directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them to the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results of the Group.

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings from the Listing Date up to the date of this annual report.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has arranged appropriate insurance coverage in respect of legal action against the Directors and senior management of the Group in the course of execution of their duties in good faith. The insurance coverage is reviewed on an annual basis.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Every Director keeps abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

The Directors are aware of the requirement under the code provision A.6.5 of the Code regarding continuous professional development. The Company encourages and supports all the Directors (i.e. Mr. ZHENG Fushuang, Mr. LIU Baodong, Mr. GUO Langhua, Mr. Frank CHRISTIAENS, Mr. ZHANG Yaqin and Ms. CAO Qian) to receive training and encourages their continuous professional development, so as to develop and keep abreast of their knowledge and skills better and serve the Company more efficiently. The Company offers training opportunities for all the Directors from time to time.

BOARD COMMITTEE

The Board has established three board committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the GEM's website www.hkgem.com and the Company's website at www.cdv.com. All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the board meetings set out above.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

The Board is responsible for performing the corporate governance duties set out in the Code which included developing and reviewing the Company's policies and practices on corporate governance, training and continuous professional development of Directors, and reviewing the Company's compliance with the code provision in the Code and disclosures in this report.

Remuneration Committee

The Remuneration Committee was established on 23 May 2016. The chairman of the Remuneration Committee is Mr. Frank CHRISTIAENS, our independent non-executive Director, and other members includes Mr. ZHANG Yaqin, our independent non-executive Director and Mr. GUO Langhua, our executive Director. The written terms of reference of the Remuneration Committee are posted on the GEM website and the Company's website.

The Remuneration Committee has been charged with the responsibility of making recommendations to the Board on the appropriated policy and structures for all aspects of Directors' and senior management's remuneration. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee has reviewed the remuneration packages and emoluments of Directors and senior management and considered that they are fair and reasonable during the year ended 31 December 2016.

Nomination Committee

The Nomination Committee was established on 23 May 2016. The chairman of the Nomination Committee is Mr. ZHENG Fushuang, our chairman and executive Director, and other members included Mr. ZHANG Yaqin and Ms. CAO Qian, our independent non-executive Directors. The written terms of reference of the Nomination Committee are posted on the GEM website and on the Company's website.

The primary duties of the Nomination Committee are to review and assess the composition of the Board and the independence of the independent non-executive Directors and makes recommendations to the Board on appointment of new directors of the Company. In recommending candidates for appointment to the Board, the Nomination Committee considers candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board.

In designing the Board's composition, board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

Audit Committee

The Audit Committee was established on 23 May 2016. The chairman of the Audit Committee is Ms. CAO Qian, our independent non-executive Director, and other members included Mr. ZHANG Yaqin and Mr. Frank CHRISTIAENS, our independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the GEM website and on the Company's website.

The primary duties of the Audit Committee are mainly to review the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has complied with Rule 5.28 of the GEM Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting related financial management expertise.

The Group's consolidated financial statements for the year ended 31 December 2016 have been reviewed by the Audit Committee.

The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2016 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

ATTENDANCE RECORDS OF MEETINGS

In 2016, the Board held three meetings at which the listing and operating results of the Company were considered and discussed.

Members	Meetings attended/meetings held since respective appointment date			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. ZHENG Fushuang	3/3			1/1
Mr. GUO Langhua	3/3		1/1	
Mr. LIU Baodong	3/3			
Independent non-executive Directors				
Mr. ZHANG Yaqin	2/3	1/2	1/1	1/1
Mr. Frank CHRISTIAENS	3/3	2/2	1/1	
Ms. CAO Qian	3/3	2/2		1/1

The notice of the forthcoming annual general meeting and related circular will be despatched to the shareholders in due course and will be the first general meeting of the Company since the Listing Date.

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT MEMBERS

The remunerations of Directors and senior management members are determined based on their working experience, industry expertise, education background and skills as well as the Group's own performance and operating results and with reference to the remuneration policies of other companies in our industry and prevailing market rates. Directors and employees also participate in performance incentive arrangements relating to the performance of the Group and individuals.

Particulars regarding key management personnel, including amounts paid to the Directors as required to be disclosed pursuant to Chapter 18 and Appendix 15 of the GEM Listing Rules are set out in note 9 to the consolidated financial statements in this annual report.

During the year, the annual remuneration of the members of the senior management is set out below:

	Number of individuals	
	2016	2015
Emolument bands		
Nil - HK$1,000,000	**4**	5
HK$1,000,001 - HK$1,500,000	**2**	1
HK$1,500,001 - HK$2,000,000	**1**	—
HK$2,000,001 - HK$2,500,000	**—**	1
HK$3,000,001 - HK$3,500,000	**—**	1
HK$8,000,001 - HK$8,500,000	**1**	—
HK$9,000,001 - HK$9,500,000	**1**	—

JOINT COMPANY SECRETARIES

The Joint Company Secretaries of the Company are Mr. Qian Yiyue and Mr. Au Wai Keung. Mr. Au is engaged by the Company as its company secretary to act jointly with Mr. Qian. The primary contact person at the Company for Mr. Au is Mr. Qian. Mr. Qian and Mr. Au have informed the Company that their trainings covering corporate governance and accounting matters satisfy the requirements under Rule 5.15 of the GEM Listing Rules during the year of 2016. The Company considers that the training of the Joint Company Secretaries is in compliance with the requirements under Rule 5.15 of the GEM Listing Rules during the year of 2016.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENT

The Directors acknowledge their responsibility for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the GEM Listing Rules. The Directors have selected appropriate accounting policies and applied them consistently; made judgment and estimate that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors' responsibilities in the preparation of the financial statements and the auditors' responsibilities are set out in the Auditors' Report in this annual report.

INDEPENDENT AUDITORS' REMUNERATION

Grant Thornton Hong Kong Limited ("**Grant Thornton**") is appointed as the external auditor of the Company which also acted as the Company's reporting accountant in relation to the initial public offering. For the year ended 31 December 2016, the emoluments paid or payable for the audit and non-audit services provided by Grant Thornton was as follows:

	Amount (RMB)
Audit services	880,000
Review services	320,000
Servicing as the reporting accounts for the Company's initial public offering	2,353,000

INTERNAL CONTROL

The Board recognises that constant changes taking place in the business environment call for periodic reviews of the system of internal controls. Well-managed internal controls enable effective and efficient operations, ensure the reliability of internal and external reporting and assist in the compliance with applicable laws and regulations.

The Board recognises that it has overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. Pursuant to the Group's framework, senior management is primarily responsible for designing and implementing the policies and procedures of internal controls, while the Board and the Audit Committee oversee the actions of senior management and review the effectiveness of the controls previously established on an annual basis in respect of the financial year.

The Company's internal audit function is performed by our finance department, which reports directly to the Chief Executive Officer and has direct access to the Chairman of the Audit Committee. Our finance department has unrestricted access to review all aspects of the Group's business activities. The tasks of finance department in respect of its internal audit functions include, (i) review and report on internal and operational controls, (ii) follow-up on the suggestions made by external auditors, and (iii) special review of areas of concern identified by senior management. Throughout the financial year, our finance department continually monitors various operational aspects of the Group's business activities and issues monthly compliance reports to senior management covering those activities. The Company consider the risk management and internal control systems are effective and adequate.

All staff, including all executive directors, are subject to the provisions set out in the Company's staff handbook and compliance manual (collectively, the "Company Manuals"). The Company Manuals clearly set out the policies and procedures which apply to the Group's businesses and places staff under specific obligations as to duty, ethics, integrity and principles under which our businesses operate. Each core business division has its own operating manual which specifically outlines the respective division's operating procedures. Failure to comply with the policies and procedures as set out in the Company Manuals and/or the division operating manuals may result in disciplinary action, including dismissal from employment.

CORPORATE GOVERNANCE FUNCTIONS

The Board has adopted the corporate governance functions with written terms of reference to assist the Board to perform the corporate governance functions of the Group. The main responsibility of the Board to perform the corporate governance functions includes:

– To formulate and review the Company's corporate governance policy and practices;

– To review and oversee the training and continuous professional development of the Directors and senior management;

– To review and oversee the policy and practices of the Company in the compliance of law and regulatory requirements;

– To formulate, review and oversee the Codes of Conduct for employees and Directors and Compliance Manual (if any); and

– To review the Company's compliance of the Corporate Governance Code and make disclosure in the Corporate Governance Report.

During the year under review, the Board has fulfilled the duties mentioned above.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

On 23 May 2016, the Company adopted the sixth amended and restated memorandum and articles of association which became effective on the Listing Date. Save as disclosed above, there had been no changes in the constitutional documents of the Company during the year ended 31 December 2016.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has adopted a shareholder communication policy with the objective of ensuring that the shareholders of the Company and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company.

The Company has established several channels to communicate with the shareholders as follows:

(i) corporate communications such as annual reports, interim reports, quarterly reports and circulars are issued printed form and are available on the GEM website at www.hkgem.com and the Company's website at www.cdv.com;

(ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) corporate information is made available on the Company's website;

(iv) annual and extraordinary general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and

(v) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, shareholders and the public. Enquires to the Board or the Company may be sent by post to the Joint Company Secretary, Mr. Qian Yiyue, at the Company's principal place of business in Hong Kong as follows:

The Joint Company Secretary
China Digital Video Holdings Limited
Room 606-607, 6/F,
China Merchants Building,
152-155 Connaught Road Central
Hong Kong

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interest and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the GEM website and the Company's website after the relevant shareholders' meeting.

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the **Requisitionists**") (as the case may be) pursuant to our articles of association. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals with general meeting of the Company by sending the same to the Company at the principal office of the Company in Hong Kong.

1. INTRODUCTION

China Digital Video Holdings Limited (the "**Company**" together with its subsidiaries (the "**Group**")) believes that sustainable development is an integral part of our business. We strive to be a good corporate citizen by carrying out our business in a socially responsible way. We aim at creating long-term values for our stakeholders and contributing to make the world a better place. This is the first Environmental, Social and Governance ("**ESG**") Report of the Company which outlines our approaches, commitments and strategies to sustainable development and highlights our performances in material areas in which the Company considered critical.

a. Reporting Standard & Scope

This ESG report has been prepared with reference to Appendix 20 of the Rules Governing of the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. This ESG report covers the ESG impacts, policies and initiatives for the period from 1 January 2016 to 31 December 2016.

The following entities were selected to be included in this ESG report due to their significant contributions to the Company, thus making them an ideal proxy for the Company's overall business:

- China Digital Video (Beijing) Limited
- Zhengqi(Beijing) Video Technology Co., Ltd

Additional ESG performance information including financial data and corporate governance structures can be found in other sections of this Annual Report.

b. Materiality Assessment

In order to provide a concise, balanced and clear view of the Company's ESG performance, this ESG Report focuses only on the sustainability issues that are material to the Company, as well as highlighting the successes and challenges faced over the year.

2. HUMAN CAPITAL

The Group values its employees as its greatest asset and believes that human capital is the cornerstone of its operations. By investing in the workplace and in enhancing the skills and qualities of its employees, mutual progression and growth can be achieved.

As employees are the most important asset and resource of the Group, the primary goal is to provide a safe and healthy working environment for the employees under reasonable and practicable conditions. The Group is committed to achieving this goal by implementing the following measures:

1. Establishing and maintaining high standard of healthy and safe environment in each workplace;
2. Providing and maintaining in all workplaces under the Group's control a working environment which is safe and poses no threat to health;
3. Ensuring that all devices and working system are safe and pose no threat to health;
4. Ensuring that the use, processing, storage and transportation of all items and materials are safe and pose no threat to health;
5. Providing employees with appropriate information, training and supervision when necessary to ensure the health and safety of all employees at work;
6. Providing at workplaces with easy accesses which are safe and pose no threat to health;
7. Avoiding overcrowded workplaces;
8. Providing sufficient sanitation facilities and washrooms at workplaces;
9. Providing sufficient drinking water at workplaces;
10. Providing good maintenance for all floors, walls, ceilings, windows and skylights to avoid cracking risk;
11. Conducting assessment for promotion;
12. Providing sufficient first-aid kit at workplaces;
13. Ensuring effective transmission, discussion and consultation of health and safety-related matters; and
14. Supervising the implementation of safety measures.

a. Working Conditions

The Company strives to provide a harmonious working environment that is conducive to the development and well-being of its employees. Equitable policies and guidelines have been established to ensure there are equal opportunities for employment and career advancement and the Company does not tolerate any form of discrimination. Fair and structured recruitment guidelines are also in place for talent acquisition.

Table 1 – Total Workforce by Age Group & Employment Type

	Workforce by Age Group & Employment Type		
	Below 30	30 – 50	Over 50
Full-time	366	567	27
Part-time	33	3	5

Table 2 – Employment Turnover Rate by Age Group

	Turnover Rate by Age Group (Both Full & Part-Time)		
	Below 30	30 – 50	Over 50
Turnover Rate	35%	18%	7%

With the aim of boosting employee morale as well as enhancing their sense of belonging, we hold staff annual party during the reporting period. The staff annual party was attended by full-time employees in a lively and fun atmosphere. Everyone's spirits were lifted by the event's rich programme which included lucky draw and entertainment performances.

b. Development & Training

The professional skills and capabilities of the Company's employees are vital to its long-term success. Customised training programmes are arranged for staff members at different levels and from across its divisions. Orientation training and mentoring were offered to new joiners to help them adapt to the new working environment.

Table 3 – Percentage of Employees Trained by Employee Category

General Staff	34%
Middle Managers	85%
Senior Managers	74%

c. Labour Standards

The Group strictly prohibits the use of child and forced labour in the Group, and is totally committed to creating a work environment which respects human rights. In addition to having well-established recruitment processes requiring background checks on candidates (including examining identity card to ensure applicants are aged 18 or over) and formalised reporting procedures to address any exceptions found. The Group also performs regular reviews and inspections to detect the existence of any child or forced labour in our operations.

d. Health & Safety

The Group places great emphasis on the occupational health and safety conditions of its employees. It proactively implements national, provincial and municipal government's requirements on work safety. Throughout the reporting year, there was no incidence of non-compliance with the relevant environmental laws and regulations that have a significant impact on the Group. The Company seeks to eliminate any potential occupational hazards and health risks by raising the safety awareness of employees.

e. Anti-corruption

The Company upholds high standards of business ethics and has strict anti-corruption policies that employees at all levels have to follow to rule out any incidences of bribery, extortion, fraud or money laundering. The staff handbook of the Group details a set of anti-corruption rules which employees must strictly adhere to. Acceptance of any form of benefits from suppliers by staff members is strictly forbidden. During the reporting year, the Company fully complied with all local regulations related to anti-corruption and there were no confirmed cases of corruption.

3. ENVIRONMENTAL PROTECTION

The Company seeks to achieve energy efficiency and effective waste management to minimise negative environmental impacts arising from its business operations.

The Company has taken steps to make employees aware of the necessity of reducing consumption of resources such as paper, water and fuel. Staffs are also encouraged to mitigate energy consumption and carbon emissions by using energy-efficient electrical appliances. The Company remains committed to providing a safe, healthy and environmentally friendly working environment in compliance with all applicable legal requirements. It also promotes environmental awareness externally, to its business partners and customers and supports corporate social responsibility initiatives in relation to environmental protection and sustainability in general. To minimise pollution and harmful emissions, we plan to adopt environmental policy and review the same on a regular basis or as required to ensure its relevancy and effectiveness.

During the reporting year, the Group did not experience any cases of non-compliance relating to environmental laws and regulations in the PRC.

a. Emissions & Energy Use

The Company works towards a goal of reducing its energy consumption in the course of business operation. A number of energy conservation measures such as light zoning and maintaining the indoor temperature between 25˚C and 26˚C are in place. Energy saving reminder notices are posted at the office, where digital timers have also been installed to ensure more efficient use of energy.

Scope	Details	Tonnes of CO2-e
1: Direct Emission	Company-owned car	37,409
2: Energy Indirect Emissions	Electricity consume	853,444
Total:		890,853

b. Waste Management

No substantial hazardous waste was produced by the Group during the reporting period.

To reduce the usage of paper, our staff generally use double-sided printing.

We are now considering making use of recycled materials, from both internal and external sources, to produce corporate stationery for internal use and documents published for external consumption, as well as items from non-paper sources, where feasible.

4. VALUE CHAIN

a. Product Responsibility

The Company strives to achieve a high level of customer satisfaction by providing customers with high-quality products and services. Feedback and suggestions from customers are sought to actively improve the Company's product and service offerings. Designated hotlines have been established and rigorous mechanisms are in place to address any complaints. Any complaint will be treated confidentially and thoroughly investigated, and a formal written reply will be issued via email which sets out how the complaint will be resolved. The Company treats each and every complaint seriously and attempts to rule out complaints of a similar nature from arising again. During the reporting year, there were no reported incidents of non-compliance with laws and regulations governing health and safety or the labeling of products and services.

Intellectual Property Rights

The Group respects and protects intellectual property rights. The Group currently operates under its core brand "CDV". The Group has taken active steps to protect its trademarks and other intellectual property rights by making the necessary filing or registration.

To enhance the employees' awareness of preserving such intellectual property rights, the Group has implemented a set of internal intellectual property management rules in its employees' manual. The Group's employment contracts with employees also contains confidentiality provisions with respect to handling of its confidential information.

b. Relationship with Suppliers

The Group has maintained restrict control over the quality offered by the suppliers or vendors. Thus the Group would evaluate the performance of the major suppliers or vendors of the Group in terms of quality, cost, and delivery time and after-sales services. The Group strives to cultivate a mutually beneficial and trusting relationship with its suppliers so that it is able to deliver products and services of the highest standard in an efficient manner.

5. COMMUNITY CARE

The Company seeks to impact positively on local communities by focusing its efforts on environmental protection and community care.

REPORT OF THE DIRECTORS

The board (the "**Board**') of directors of the Company has the pleasure in submitting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries (together referred to as the "**Group**") are principally engaged in the provision of a full range of solutions, services and products to TV broadcasters and other digital video contents. There were no material changes in the nature of the Group's principal activities during the year.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on page 52 of this annual report.

The Board does not recommend the payment of any dividend for the year ended 31 December 2016 (2015: nil).

PURCHASE, SALE OR REDEMPTION OF THE LISTING 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 during the 2016 Annual Period.

EVENT AFTER THE REPORTING PERIOD

Details regarding event after the reporting period are set out in note 34 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2016, the Company has reserves available for distribution to the shareholders amounted to RMB632,748,000 (2015: nil) calculated under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial party of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

We provide our solutions, services and products to TV broadcasters, new media operators and other digital video content providers. Based on our customers' needs, we design the hardware specifications of the servers and workstations for our solutions, services and products and perform most of they system integration in-house. We procure memory modules, network equipment and third-party software from well-known third-party suppliers.

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	8.9%
– five largest suppliers in aggregate	29.5%

Sales

– the largest customer	19.6%
– five largest customers in aggregate	36.4%

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has an interest in the major customer.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has an interest in the major supplier.

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

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, were as follows:

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

Name of Director	Capacity	Number of underlying shares	Approximately percentage of interest in the Company
Mr. Zheng Fushuang	Founder of a discretionary trust[1]	210,278,278	33.92%
Mr. Guo Langhua	Beneficial owner[2]	15,921,053	2.57%
Mr. Liu Baodong	Beneficial owner[3]	14,118,669	2.28%
Mr. Zhang Yaqin	Beneficial owner[4]	450,596	0.07%
Mr. Frank Christiaens	Beneficial owner[4]	450,596	0.07%

Notes:

1. Mr. Zheng Fushuang is the settlor and a beneficiary of Future Success Trust. Future Success Trust holds the entire issued share capital of ZFS Holdings, which in turn holds the entire issued share capital of Wing Success Holdings Limited, a controlling shareholder of the Company. Therefore, Mr. Zheng Fushuang is deemed to be interested in the Shares held by Wing Success Holdings Limited.

2. As at 31 December 2016, Mr. Guo was interested in option which represents 15,921,053 underlying shares upon fully exercise of such options. As at the date of this Report, Mr. Guo held 15,921,053 shares and the remaining interest is the options representing 15,921,053 underlying shares upon fully exercise of such options.

3. As at 31 December 2016, Mr. Liu was interested in options which represents 14,118,669 underlying shares upon fully exercise of such options. As at the date of this Report, Mr. Liu held 14,118,669 shares and the remaining interest is the options representing 14,118,669 underlying shares upon fully exercise of such option.

4. Interests in options granted pursuant to the Pre-IPO Share Option Scheme.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange.

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

As at 31 December 2016, so far as was known to the Directors, the following persons (other than the Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the shares of the Company

Name of shareholder	Capacity	Number of shares held	Approximately percentage of interest in the Company
Mr. Zheng Fushuang	Founder of a discretionary trust[1]	210,278,278	33.92%
HSBC International Trustee Limited	Trust and interest of controlled corporation[2]	210,278,278	33.92%
ZFS Holdings	Interest of controlled corporation[2]	210,278,278	33.92%
Wing Success Holdings Limited	Legal owner and beneficial owner	210,278,278	33.92%
Eagle Eyes Investment Limited	Interest of controlled corporation	98,098,000	15.82%
New Horizon Capital IV, L.P.	Interest of controlled corporation	98,098,000	15.82%
New Horizon Capital Partners III, L.P.	Interest of controlled corporation	98,098,000	15.82%
Carvillo Success Limited	Legal owner and beneficial owner	98,098,000	15.82%

Notes:

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

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

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010, the principal terms and conditions of the Pre-IPO share option scheme has been disclosed in the section headed "D. Pre-IPO Share Option Scheme" in appendix IV to the Prospectus.

Outstanding Share Options

From the date of Listing to 31 December 2016, 871,153 option has been lapsed and cancelled. As at 31 December 2016, there were a total of 77,021,847 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of 12.42% as at 31 December 2016. Save as set out above, no other share options have been or would be granted by us after the Listing pursuant to the Pre-IPO Share Option Scheme.

Grantees	Date of grant	Exercisable period	Exercise price per share (US$)	Number of Shares represented by options at the Listing Date	Exercised during the period	Cancelled during the period	Number of unvested option	Number of vested options	Number of Shares represented by options at 31 December 2016	Approximately percentage of issued share capital of the Company
Directors of the Company										
Guo Langhua	01/01/2011	01/01/2015-31/12/2021	1.16	15,921,053	–	–	–	15,921,053	15,921,053	2.57%
Liu Baodong	01/01/2011	01/01/2015-31/12/2021	1.16	14,118,669	–	–	–	14,118,669	14,118,669	2.28%
Zhang Yaqin	01/01/2011	01/01/2014-31/12/2021	1.16	450,596	–	–	–	450,596	450,596	0.07%
Frank Christiaens	01/01/2011	01/01/2014-31/12/2021	1.16	450,596	–	–	–	450,596	450,596	0.07%
Senior management of the Company										
Sun Jichuan	01/01/2011	01/01/2015-31/12/2021	1.16	450,596	–	–	–	450,596	450,596	0.07%
Qian Yiyue	01/01/2011	01/01/2015-31/12/2021	1.16	450,596	–	–	–	450,596	450,596	0.07%
Qian Yiyue	01/10/2015	01/10/2016-31/12/2021	0.00001	4,310,700	–	–	–	4,310,700	4,310,700	0.70%
David Cui	01/10/2015	01/10/2016-31/12/2021	0.00001	4,505,958	–	–	2,703,575[1]	1,802,383	4,505,958	0.73%
Directors of a subsidiary of the Company not mentioned above										
Zheng Pengcheng	01/01/2011	01/01/2015-31/12/2021	1.16	150,199	–	–	–	150,199	150,199	0.02%
Other employees of the Company	01/01/2011	01/01/2015-31/12/2021	1.16	37,084,037	–	871,153	–	36,212,884	36,212,884	5.84%
Total				77,893,000	–	871,153	2,703,575	74,318,272	77,021,847	12.42%

Notes:

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

COMPETING BUSINESSES

For the year ended 31 December 2016, 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 competed or might compete with the business of the Group, or had any other conflict of interest with the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management of the Group are set out on pages 18 to 23 of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMNETS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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 date of listing up to the date of this annual report.

FOUR-YEAR FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the last four financial years is set out in the section headed "Four-Year Financial Summary" of this annual report.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSET

Save as disclosed in the Prospectus or this report, there was no specific plan for material investment or capital asset as at 31 December 2016.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures of the Group during the 2016 Annual Period.

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 had made specific enquiries to all the Directors who confirmed their compliance with the required standard of dealings and the code of conduct regarding Directors' securities transactions during the year ended 31 December 2016. No incident of non-compliance was noted by the Company during this period.

CONNECTED TRANSACTIONS

The related party transactions entered into by the Group during the 2016 Annual Period are set out in Note 31 to the audited consolidated financial statements. Save as disclosed below, the Directors consider that these material related party transactions did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the GEM Listing Rules.

Non-exempt Continuing Connected Transactions

On 1 July 2015, CDV WFOE (as the lessee), a wholly-owned subsidiary of the Company, and Xinxin Holding(as the lessor) entered into a supplemental lease agreement to consolidate the terms in relation to the lease of such office and warehouse premises ("**Xinxin Lease Agreement**") for a term of three years commencing from 1 July 2015 and ending on 31 December 2017.

During the 2016 Annual Period, the rental paid under the Xinxin Holding amounted to approximately RMB12.2 million (2015: approximately RMB12.6 million) and the rental payable will not exceed RMB14,500,000 for the year 2017.

On 1 June 2015, Beijing Zhengqi (as the lessee), a wholly-owned subsidiary of the Company, and Xin'aote Video (as the lessor) entered into a supplemental lease agreement in relation to the lease of office premises ("**Xin'aote Video Lease Agreement**") for a term of three years commencing from 1 June 2015 to 31 December 2017.

During the 2016 Annual Period, the rental paid under the Xin'aote Lease Agreement amounted to approximately RMB0.8 million (2015: approximately RBM1.6 million) and the rental payable will not exceed RMB1,750,000 for the year 2017.

On 1 July 2015, CDV WFOE (as the supplier), a wholly-owned subsidiary of the Company, and Xin'aote Video (as the customer) entered into a framework agreement to set out the specific scope of services, products, terms and conditions of providing the solutions, products and services according to the principles laid down by the agreement (the "**Supply Framework Agreement**").

During the 2016 Annual Period, the amount received under the Supply Framework Agreement amounted to approximately RMB7.8 million (2015: approximately RMB6.1 million). The estimated annual sales under the Supply Framework Agreement will not exceed RMB10,000,000 for the year 2017.

The Xinxin Lease Agreement, Xin'aote Video Lease Agreement and the Supply Framework Agreement are subject to announcement, reporting and annual review requirements, but are exempt from the independent shareholders' approval requirements under Chapter 20 of The GEM Listing Rules as the applicable percentage ratios under Rule 19.07 of the GEM Listing Rules will exceed 0.1% but will not exceed 5%.

The Directors, including the independent non-executive Directors, consider that all the continuing connected transactions disclosed above are conducted on normal commercial terms and are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole and are in the ordinary and usual course of the business. The Directors, including the independent non-executive Directors, are also of the view that the annual caps of all the continuing connected transactions above are fair and reasonable.

The Company's auditor has been engaged by the Company to report on the non-exempt continuing connected transactions mentioned above. The auditor has issued a letter to the Board confirming, among other things, that nothing has come to their attention that causes them to believe that such transactions:-

(a) have not been approved by the Board;

(b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

(c) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and

(d) have exceeded the cap.

A copy of this letter has been provided by the Company to the Stock Exchange.

INTERESTS OF THE COMPLIANCE ADVISER

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

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The audit committee has reviewed the audited annual financial statements for the 2016 Annual Period and is of the opinion that the audited financial statements of the Group for the 2016 Annual Period complies with the applicable accounting standards, the GEM Listing Rules and that adequate disclosures have been made.

By order of the Board

China Digital Video Holdings Limited
Zheng Fushuang
Chairman

20 March 2017

Grant Thornton
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To the members of China Digital Video Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Digital Video Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 52 to 149, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

Impairment assessment of goodwill and other intangible assets

Refer to notes 2.20, 3.1(d), 3.1(g), 11 and 12 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
The Group has goodwill of RMB74,220,000 and intangible assets of RMB55,410,000 arising from the acquisition of the digital broadcasting business in prior years. The Group's assessment of impairment of these intangible assets requires estimate of the cash flow forecasts associated with the cash generating units ("CGUs"). We identified the impairment assessment of goodwill and other intangible assets arising from the acquisition as key audit matter because of their significance to the consolidated financial statements and the level of subjectivity associated with the assumption used in estimating the value-in-use of the CGUs, including cash flows forecast, growth rate used to extrapolate the cash flows and the rate at which they are discounted.	Our procedures in relation to the impairment assessment included: – Reviewing the cash flow forecast of the CGUs from the management. – Assessing the reasonableness of key assumptions (including operating margins, terminal growth rates and discount rates) of the forecast based on our knowledge of the business and industry and taking into account of the accuracy of previous forecasts and historical information. – Testing the management's sensitivity calculations by applying our own sensitivity analysis to the cash flows forecast, long-term growth rates and discount rates to ascertain the extent to which reasonable adverse changes would, either individually or in aggregate require an impairment of either the goodwill or indefinite life assets.

Provision for impairment of trade receivables

Refer to notes 2.9, 3.1(a) and 16 to the consolidated financial statements.

Key audit matter

As at 31 December 2016, the Group had trade receivables amounting to RMB448,862,000. The Group determines the provision for impairment of trade receivables based on the credit history of the customers and the current market condition.

We identified the provision for impairment of trade receivables as a key audit matter due to its significance to the consolidated financial statements and considerable amount of judgement and estimation being required in the assessment.

How the matter was addressed in our audit

Our procedures in relation to the provision for impairment included:

– Assessing the appropriateness of the accounting policy of the provision for impairment based on historical cash collections, credits and write off information.

– Reviewing the ageing of the trade receivables and evaluating the management's judgements on recoverability, taking into account of the credit history of the customers, accessible public information on liquidations and insolvencies, and subsequent settlement after the reporting period.

– Checking, on a sample basis, the accuracy of the provision in accordance with the Group's accounting policies on impairment.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information in the 2016 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors assisted by the audit committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

20 March 2017

Lin Ching Yee Daniel
Practising Certificate No.: P02771

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	4	651,976	605,983
Cost of sales		(416,155)	(393,812)
Gross profit		235,821	212,171
Other income	5	37,504	77,586
Selling and marketing expenses		(62,072)	(62,005)
Administrative expenses		(74,917)	(66,298)
Share-based compensation expense	26	(13,060)	(3,835)
Research and development expenses		(50,328)	(56,230)
Finance costs	6	(8,201)	(16,349)
Fair value gain on redeemable convertible preferred shares	24(iii)	276,108	70,820
Loss on extinguishment of redeemable convertible preferred shares	24(iii)	–	(21,969)
Share of losses of joint ventures	14	(3,647)	(6,521)
Profit before income tax		337,208	127,370
Income tax expense	7	(3,946)	(13,256)
Profit for the year	6	333,262	114,114
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on the translation of foreign operation		(388)	(34,832)
Total comprehensive income for the year		332,874	79,282
Profit/(Loss) for the year attributable to:			
Equity holders of the Company		338,706	120,219
Non-controlling interests		(5,444)	(6,105)
		333,262	114,114
Total comprehensive income/(loss) for the year attributable to:			
Equity holders of the Company		338,318	85,387
Non-controlling interests		(5,444)	(6,105)
		332,874	79,282
Earnings per share for profit attributable to ordinary equity holders of the Company			
(expressed in RMB cents per share)	8		
Basic		76.61	45.64
Diluted		11.46	12.54

The notes on pages 59 to 149 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	4,710	6,677
Intangible assets	11	75,787	67,978
Goodwill	12	74,220	74,220
Interests in joint ventures	14	—	3,647
Available-for-sale financial assets	17	3,697	3,461
Deferred tax assets	22	6,915	8,327
		165,329	164,310
Current assets			
Inventories	15	34,499	32,749
Trade and other receivables	16	608,738	420,206
Available-for-sale financial assets	17	63,000	—
Structured deposits	18	215,000	—
Pledged bank deposits	19	112,069	6,359
Bank balances and cash	19	96,605	181,085
		1,129,911	640,399
Current liabilities			
Trade and other payables	20	301,593	222,230
Income tax liabilities		11,850	17,493
Other interest-bearing borrowings	21	192,062	70,946
		505,505	310,669
Net current assets		624,406	329,730
Total assets less current liabilities		789,735	494,040
Non-current liabilities			
Redeemable convertible preferred shares	24	—	607,832
Other interest-bearing borrowings	21	—	4,363
Deferred tax liabilities	22	4,982	5,729
		4,982	617,924
Net assets/(liabilities)		784,753	(123,884)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
EQUITY			
Share capital – Ordinary shares	23	42	6
Share capital – Non-redeemable convertible preferred shares	24	–	26,235
Reserves	25	794,110	(146,170)
Equity attributable to equity holders of the Company		794,152	(119,929)
Non-controlling interests		(9,399)	(3,955)
Total equity/(Capital deficiency)		784,753	(123,884)

Zheng Fushuang
Director

Liu Baodong
Director

The notes on pages 59 to 149 are an integral part of these financial statements.

	Equity attributable to equity holders of the Company									
	Share capital– Ordinary shares RMB'000	Share capital – Non-redeemable convertible preferred shares RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Capital deficiency RMB'000
Balance at 1 January 2015	6	26,235	–	9,791	37,697	18,154	(301,034)	(209,151)	(2,818)	(211,969)
Comprehensive (loss)/income for the year										
Profit for the year	–	–	–	–	–	–	120,219	120,219	(6,105)	114,114
Other comprehensive loss for the year	–	–	–	–	(34,832)	–	–	(34,832)	–	(34,832)
Total comprehensive (loss)/ income for the year	–	–	–	–	(34,832)	–	120,219	85,387	(6,105)	79,282
Transactions with owners										
Share-based compensation (Note 26)	–	–	–	–	–	3,835	–	3,835	–	3,835
Transfer upon forfeiture of share options	–	–	–	–	–	(266)	266	–	–	–
Appropriation to statutory reserve	–	–	–	9,940	–	–	(9,940)	–	–	–
Capital contribution from a non-controlling shareholder	–	–	–	–	–	–	–	–	3,000	3,000
Disposal of a subsidiary (Note 28)	–	–	–	–	–	–	–	–	1,968	1,968
Total transactions with owners	–	–	–	9,940	–	3,569	(9,674)	3,835	4,968	8,803
Balance at 31 December 2015	6	26,235	–	19,731	2,865	21,723	(190,489)	(119,929)	(3,955)	(123,884)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Equity attributable to equity holders of the Company									
	Share capital – Ordinary shares RMB'000	Share capital – Non-redeemable convertible preferred shares RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Accumulated (losses)/ profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	(Capital deficiency)/ Total equity RMB'000
Balance at 1 January 2016	6	26,235	–	19,731	2,865	21,723	(190,489)	(119,929)	(3,955)	(123,884)
Comprehensive (loss)/income for the year										
Profit for the year	–	–	–	–	–	–	338,706	338,706	(5,444)	333,262
Other comprehensive loss for the year	–	–	–	–	(388)	–	–	(388)	–	(388)
Total comprehensive (loss)/ income for the year	–	–	–	–	(388)	–	338,706	338,318	(5,444)	332,874
Transactions with owners										
Conversion of convertible preferred shares (note 23(i))	5	(26,235)	368,469	–	–	–	–	342,239	–	342,239
Capitalisation issue (note 23(iii))	21	–	(21)	–	–	–	–	–	–	–
Issuance of new shares in connection with the listing of the Company's shares (note 23(iv))	10	–	251,921	–	–	–	–	251,931	–	251,931
Share issuance expenses (note 23(iv))	–	–	(31,467)	–	–	–	–	(31,467)	–	(31,467)
Share-based compensation (Note 26)	–	–	–	–	–	13,060	–	13,060	–	13,060
Transfer upon forfeiture of share options	–	–	–	–	–	(256)	256	–	–	–
Appropriation to statutory reserve	–	–	–	9,251	–	–	(9,251)	–	–	–
Total transactions with owners	36	(26,235)	588,902	9,251	–	12,804	(8,995)	575,763	–	575,763
Balance at 31 December 2016	42	–	588,902	28,982	2,477	34,527	139,222	794,152	(9,399)	784,753

The notes on pages 59 to 149 are an integral part of these financial statements.

	Note	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Profit before income tax		337,208	127,370
Adjustments for:			
Depreciation of property, plant and equipment		6,940	11,289
Amortisation of intangible assets		14,165	14,242
Interest income		(3,999)	(1,491)
Finance costs		8,201	16,349
Bad debt written off		—	1,314
Provision for impairment loss on trade and other receivables		17,393	14,005
Reversal of provision for impairment loss on trade and other receivables		(1,980)	(16,650)
Provision for inventory obsolescence		3,649	1,629
Loss on disposal of property, plant and equipment		166	538
Gain on disposal of intangible assets		—	(10,800)
Fair value gain on financial assets at fair value through profit or loss		—	(181)
Fair value gain on redeemable convertible preferred shares		(276,108)	(70,820)
Loss on extinguishment of redeemable convertible preferred shares		—	21,969
Share-based compensation expense		13,060	3,835
Share of losses of joint ventures		3,647	6,521
Gain on dilution of interest in a joint venture		—	(653)
Gain on disposal of a subsidiary	28	—	(7,872)
Operating profit before working capital changes		122,342	110,594
(Increase)/Decrease in inventories		(6,632)	29,032
Increase in trade and other receivables		(210,043)	(136,887)
Increase in trade and other payables		77,964	24,728
Cash generated (used in)/from operations		(16,369)	27,467
Income tax paid		(8,924)	—
Net cash (used in)/from operating activities		(25,293)	27,467

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Cash flows from investing activities			
Interest received		5,831	103
Purchase of property, plant and equipment		(3,983)	(4,391)
Proceeds from disposal of property, plant and equipment		77	334
Purchase of intangible assets		(3,689)	(20)
Addition in development costs through internal development		(18,285)	(11,764)
Purchase of structured deposits		(215,000)	—
Purchase of available-for-sale financial assets		(63,000)	—
Proceeds from sale of a subsidiary, net of cash disposed of	28	—	7,776
Decrease/(Increase) in time deposits with original maturities exceeding three months		74,654	(100,150)
Decrease/(Increase) in amounts due from joint ventures		6,692	(9,513)
Decrease/(Increase) in amounts due from related parties		4,981	(3,220)
Increase in pledged bank deposits		(105,710)	(2,777)
Net cash used in investing activities		(317,432)	(123,622)
Cash flows from financing activities			
Interest paid		(8,379)	(17,246)
Redemption of redeemable convertible preferred shares		—	(12,703)
Increase/(Decrease) in amounts due to related parties		475	(6,791)
Capital contribution from non-controlling interest		—	3,000
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)	—
Payment for deferred IPO costs		—	(4,312)
Proceeds from bank borrowings		110,000	50,537
Repayment of bank borrowings		(11,542)	(13,210)
Addition of other borrowings		43,007	47,900
Repayment of other borrowings		(24,712)	(17,499)
Net cash from financing activities		329,313	29,676
Net decrease in cash and cash equivalents		(13,412)	(66,479)
Cash and cash equivalents at beginning of year		30,935	97,372
Effect of foreign exchange rate changes on cash and cash equivalents held		3,586	42
Cash and cash equivalents at end of year	19	21,109	30,935

The notes on pages 59 to 149 are an integral part of these financial statements.

1. GENERAL INFORMATION

China Digital Video Holdings Limited (the "Company", formerly known as China Digital Video Limited) 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 address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company's shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27 June 2016 (the "Listing").

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

As at 31 December 2016, the directors regard the immediate and the ultimate holding company of the Company is Wing Success Holdings Limited ("Wing Success"), a company incorporated in the British Virgin Islands and Mr. Zheng Fushuang ("Mr. Zheng") is the ultimate controlling party of the Company.

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

The financial statements for each of the year ended 31 December 2016 were approved for issue by the board of directors on 20 March 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements of the Company have been prepared in accordance with applicable International Financial Reporting Standards ("IFRSs"). The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"). The consolidated financial statements have been prepared under the historical cost convention, except for financial instruments classified as available-for-sale and at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3 below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following new and amended IFRSs, which have become effective for the accounting period beginning on 1 January 2016 and relevant to the Group:

Amendments to IFRSs	Annual improvements to IFRSs 2012–2014 cycle
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation

The adoption had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures - continued

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures - continued

(b) New standards and interpretations not yet adopted - *continued*

IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

IFRS 16, "Leases" provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective. The Group is a lessee of various offices and residential properties, which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in note 2.14 with the Group's future operating lease commitments, which are not reflected in the consolidated statement of financial position, set out in note 29. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the statement of financial position. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated statement of financial position. Short-term leases of less than twelve months and leases of low value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated statement of financial position. In the income statement, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the operating expense under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expense will increase. The new standard is not expected to apply until the financial year 2019, including the adjustment of prior years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

(a) Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Basis of consolidation – *continued*

(a) Subsidiaries - continued

(i) Business combination - *continued*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recgonised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised in profit or loss.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Changes in ownership interest in subsidiaries without change in control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(b) Separate financial statements

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.3 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures including goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States dollars ("USD"). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the development and operation of the Group during the years are within the PRC, the Group determined to present the financial statements in RMB, unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Translation differences on monetary items that forms part of the Company's net investment in a foreign operation that is a subsidiary are recognised in the statement of comprehensive income in the separate financial statements of the Company. In the consolidated financial statements, such foreign exchange differences are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.5 Foreign currency translation – *continued*

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, as follows:

Leasehold improvements	Shorter of remaining term of the lease and the estimated useful lives of the assets
Computer equipment	3-5 years
Furniture and office equipment	5 years
Motor vehicle	10 years

The asset's residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

2.7 Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see Note 2.20). Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.8 Intangible assets (other than goodwill)

(a) Video-related and broadcasting intellectual properties, patents, trademarks and licenses

Separately acquired video-related and broadcasting intellectual properties, patents, trademarks and licenses are initially recorded at cost and include internally generated intangible assets (i.e. capitalised development costs as detailed in Note 2.8(c) below) that are available-for-use. Video-related and broadcasting intellectual properties, patents, trademarks and licenses acquired in a business combination are recognised at fair value at the acquisition date. These intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis over the shorter of their license periods or estimate useful lives (ranged from 2 to 10 years).

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 1 to 10 years.

(b) Unfinished contracts

Unfinished contracts acquired in a business combination are recognised at fair value at the acquisition date. Unfinished contracts are carried at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis over the estimated useful lives of 1 to 2 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.8 Intangible assets (other than goodwill) – *continued*

(c) Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities (relating to the design and testing of new or improved products) are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and are transferred to "Video-related and broadcasting intellectual properties, patents, trademarks and licenses" (Note 2.8(a)) once the asset is available for use. Amortisation commences when the intangible assets are available for use and are calculated on a straight-line basis over its estimated useful lives (ranged from 2 to 4 years).

All other development costs are expensed as incurred.

(d) Club membership

Club memberships with indefinite useful life are stated at cost less any impairment losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries and joint ventures are set out below. Financial assets of the Group are classified into loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date (the date on which the Group commits to purchase or sell the asset). When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised based on the classification of the financial asset.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial assets – *continued*

(a) *Financial assets at fair value through profit or loss - continued*

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets, except otherwise stated. Dividend and interest income is recognised in accordance with the Group's policies in Notes 2.17 and 2.18 to the financial statements.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial assets – *continued*

(c) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the reporting date.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less an identified impairment losses at each reporting date subsequent to initial recognition.

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial assets – *continued*

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, an impairment loss is measured and recognised as follows:

(a) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(b) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in the profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial assets – *continued*

(c) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

Impairment losses on financial assets other than financial assets at fair value through profit or loss and trade and other receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade and other receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade and other receivables is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment losses recognised in an interim period in respect of available-for-sale equity securities are not reversed in a subsequent period. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.13 Financial liabilities

The Group's financial liabilities included borrowings, trade and other payables, redeemable convertible preferred shares and derivates. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are expensed when incurred. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.13 Financial liabilities – *continued*

Redeemable convertible preferred shares

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminated or significant reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Redeemable convertible preferred shares issued by the Company comprise the host debt instrument and the embedded derivatives (including the redemption option and conversion option) and are designated as financial liabilities at fair value through profit or loss on initial recognition. The conversion option allows the holder to convert the preferred shares into ordinary shares and will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, and therefore it does not meet the equity classification. At the end of each reporting period subsequent to initial recognition, the entire redeemable convertible preferred shares are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Transaction costs that relate to the issue of the redeemable convertible preferred shares designated as financial liabilities at fair value through profit or loss are recognised as an expense immediately.

Other derivatives

Derivatives including separated embedded derivatives are measured at fair value (see Note 2.11).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.14 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(a) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(b) Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets.

2.15 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.15 Provisions, contingent liabilities and contingent assets – *continued*

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After the initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be recognised in a comparable provision as described above. Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed as per above.

Probable inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets.

2.16 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Preferred shares are classified as equity if it is non-redeemable and any dividends are discretionary. Dividends on preferred share capital classified as equity are recognised as distributions within equity. Redeemable convertible preferred shares are classified as liabilities (Note 2.13).

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services and the use by others of the Group's assets yielding dividends, net of value-added tax, rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

The Group's turnover includes, separately or in combination, the sale of application solution services with equipments, the provision of consultancy services, professional services, maintenance services, customer support services, extended warranty and other services.

(a) Products

Sale of products, including software and hardware equipments, are recognised upon transfer of the significant risks and rewards of ownership to the customers. This is usually taken as the time when the goods are delivered and the customer has accepted the products.

(b) Solutions

The Group uses the "percentage of completion method" to determine the appropriate amount of revenue to recognise in a given period for the solutions sales. The stage of completion is measured by reference to the costs incurred up to the end of the reporting period as a percentage of total estimated costs.

When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, revenue is recognised as services are provided. When it is probable that total costs to service the contract will exceed total revenue allocated to solutions sales, the expected loss is recognised as an expense immediately. When the outcome of a solutions sales contract cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are likely to be recoverable. The Group recognises a liability upon the receipt in advance of the consideration of revenue recognition. Progress billings not yet paid by customers and revenue recognized from completed solution sales but are not yet contractually able to issue invoices to customers (based on payment terms stipulated in the relevant solution sales contract) are included within "trade and other receivables" as billed and unbilled receivables respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.17 Revenue recognition – *continued*

(c) Services

Services, being maintenance and other professional services, are provided in the form of fixed-price contracts. Sales are recognised in the period the services are provided, using a straight-line basis over the terms of the contract.

(d) Multiple element arrangements

The Group offers certain arrangements whereby a customer can purchase equipments together with certain of the related solutions sales. When such multiple element arrangements exist, the total arrangement consideration is allocated to each element based on their relative fair values, as determined based on the current market price of each of the elements when sold separately.

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.

To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.18 Interest income

Interest income mainly represents interest income from bank deposits and is recognised using effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

Government grants relating to the purchase of assets are included in liabilities as deferred government grants in the statement of financial position and are recognised in profit or loss on a straight-line basis over the expected lives of the related assets.

Government grants relating to income is presented in gross under "Other income" in the statement of comprehensive income.

2.20 Impairment of non-financial assets

Goodwill arising on business acquisition, property, plant and equipment, intangible assets and interests in joint ventures are subject to impairment testing. Goodwill and intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose and not be larger than an operating segment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.20 Impairment of non-financial assets – *continued*

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2.21 Employee benefits

(a) Pension obligations

The Group has various defined contribution plans in accordance with the local conditions and practices in the municipalities and provinces in which they operate. Defined contribution plans are pension and/or other social benefit plans under which the Group pay fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The contributions are recognised as labour costs when they are due.

(b) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(c) Equity-settled share-based compensation transactions

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the services received in exchange for the grant of the equity instruments is recognised as expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 Employee benefits – *continued*

(c) *Equity-settled share-based compensation transactions - continued*

In terms of share options, the total amount to be expensed is determined by reference to the fair value of the equity instruments granted including any market performance conditions; excluding the impact of any service and non-market performance vesting conditions; and including the impact of any non-vesting conditions.

Non-market performance and service conditions are included in assumptions about the number of options and shares that are expected to vest. The total expense is recognised over the vesting period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options and shares that are expected to vest based on the non-marketing performance and service conditions. The Group recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

When the options are excercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(d) *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity (share option reserve) in the separate financial statements of the Company.

2.22 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year/period. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 Accounting for income taxes – *continued*

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.24 Dividend distribution

Dividend distribution to the Company's ordinary and preferred shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or board of directors, where appropriate.

2.25 Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) both entities are joint ventures of the same third-party.
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) the entity is controlled or jointly controlled by a person identified in (a).
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The Group makes accounting estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Provision for impairment of trade and other receivables

The Group determines the provision for impairment of trade and other receivables (Note 16). This estimate is based on the credit history of the customers and the current market condition. Management reassesses the adequacy of provision on a regular basis by reviewing the individual account based on past credit history and any prior knowledge of debtor insolvency or other credit risk which might not be easily accessible public information and market volatility might bear a significant impact which might not be easily ascertained.

(b) Allowance for inventories

The management reviews the condition of inventories (Note 15) at each reporting date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use for production or maintenance. The Group carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions.

(c) Fair value of redeemable convertible preferred shares

As detailed in Note 24, the Company has issued redeemable convertible preferred shares designated as financial liabilities at fair value through profit or loss. The directors, with the assistance of an independent professional valuer, have used valuation techniques including the discounted cash flow method and option pricing model to determine the fair value of these redeemable convertible preferred shares. Significant estimate on assumptions, such as underlying equity value, time to expiration, risk-free interest rate, expected volatility and dividend yield, is required to be made by the directors in applying the valuation models.

(d) Impairment of goodwill

Determining whether goodwill (Note 12) is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

3.1 Critical accounting estimates and assumptions – *continued*

(e) Percentage of completion of solutions sales

The Group recognises revenue and costs according to the stage of completion for its solutions sales contracts. The stage of completion is measured by reference to the costs incurred to date compared to the total estimated costs for the contract. Because of the nature of the activity undertaken in the solutions sales contracts, the date at which the contract activity is entered into and the date when the activity is completed may fall into different accounting periods. Management reviews and revises the estimates of both contract revenue and contract costs for each contract as the contract progresses. Management estimates the amount of foreseeable losses of solutions sales contracts based on the budgets prepared for the solutions sales contracts.

(f) Capitalisation of development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in Note 2.8(c) to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2016, the best estimate of the carrying amount of capitalised development cost were RMB21,891,000 (2015: RMB12,168,000).

(g) Depreciation, amortization and impairment assessment of property, plant and equipment and intangible assets

Property, plant and equipment (Note 10) and intangible assets (Note 11) with finite useful lives are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

Property, plant and equipment and intangible assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the assets have been determined based on the higher of fair value and value-in-use calculations. These calculations require the use of judgement and estimates.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

3.1 Critical accounting estimates and assumptions – *continued*

(h) Current and deferred income taxes

As detailed in Note 7, the Group is subject to income taxes in several jurisdictions. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgement is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3.2 Critical judgement in applying the entity's accounting policies

(a) Consolidation of Beijing Meicam in which the Group owns less than 50%

Although the Group owns less than half of the equity interests in Beijing Meicam Network Technology Co., Ltd ("Beijing Meicam"), it is able to gain power and hence control over more than one half of the voting rights by virtual of contractual agreement with another investor in Beijing Meicam in which the investor must consult and vote in the same way as the Group.

4. REVENUE AND SEGMENT INFORMATION

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

	2016 RMB'000	2015 RMB'000
Solutions	463,694	454,334
Services	97,646	77,096
Products	90,636	74,553
	651,976	605,983

Geographical information

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

Information about major customers

Revenue from customers which individually contributed over 10% of the Group's revenue is as follows:

	2016 RMB'000	2015 RMB'000
Customer A	127,797	N/A

5. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Other revenue		
Interest income	**3,999**	1,491
Reversal of provision for impairment loss on trade and other receivables	**1,980**	16,650
Value-added tax ("VAT") refunds (note a)	**22,763**	23,886
	28,742	42,027
Other net income/gain		
Gain on disposal of intangible assets (Note 30)	**—**	10,800
Gain on disposal of a subsidiary (Note 28)	**—**	7,872
Gain on dilution of interest in a joint venture (Note 14)	**—**	653
Subsidy income from government (note b)	**8,685**	15,347
Sundry income	**77**	887
	8,762	35,559
	37,504	77,586

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.

6. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	2016 RMB'000	2015 RMB'000
Finance costs		
Interest on bank and other borrowings, wholly repayable within five years	8,201	6,951
Loss on non-recourse factoring of trade receivables (Note 16)	—	9,398
	8,201	16,349
Employee benefit expenses		
Salaries, bonus and allowances	120,797	105,119
Retirement benefit scheme contributions	27,757	24,154
Severance payments	242	583
Share-based compensation expense	13,060	3,835
	161,856	133,691
Other items		
Auditors' remuneration	1,751	470
Listing-related expenses	11,309	15,209
Operating lease charges on premises	15,405	14,716
Cost of software and hardware equipments recognised as an expense, including	309,251	298,664
– Provision for inventory obsolescence	3,649	1,629
Depreciation of property, plant and equipment	6,940	11,289
Amortisation of intangible assets	14,165	14,242
Bad debt written off	—	1,314
Provision for impairment loss on trade and other receivables	17,393	14,005
Loss on disposal of property, plant and equipment	166	538
Fair value gain on financial assets at fair value through profit or loss	—	(181)
Net foreign exchange loss	4,512	3,108

7. INCOME TAX EXPENSE

	Notes	2016 RMB'000	2015 RMB'000
Current tax - PRC enterprise income tax			
Current year		9,083	17,406
Over-provision in respect of prior year		(5,802)	–
		3,281	17,406
Deferred tax			
Origination and reversal of temporary differences	22	(2,110)	(1,688)
Effect on deferred tax balances resulting from changes in tax rates	22	2,775	(2,462)
		665	(4,150)
Income tax expense		3,946	13,256

The difference between the actual income tax charge in the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	2016 RMB'000	2015 RMB'000
Profit before income tax	337,208	127,370
Tax on profit before income tax, calculated at the statutory rates applicable to profits in the tax jurisdiction concerned	22,763	23,124
Tax effect on non-deductible expenses	2,617	6,336
Tax effect on preferential income tax rates applicable to certain subsidiaries	(14,485)	(10,375)
Tax effect on super deduction in research and development activities	(2,302)	(2,612)
Tax effect of tax losses not recognised	–	568
Over-provision in respect of prior year	(5,802)	–
Utilisation of tax losses previously not recognised	(1,620)	(1,323)
Effect on deferred tax balances resulting from changes in tax rates	2,775	(2,462)
Income tax expense	3,946	13,256

7. INCOME TAX EXPENSE – *continued*

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 year.

(c) Singapore profits tax

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

(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 year based on the existing legislation, interpretations and practices in respect thereof. The applicable income tax rate 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 years ended 31 December 2016 and 2015.

(e) PRC withholding tax

According to the relevant laws and regulations in the PRC, the Group is also liable to a 10% withholding tax on dividends to be distributed from the Group's foreign-invested enterprises in the PRC in respect of its profits generated from 1 January 2008. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

8. EARNINGS PER SHARE

For the purpose of computing basic and diluted earnings per share, the number of ordinary shares during each year 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 23(iii), in the computation of both basic and diluted earnings per share for the years ended 31 December 2016 and 2015.

(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 year.

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to equity holders of the Company	**338,706**	120,219
Undeclared dividend of preferred shares	**(5,193)**	(10,529)
Profit used to determine basic earnings per share	**333,513**	109,690

	2016	2015
Number of shares (in thousands)		
Weighted average number of ordinary shares outstanding for basic earnings per share	**435,346**	240,318

8. EARNINGS PER SHARE – *continued*

(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:

	2016 RMB'000	2015 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company used to determine basic earnings per share	**333,513**	109,690
Change in fair value on redeemable convertible preferred shares	**(276,108)**	(67,013)
Undeclared dividend of preferred shares	**5,193**	8,564
Profit used to determine diluted earnings per share	**62,598**	51,241

	2016	2015
Number of shares (in thousands)		
Weighted average number of ordinary shares used to determine basic earnings per share	**435,346**	240,318
Effect of deemed conversion of preferred shares (after capitalisation issue adjustment)	**109,272**	167,637
Effect of deemed issue of shares under the 2010 Share Option Plan	**1,477**	535
	546,095	408,490

For the years ended 31 December 2016 and 2015, 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 year ended 31 December 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, Series C preferred shares and the 2010 Share Option Plan of the Company.

For the year ended 31 December 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, Series C preferred shares and the 2010 Share Option Plan of the Company, but not on the remaining preferred shares since their conversion would result in an increase in earnings per share.

9. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

The remuneration of each director disclosed pursuant to the GEM Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulations, are set out below:

Name of director	Notes	Fees	Basic salaries and allowances	Discretionary Bonus	Retirement benefit contribution	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2016						
Executive directors:						
Mr. Liu Baodong	(i)	251	967	120	26	1,364
Mr. Zheng Fushuang		291	564	60	–	915
Mr. Guo Langhua		291	564	60	–	915
Independent non-executive directors:						
Mr. Frank Christiaens		202	–	–	–	202
Mr. Zhang Yaqin		202	–	–	–	202
Ms. Cao Qian	(ii)	101	–	–	–	101
		1,338	2,095	240	26	3,699
Year ended 31 December 2015						
Executive directors:						
Mr. Liu Baodong	(i)	–	984	–	–	984
Mr. Zheng Fushuang		–	498	–	–	498
Mr. Guo Langhua		–	498	–	–	498
Non-executive directors:						
Mr. Sun Zhuang	(iii)	–	–	–	–	–
Mr. Xie Yang	(iii)	–	–	–	–	–
Independent non-executive directors:						
Mr. Du Baichuan	(iv)	–	–	–	–	–
Mr. Frank Christiaens		187	–	–	–	187
Mr. Zhang Yaqin		187	–	–	–	187
		374	1,980	–	–	2,354

9. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS – *continued*

(a) Directors' remuneration – *continued*

Notes:

(i) Mr. Liu Baodong is also the chief executive officer of the Group.

(ii) Appointed on 23 May 2016 with effect upon the Listing.

(iii) Resigned on 23 July 2015.

(iv) Resigned on 15 May 2015.

There were no arrangements under which a director of the Company waived or agreed to waive any remuneration during the years ended 31 December 2016 and 2015.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2015: one) directors whose emoluments are reflected in the analysis presented above. The emoluments paid/payable to the remaining two (2015: four) individuals during the year are as follows:

	2016 RMB'000	2015 RMB'000
Basic salaries and allowances	1,569	1,931
Retirement benefit scheme contributions	126	234
Share-based compensation expense	13,060	3,835
	14,755	6,000

The emoluments fell within the following bands:

	2016	2015
Emolument bands		
Nil - HK$1,000,000	—	2
HK$2,000,001 - HK$2,500,000	—	1
HK$3,000,001 - HK$3,500,000	—	1
HK$8,000,001 - HK$8,500,000	1	—
HK$9,000,001 - HK$9,500,000	1	—

No emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2016 and 2015.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Computer equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicle RMB'000	Total RMB'000
At 1 January 2015					
Cost	10,980	53,384	2,404	2,055	68,823
Accumulated depreciation	(9,675)	(42,889)	(1,617)	(1,058)	(55,239)
Net book amount	1,305	10,495	787	997	13,584
Year ended 31 December 2015					
Opening net book amount	1,305	10,495	787	997	13,584
Additions	148	5,717	62	—	5,927
Disposal	—	(869)	(3)	—	(872)
Disposal of a subsidiary (Note 28)	(170)	(503)	—	—	(673)
Depreciation	(715)	(9,936)	(312)	(326)	(11,289)
Closing net book amount	568	4,904	534	671	6,677
At 31 December 2015					
Cost	10,900	53,535	2,460	2,055	68,950
Accumulated depreciation	(10,332)	(48,631)	(1,926)	(1,384)	(62,273)
Net book amount	568	4,904	534	671	6,677
Year ended 31 December 2016					
Opening net book amount	568	4,904	534	671	6,677
Additions	—	4,634	30	552	5,216
Disposal	—	(237)	(5)	(1)	(243)
Depreciation	(487)	(5,903)	(247)	(303)	(6,940)
Closing net book amount	**81**	**3,398**	**312**	**919**	**4,710**
At 31 December 2016					
Cost	10,900	54,922	2,455	2,605	70,882
Accumulated depreciation	(10,819)	(51,524)	(2,143)	(1,686)	(66,172)
Net book amount	**81**	**3,398**	**312**	**919**	**4,710**

10. PROPERTY, PLANT AND EQUIPMENT – *continued*

Depreciation charges recognised is analysed as follows:

	2016 RMB'000	2015 RMB'000
Cost of sales	19	21
Selling and marketing expenses	2,376	2,575
Administrative expenses	2,285	2,645
Research and development expenses	2,260	6,048
	6,940	11,289

11. INTANGIBLE ASSETS

	Video-related and broadcasting intellectual properties, patents, trademarks and licenses RMB'000	Development costs RMB'000	Unfinished contracts RMB'000	Club membership RMB'000	Total RMB'000
At 1 January 2015					
Cost	76,985	9,577	5,600	2,266	94,428
Accumulated amortisation	(18,392)	–	(5,600)	–	(23,992)
Net book amount	58,593	9,577	–	2,266	70,436
Year ended 31 December 2015					
Opening net book amount	58,593	9,577	–	2,266	70,436
Transfers	9,173	(9,173)	–	–	–
Additions	20	11,764	–	–	11,784
Amortisation	(14,242)	–	–	–	(14,242)
Closing net book amount	53,544	12,168	–	2,266	67,978
At 31 December 2015					
Cost	86,178	12,168	–	2,266	100,612
Accumulated amortisation	(32,634)	–	–	–	(32,634)
Net book amount	53,544	12,168	–	2,266	67,978
Year ended 31 December 2016					
Opening net book amount	53,544	12,168	–	2,266	67,978
Transfers	8,562	(8,562)	–	–	–
Additions	3,689	18,285	–	–	21,974
Amortisation	(14,165)	–	–	–	(14,165)
Closing net book amount	**51,630**	**21,891**	**–**	**2,266**	**75,787**
At 31 December 2016					
Cost	98,429	21,891	–	2,266	122,586
Accumulated amortisation	(46,799)	–	–	–	(46,799)
Net book amount	**51,630**	**21,891**	**–**	**2,266**	**75,787**

11. INTANGIBLE ASSETS – *continued*

The development costs represented all direct costs incurred in the development of software products. Amortisation charges recognised is analysed as follows:

	2016 RMB'000	2015 RMB'000
Cost of sales	**12,775**	13,997
Selling and marketing expenses	**25**	24
Administrative expenses	**1,196**	52
Research and development expenses	**169**	169
	14,165	14,242

12. GOODWILL

The carrying amount of goodwill arose from the acquisition of the digital broadcasting business in 2013. The net carrying amount of goodwill can be analysed as follows:

	2016 RMB'000	2015 RMB'000
Carrying amount:		
As at 1 January and 31 December	**74,220**	74,220

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% (2015: 3.0%) per annum (for cash flows beyond the five-year period) for the operation, which does not exceed the long-term growth rate for the industry in the PRC. A discount factor of 18.0%, (2015: 20.0%) for the year ended 31 December 2016 was applied in the value in use model. 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.

13. SUBSIDIARIES

Particulars of the subsidiaries, each of which is a limited liability company, as at 31 December 2016, were as follows:

Name of company	Country/ Place of establishment	Issued and paid-up capital	Equity interest held	Principal activities and place of operation
Directly held by the Company				
CDV WFOE	PRC	US$50,000,000	100%	Research, development and sales of video-related and broadcasting equipment and software and provision of related technical service, in PRC
Indirectly held by the Company				
Beijing Zhengqi	PRC	RMB20,000,000	100%	Research, development and sales of video-related and broadcasting equipment and software and provision of related technical service, in PRC
Beijing Meicam	PRC	RMB25,000,000	40% (note)	Mobile application development and operation, in PRC

Note:

Although the Group owns less than half of the equity interests in Beijing Meicam, it is able to gain power and hence control over more than one half of the voting rights by virtual of contractual agreement with another investor in Beijing Meicam in which the investor must consult and vote in the same way as the Group (Note 3.2(a)).

The directors of the Company consider that the non-controlling interest of Beijing Meicam during the years ended 31 December 2016 and 2015 was not material to the Group and thus no separate financial information of this non-wholly owned subsidiaries are presented.

14. INTERESTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Share of net assets	–	3,647

As at 31 December 2016, the Group had interests in the following joint ventures, all of which are considered not individually material to the Group:

Name of company	Country/ Place of establishment	Paid in capital	Equity interest held by the Group	Principal activities and place of operation
Beijing Hermit Culture & Media Co., Ltd 北京海米文化傳媒有限公司 ("Beijing Hermit")	PRC	RMB10,000,000	40%	Provision of virtual advertising service, in PRC
Beijing Yue Ying Technology Co., Ltd 北京悦影科技有限公司 ("Beijing Yueying") (note a)	PRC	RMB11,363,636	35.2%	Development and provision of video related application, in PRC
CDV (Beijing) Yun Duan Technology Co., Ltd 新奥特(北京)雲端科技有限公司 ("Xin'aote Cloud")	PRC	RMB25,000,000	40%	Mobile application development and operation, in PRC

Note:

(a) During the year ended 31 December 2015, the Group's interest in Beijing Yueying was diluted from 40.0% to 35.2% upon the additional contributions by a new investor and a gain on dilution of interest in a joint venture of RMB653,000 was recognised in profit or loss.

(b) During the year ended 31 December 2016, the Group's share of losses exceeds its interests in the joint ventures, the Group's interest is reduced to nil and recognition of further losses is discontinued as the Group has no legal or constructive obligations on behalf of the joint ventures.

15. INVENTORIES

	2016 RMB'000	2015 RMB'000
Equipments and parts	18,131	24,019
Work-in-progress	16,368	8,730
	34,499	32,749

16. TRADE AND OTHER RECEIVABLES

	Notes	2016 RMB'000	2015 RMB'000
Trade and bills receivables			
From third parties		468,248	337,723
From related parties	31(d)	12,969	6,842
		481,217	344,565
Less: provision for impairment of trade receivables		(32,355)	(18,050)
	(a)	448,862	326,515
Other receivables	(b)		
Deposits, prepayments and other receivables		53,931	10,975
Deposit for guarantee certificate over tendering and performance		17,617	14,111
Advance to suppliers		68,058	24,545
Amounts due from related parties	31(d)	4,545	9,526
Amounts due from joint ventures		6,087	12,779
VAT receivables		7,979	11,501
Advances to employees		6,395	7,690
Deferred IPO costs		—	6,192
		164,612	97,319
Less: provision for impairment of other receivables		(4,736)	(3,628)
		159,876	93,691
		608,738	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:

	2016 RMB'000	2015 RMB'000
Trade receivables	14,538	7,914
Deposit for guarantee certificate over tender and performance	2,172	5,815
	16,710	13,729

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.

16. TRADE AND OTHER RECEIVABLES – *continued*

(a) Trade and bills receivables

Invoices issued to customers are in accordance with the payment terms stipulated in the contracts and payable on issuance. Deposits are normally required upon signing of the contract. For customers with good credit history and selected large television stations in the PRC with sound financial standing, its settlement may be longer than 180 days after issuance of invoices. As at 31 December 2016, trade and bills receivables contained retention money receivables (net of provisions) of RMB42,672,000 (2015: RMB42,990,000). Retention money receivables are normally collected within 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:

	2016 RMB'000	2015 RMB'000
Billed:		
0 to 90 days	**113,039**	149,951
91 to 180 days	**43,545**	50,437
181 to 365 days	**99,348**	19,435
1 to 2 years	**23,802**	2,300
	279,734	222,123
Unbilled*	**169,128**	104,392
	448,862	326,515

* The unbilled balance was mainly attributable to completed solutions sales which will be billed within the next twelve months from the end of the reporting dates in accordance with the payment terms stipulated in the relevant solutions sales contracts entered into between the Group and the contract customers. These receivables were neither past due nor impaired and relate to a number of customers for whom there was no recent history of default.

16. TRADE AND OTHER RECEIVABLES – *continued*

(a) Trade and bills receivables – *continued*

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

	2016 RMB'000	2015 RMB'000
Balance at the beginning of the year	**18,050**	23,483
Provision for impairment	**16,100**	11,717
Reversal of provision for impairment	**(1,795)**	(16,650)
Written off as uncollectible	**—**	(500)
Balance at the end of the year	**32,355**	18,050

At each reporting date, the Group reviews for evidence of impairment on both an individual and collective basis. As at 31 December 2016, the Group has determined trade receivables of RMB16,100,000 (2015: RMB13,031,000) as individually impaired. Based on this assessment, provision for impairment loss of RMB16,100,000 (2015: RMB11,717,000) has been recognised, and bad debts written off of nil (2015: RMB1,314,000) has been made during the year ended 31 December 2016. Provision for impairment loss and bad debts written off have been included in "administrative expenses" in the consolidated statement of comprehensive income. The impaired trade receivables are due from customers experiencing financial difficulties that were in default or delinquency of payments. The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables, whether determined on an individual or collective basis.

During the year ended 31 December 2015, the Group has entered into a non-recourse factoring arrangement with an independent third party in respect of its trade receivables of which provision for impairment amounted to RMB16,603,000 was made in prior years. Accordingly, the Group has made a reversal of such provision for impairment and the difference between the gross carrying amount of these trade receivables and the factoring proceeds of RMB9,398,000 was recognised as finance costs (Note 6) during the year ended 31 December 2015.

16. TRADE AND OTHER RECEIVABLES – *continued*

(a) Trade and bills receivables – *continued*

The ageing analysis of the Group's billed trade and bills receivables that are neither individually nor collectively considered to be impaired, based on due date is as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	–	–
1 to 90 days past due	113,039	149,951
91 to 180 days past due	43,545	50,437
181 to 360 days past due	99,348	19,435
1 to 2 years past due	23,802	2,300
	279,734	222,123

Trade receivables that were past due but not impaired related to a number of customers that had a good track record of credit with the Group. Based on past credit history, management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group does not hold any collateral in respect of trade receivables past due but not impaired.

The following were the Group's financial assets as at 31 December 2016 that were transferred to a non-banking financial institution by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as an unsecured borrowing (Note 21(d)).

These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	2016 RMB'000	2015 RMB'000
Trade receivables discounted with full recourse		
Carrying amount of transferred trade receivables	20,355	–
Carrying amount of associated liabilities	(20,355)	–
Net position	–	–

As at 31 December 2016, 23% (2015: 24%) of trade receivables are due from 5 major customers in cooperation with the Group's business.

16. TRADE AND OTHER RECEIVABLES – *continued*

(b) Other receivables

Deposit for guarantee certificate

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

Amounts due from joint ventures

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

Advances to employees

Advances to employees mainly represent advances for various expenses to be incurred in the ordinary course of business. These advances 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:

	2016 RMB'000	2015 RMB'000
Balance at the beginning of the year	3,628	1,340
Provision for impairment	1,293	2,288
Reversal of provision for impairment	(185)	—
Balance at the end of the year	4,736	3,628

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
– Unlisted equity investments, at cost less impairment losses	a	3,697	3,461
Current assets			
– Unlisted trust funds, at fair value	b	63,000	–

Notes:

a) During the year ended 31 December 2015, the Group has exercised the conversion option to convert its unlisted convertible promissory note of People Power Company ("PPC") which previously classified as financial assets at fair value through profit or loss, into preferred shares. Accordingly, the unlisted convertible promissory note were derecognized upon conversion and the unlisted preferred shares of PPC were classified as available-for-sale financial assets.

The unlisted equity investments are stated at costs less impairment losses as the investment does not have quoted market prices in an active market and the range of reasonable fair value estimates are so significant that the directors of the Company of the opinion that its fair value cannot be measured reliably.

b) The directors determined that the fair value of the unlisted trust funds as issued by financial institutions are not materially different from the carrying amount as stated above.

18. STRUCTURED DEPOSITS

As at 31 December 2016, the structured deposits consisted of deposits RMB215,000,000 (2015: nil) denominated in Renminbi and issued by banks in the PRC. The structured deposits carried interest at expected interest rate of 1.50% to 3.02% per annum with maturity ranging from 180 days to 1 year from the date of purchase. In the opinion of the directors, the fair value of the structured deposits are not materially different from their carrying amounts because the deposits have short maturity periods on their inception.

19. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

	2016 RMB'000	2015 RMB'000
Cash at bank and on hand	28,263	37,294
Short-term time deposits	180,411	150,150
	208,674	187,444
Pledged bank deposits	(112,069)	(6,359)
Bank balances and cash per the consolidated statement of financial position	96,605	181,085
Time deposits with banks with original maturities exceeding 3 months	(75,496)	(150,150)
Cash and cash equivalents per the consolidated statement of cash flows	21,109	30,935

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between 3 months to 12 months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

As at 31 December 2016, included in bank balances and cash of the Group are restricted deposits held at bank for the purpose of contract related deposits or payments, guarantees issued for trade finance facilities and security of bank borrowing of RMB112,069,000 (2015: RMB6,359,000) respectively.

The Group's major subsidiaries are based in the PRC and majority of their transactions are denominated in RMB. As at 31 December 2016, included in bank balances and cash and pledged bank deposits of the Group is RMB48,010,000 (2015: RMB185,327,000) of bank balances denominated in Renminbi placed with banks in the PRC. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. As at 31 December 2016 and 2015, other than the restriction from exchange control regulations, there is no significant restriction on the Group.

The carrying amount of the bank balances and cash and pledged bank deposits are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	48,010	185,327
USD	160,381	2,115
Others	283	2
	208,674	187,444

20. TRADE AND OTHER PAYABLES

	Notes	2016 RMB'000	2015 RMB'000
Trade and bills payables			
To third parties	(a)	154,763	104,960
Other payables			
Amounts due to customers for contract work	(b)	521	1,319
Advances from customers		13,760	11,009
Other payables and accrued charges		24,732	20,986
Other tax liabilities		87,231	62,716
Staff costs and welfare accruals		13,745	8,198
Amounts due to related parties	31(e)	475	—
Deferred income related to government grants		6,366	13,042
		146,830	117,270
		301,593	222,230

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

(a) Trade and bills payables

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

	2016 RMB'000	2015 RMB'000
0 to 90 days	97,649	76,543
91 to 180 days	25,041	8,658
181 to 365 days	18,627	6,782
1 to 2 years	2,544	5,096
2 to 3 years	2,587	1,264
Over 3 years	8,315	6,617
	154,763	104,960

20. TRADE AND OTHER PAYABLES – *continued*

(b) Amounts due to customers for contract work

Amounts due to customers for contract work represented the balance of aggregate cost incurred and recognised profits for the service component of the solutions sales which are recognised based on the percentage of completion method. The net balance sheet position for ongoing contracts is as follows:

	2016 RMB'000	2015 RMB'000
Aggregate costs incurred plus recognised profits less recognised losses to date	—	6
Less: Progress billings	(521)	(1,325)
	(521)	(1,319)

21. OTHER INTEREST-BEARING BORROWINGS

	Notes	2016 RMB'000	2015 RMB'000
Non-current			
Other borrowings, secured	(c)	—	4,363
Current			
Short-term bank borrowings, secured	(a)	86,000	—
Short-term bank borrowings, unsecured	(b)	58,685	46,227
Other borrowings, secured	(c)	4,370	24,719
Other borrowings, unsecured	(d)	43,007	—
		192,062	70,946
		192,062	75,309

The carrying amounts of other interest-bearing borrowings are considered to be a reasonable approximate of their fair values.

21. OTHER INTEREST-BEARING BORROWINGS – *continued*

(a) Short-term bank borrowings, secured

As at 31 December 2016, the secured bank borrowings of RMB86,000,000 (2015: Nil) were secured by pledge of the Company's secured bank deposits of approximately RMB104,055,000 (equivalent to US$15,000,000).

(b) Short-term bank borrowings, unsecured

The Group's unsecured bank borrowings were guaranteed by the followings:

	2016 RMB'000	2015 RMB'000
Cross-guarantee by Mr. Zheng and Xinxin Holding	15,000	9,959
Cross-guarantee by a director of the Group and a third party	—	3,800
Guarantee by third parties	9,000	—
	24,000	13,759

In addition, during the years ended 31 December 2016 and 2015, the Group has obtained a one-year standby letter of credit issued by a bank for a maximum of US$5.0 million in favour of another bank, which has granted to the Group an unsecured bank borrowings of RMB34,685,000 and RMB32,468,000 (equivalent to US$5.0 million) as at 31 December 2016 and 2015 respectively.

All of the Group's banking facilities are subject to the fulfillment of certain financial and non-financial covenants relating to certain of the Group's subsidiaries, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand.

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the loans and does not consider it probable that the banks will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in Note 32(f).

21. OTHER INTEREST-BEARING BORROWINGS – *continued*

(c) Other borrowings, secured

On 23 January 2015, the Group has entered into agreements with a third party (the "Buyer") for (1) the transfer of certain of the Group's patent rights (with nil carrying amount at the date of transfer) for a consideration of RMB50,000,000; (2) leasing back of the same assets from the Buyer for a lease period from 2015 to 2017 at a fixed interest rate; and (3) a repurchase agreement to buyback the same assets at a consideration equates to the total lease payments in (2) above. The Group considered the substance of the above transactions and has determined that it is of a collateralised borrowing as the Group has retained effective control over the leased assets through the repurchase agreement. Accordingly, the Group has initially recognised a borrowing of RMB47,900,000 (net of directly attributable transaction costs of RMB2,100,000).

As at 31 December 2015, the other borrowing is secured by the Group's intangible assets with nil carrying amount and guaranteed by Mr. Zheng and Xinxin Holding. During the year ended 31 December 2016, the guarantee from Mr. Zheng and Xinxin Holding were released by the creditor and the borrowing is solely secured by the Group's intangible assets as at 31 December 2016. The amount carries an effective interest rate of 3.70% per annum and is repayable by quarterly installments till 2017.

(d) Other borrowings, unsecured

As at 31 December 2016, the unsecured other borrowings include debt factoring loan with full recourse from a non-bank financial institution (Note 16(a)) and short-term borrowings entered with independent third parties, which are repayable within one year or on demand.

(e) Effective interest rates

	Original currency	**2016**	2015
Short-term bank borrowings, secured	RMB	**3.9%**	—
Short-term bank borrowings, unsecured	USD	**2.9%**	2.8% - 5.8%
Short-term bank borrowings, unsecured	RMB	**4.8% - 5.7%**	6.3%
Other borrowings, secured	RMB	**3.7%**	3.7%
Other borrowings, unsecured	RMB	**3.7% - 8.6%**	—

22. DEFERRED TAXATION

The analysis of deferred tax assets and deferred tax liabilities are as follows:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	(6,915)	(8,327)
Deferred tax liabilities	4,982	5,729
	(1,933)	(2,598)

The net movement of deferred tax liabilities/(assets) are as follows:

	2016 RMB'000	2015 RMB'000
At the beginning of the year	(2,598)	1,552
Recognised in profit or loss (Note 7)	(2,110)	(1,688)
Effect from changes in tax rates (Note 7)	2,775	(2,462)
At the end of the year	(1,933)	(2,598)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities

	Fair value adjustment on business combination RMB'000
At 1 January 2015	6,476
Recognised in profit or loss	(747)
At 31 December 2015 and 1 January 2016	5,729
Recognised in profit or loss	(747)
At 31 December 2016	**4,982**

22. DEFERRED TAXATION – *continued*

Deferred tax assets

	Provision for impairment loss on trade and other receivables RMB'000	Provision for inventories obsolescence RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	2,482	905	1,537	4,924
Attributable to change in tax rate (Note 7)	1,241	452	769	2,462
Recognised in profit or loss	(740)	214	1,467	941
At 31 December 2015 and 1 January 2016	2,983	1,571	3,773	8,327
Attributable to change in tax rate (Note 7)	(994)	(523)	(1,258)	(2,775)
Recognised in profit or loss	1,850	246	(733)	1,363
At 31 December 2016	**3,839**	**1,294**	**1,782**	**6,915**

As at 31 December 2016, no deferred tax liability had been provided for the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB107,741,000 (2015: RMB28,755,000). Such earnings are expected to be retained by the PRC subsidiaries to operate and expand its business in the PRC and not to be remitted to a foreign investor in the foreseeable future.

23. SHARE CAPITAL

	Note	Number of shares	Nominal value of shares US$
Authorised:			
Ordinary shares of the Company:			
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 31 December 2016		**5,000,000,000**	**50,000**

23. SHARE CAPITAL – *continued*

	Notes	Number of shares	Nominal value of shares US$
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 31 December 2016		–	–
– 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 31 December 2016		–	–
– 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)	(34,833,333)	(348)
As at 31 December 2016		–	–
– 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)	(10,151,453)	(102)
As at 31 December 2016		–	–
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)	(112,484,786)	(1,125)
As at 31 December 2016		–	–

23. SHARE CAPITAL – *continued*

	Notes	Number of shares	Nominal value of shares US$	Equivalent nominal value of shares RMB'000
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 31 December 2016		**620,000,000**	**6,200**	**42**

	Note	Number of shares	Nominal value of shares US$
Non-redeemable convertible preferred shares:			
– 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 31 December 2016		**—**	**—**

23. SHARE CAPITAL – *continued*

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

23. SHARE CAPITAL – *continued*

Notes:

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

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

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

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

(iii) Capitalisation issue

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

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

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

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

24. REDEEMABLE CONVERTIBLE PREFERRED SHARES

The movement in the redeemable and non-redeemable convertible preferred shares during the year, 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	23(i)	(22,400,000)	(224)
As at 31 December 2016		–	–
– 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	23(i)	(14,000,000)	(140)
As at 31 December 2016		–	–
– 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	23(i)	(34,833,333)	(348)
As at 31 December 2016		–	–
– 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	23(i)	(10,151,453)	(102)
As at 31 December 2016		–	–
Aggregate redeemable convertible preferred shares			
As at 31 December 2015		81,384,786	814
As at 31 December 2016		–	–

24. REDEEMABLE CONVERTIBLE PREFERRED SHARES – *continued*

	Note	Number of shares	Nominal value of shares US$
Non-redeemable convertible preferred shares			
– 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	23(i)	(6,250,000)	(62)
As at 31 December 2016		–	–

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").

24. REDEEMABLE CONVERTIBLE PREFERRED SHARES – *continued*

Notes: – *continued*

(i) Issue of preferred shares – *continued*

The major terms of the Series A, Series A-1, Series B and Series C Preferred Shares (collectively, the "Preferred Shares") are summarised below:

(a) Dividend rights

The holders of the Preferred Shares shall be entitled to receive dividends, out of any funds legally available therefor, cumulative dividends at the rate of 2% of the applicable issuance price (as adjusted) per annum when and if declared by the board of directors of the Company (the "Board"). No dividends or other distributions shall be made or declared, whether in cash, in property, or in any other shares of the Company, with respect to any other class or series of shares of the Company, unless and until dividends in like amount have been paid in full on the Preferred Shares or declared and set apart for payment.

In the event the Company shall declare a dividend or similar distribution to the holders of ordinary shares (other than a distribution on liquidation rights as described below), then, in each such case, the holders of Preferred Shares shall be entitled to a proportionate share of any such dividend or distribution as though the holders of Preferred Shares were holders of the number of ordinary shares into which their Preferred Shares are convertible.

(b) Voting rights

Each holder of the Preferred Shares may vote at general meetings of the Company in the same manner as holders of ordinary shares of the Company on an as-converted basis and not as a separate class.

(c) Conversion feature

Each holder of Preferred Shares shall have the right, at such holder's sole discretion, to convert all or part of its Preferred Shares at any time into such number of fully paid ordinary shares. The number of ordinary shares to which a holder shall be entitled upon conversion of any Preferred Shares shall be the quotient of the applicable original purchase price divided by the then effective conversion price. The conversion price is subject to adjustment, including payment of share dividend and distributions, consolidation or subdivision of ordinary shares. In addition, in the event that any time after the original issue date, the Company issues new securities without consideration or for a consideration per share less than the applicable conversion price, then the applicable conversion price in effect shall be reduced, concurrently with such issue, to a price equal to the price per share of such new securities.

For Series A, Series A-1 and Series B Shares, the initial conversion price shall equal one and a third ($1^1/_3$) of the applicable original purchase price. For Series B Shares, the initial conversion price was further adjusted to one and one fifteenth ($1^1/_{15}$) of the applicable original purchase price with effect from 15 July 2013. For the Series C Shares, the initial conversion price shall equal to its applicable original purchase price. For the avoidance of doubt, the initial conversion ratio of Series A, Series A-1, Series B and Series C Preferred Shares as at 31 December 2014 and 2015 were 1:0.75, 1:0.75, 1:0.9375 and 1:1 respectively.

All Preferred Shares will automatically be converted into the appropriate number of ordinary shares at the applicable then-effective conversion price upon the completion of a Qualified IPO (an IPO on a qualified exchange that values the Company at no less than US$250 million immediately prior to such IPO, and upon consummation of which at least 25% of the outstanding ordinary shares are tradable without restriction). The Group has obtained written confirmations from all holders of the redeemable convertible preferred shares of the Company to deem the Listing as a Qualified IPO in December 2015 and January 2016.

24. REDEEMABLE CONVERTIBLE PREFERRED SHARES – *continued*

Notes: – *continued*

(i) Issue of preferred shares – *continued*

(d) Redemption rights

The Preferred Shares are subject to redemption, in whole or in part, at the option of the holders of the Preferred Shares as follows:

- at any time, at a price equal to the respective original purchase price (as adjusted for any share splits, share dividends, combination, recapitalisation and similar transactions), together with any accrued and unpaid dividends, following the occurrence of any PRC regulatory development that, in the reasonable judgement of the holders holding at least 82.5% of the then outstanding Preferred Shares on an as-converted basis voting together as a single class ("Majority-in-Interest"), materially and adversely affects (i) the prospectus obtaining the necessary approvals from PRC Governmental Authorities in relation to the achievement of an Exit Transaction by the Company (being a Qualified IPO, or a transaction including a sale of the Company pursuant to which each of the holders of the Preferred Shares may sell all of its Preferred Shares (or ordinary shares issued upon conversion thereof) on terms acceptable to the holders of the Preferred Shares), or (ii) CDV WFOE's right to engage in the Business as presently conducted;

- in the case of the Series A and Series A-1 Preferred Shares, on or within 90 days after 8 July 2013, at a price equal to two times of its respective original purchase price (as adjusted for any share splits, share dividends, combination, recapitalisation and similar transactions), together with any accrued and unpaid dividends if (i) the Company has not effected a closing of a Qualified IPO on or before 8 January 2013; and (ii) an independent financial advisor hired by a Majority-In-Interest of the holders at the reasonable cost of the Company, fails to sell, during the period from 8 January 2013 to 7 July 2013, all of the holders of Series A and Series A-1 Preferred Shares at a price reasonably satisfactory to a majority-in-interest of the holders, provided further that, such shares shall be sold at a price not less than twice of the respective original purchase price, as adjusted for any share splits, share dividends, combination, recapitalisation and other similar capital events occurring or declared prior to the sale.

As detailed in Note 24(ii) below, except for Federal Hong Kong, all the then holders of Series A and Series A-1 Preferred Shares have exercised their redemption rights on 23 September 2013 and have further agreed the terms of the settlement in 2014. As Federal Hong Kong has not exercised its redemption right on its Series A-1 Preferred Shares on or within 90 days after 8 July 2013, therefore with effect from 7 October 2013, the 6,250,000 Series A-1 Preferred Shares held by Federal Hong Kong becomes non-redeemable convertible preferred shares, an equity instrument of the Company. Accordingly, the financial liability is derecognised at its closing carrying amount of RMB26,235,000 and reclassified to equity.

The terms of redemption of Series A and Series A-1 Preferred Shares (excluding the non-redeemable convertible preferred shares) were amended along with the issuance of Series C Preferred Shares. Pursuant to the amended agreements, with effect from 27 October 2014, Series A and Series A-1 Preferred Shares are subject to redemption as follows: (i) at any time on or after 28 January 2016, at a price equal to two times of the Series A and Series A-1 original purchase price i.e. US$0.60 per share for Series A Preferred Shares and US$0.80 for Series A-1 Preferred Shares (as adjusted for any share splits, share dividends, combination, recapitalisation and similar transactions), together with the accrued and unpaid dividends; or (ii) automatically upon the exercise by any shareholder of the Company of any redemption or repurchase rights of any shares of the Company.

As detailed in Note 24(ii), the holders of Series A and Series A-1 Preferred Shares entered into an agreement with the Company in July 2015 that the preferred shares would not be redeemed unless there is no Qualified IPO by 31 March 2017.

24. REDEEMABLE CONVERTIBLE PREFERRED SHARES – *continued*

Notes: – *continued*

(i) Issue of preferred shares – *continued*

(d) Redemption rights – *continued*

- in the case of the Series B Preferred Shares, at any time after 23 November 2014, at a price equal to one point six (1.6) times of the Series B Preferred Shares original purchase price (as adjusted for any share splits, share dividends, combination, recapitalisation and similar transactions), together with the accrued and unpaid dividends if the Company has not effected a closing of a Qualified IPO on or before 23 November 2014. On 23 July 2015, a consent letter was provided to the Company by the holder of Series B Preferred Shares to amend the effect closing date of a Qualified IPO to 31 March 2017.

- in the case of the Series C Preferred Shares, at a price equal to the Series C original purchase price (as adjusted for any share splits, share dividends, combination, recapitalisation and similar transactions) plus a 12% uncompounded annual interest rate, together with the accrued and unpaid dividends, upon the occurrence of any of the following events: (A) if an application for a Qualified IPO cannot be accepted by relevant stock exchange or government authority on or before 31 December 2016; (B) the Company, the Founder or Wing Success make misrepresentations in material respects in certain section of the Series C Securities Purchase Agreement dated 27 October 2014, or materially breaches of the agreement, and fails to cure such breach within twenty (20) days after receiving a written notice from the holders of the Series C Preferred Shares for such breach; (C) the 2014 actual Net Profit is less than 60% of the 2014 Target Net Profit, or the 2015 actual Net Profit is less than 60% of the 2015 Target Net Profit. The 2014 and 2015 Target Net Profit is RMB92,000,000 and RMB105,800,000 respectively. Net Profit means the annual audited consolidated net profit of the Company prepared in IFRS after adjustments of (a) non-recurring items (both operating and non-operating in nature), and (b) the effect of changes in accounting policies or significant accounting estimates and adding back, to the extent deducted in the calculation of such net income, without double counting, (a) any charges or expenses resulting from the option and other derivative features of Preferred Shares, options and warrants issued or granted by the Company; and (b) interest expenses resulting from the amortisation of the liability part of Preferred Shares; (D) the Founder no longer controls the Group or the holders of Series C Preferred Shares reasonably believes that the Founder or Wing Success will no longer control the Group by presenting solid evidence to the Company.

  On 21 July 2015, a consent letter was provided to the Company by the holder of Series C Preferred Shares to amend the date of Qualified IPO as set out in (A) above to 31 March 2017; and the requirements under (B), (C) and (D) be removed.

(e) Liquidation rights

In the event of any liquidation, dissolution or winding up of the Company or any deemed liquidation event as defined, each holder of the Preferred Shares is entitled to receive, prior to and in preference to holders of ordinary shares, an amount equal to 100% of the applicable original purchase price plus any declared and unpaid dividends (the "Liquidation Preference"). If, upon any such liquidation events, there are insufficient assets of the Company available for payment in full on all Preferred Shares, then the assets of the Company shall be distributed ratably to the holders of the Preferred Shares in proportion to the full Liquidation Preference amounts to which they would otherwise be respectively entitled thereon.

After the full Liquidation Preference on all outstanding Preferred Shares has been paid, the remaining assets of the Company available for distribution to shareholders shall be distributed ratably among the holders of the then outstanding Preferred Shares on an as-converted basis, together with the holders of the then outstanding holders of the ordinary shares of the Company.

24. REDEEMABLE CONVERTIBLE PREFERRED SHARES – *continued*

Notes: – *continued*

(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.

24. REDEEMABLE CONVERTIBLE PREFERRED SHARES – *continued*

Notes: – *continued*

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

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

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.

24. REDEEMABLE CONVERTIBLE PREFERRED SHARES – *continued*

Notes: – *continued*

(iii) Accounting for Preferred Shares – *continued*

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 23(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.

24. REDEEMABLE CONVERTIBLE PREFERRED SHARES – *continued*

Notes: – *continued*

(iii) Accounting for Preferred Shares – *continued*

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

	Redeemable convertible preferred shares			
	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000	Non-redeemable convertible preferred shares included in equity RMB'000
At 1 January 2015	564,233	69,022	633,255	26,235
Modification during the year (Note 24(ii))				
– Extinguishment of the original preferred shares (note a)	—	(57,537)	(57,537)	—
– Deemed issuance of new preferred shares (note a)	79,506	—	79,506	—
Changes in fair value recognised in profit or loss	(70,820)	—	(70,820)	—
Repayment during the year	—	(12,703)	(12,703)	—
Currency translation differences	34,913	1,218	36,131	—
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 23(i))	(342,239)	—	(342,239)	(26,235)
Currency translation differences	10,515	—	10,515	—
At 31 December 2016	—	—	—	—

Note:

(a) As detailed in Note 24(ii), on 28 July 2015, the Parties entered into an amended and restated settlement agreement to modify certain redemption arrangements and extended the redemption period of the remaining redeemable convertible Series A and Series A-1 Preferred Shares to 31 March 2017. The directors, with the assistance of an independent professional valuer, treated the modification of the redemption arrangement as an extinguishment as the change in net present value of the cash flows exceeded 10% and resulted to a loss on extinguishment of preferred shares of RMB21,969,000 during the year ended 31 December 2015.

25. RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

(a) Share premium

Share premium represents the excess of the net proceeds from issuance of the Company's shares over its par value.

(b) Statutory reserve

In accordance with the relevant laws and regulations for the companies incorporated in the PRC now comprising the Group, it is required to appropriate 10% of its annual net profit determined in accordance with China Accounting Standards for Enterprises issued by the Ministry of Finance of PRC, after offsetting any prior years' losses, to the statutory reserve. When the balance of such a reserve reaches 50% of the registered capital of the respective company, any further appropriation is at the discretion of shareholders. The statutory reserve can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing share holding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the reserve after such an issue is not less than 25% of registered capital. The statutory reserve is non-distributable.

(c) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are difference from that of the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2.5.

(d) Share option reserve

Share option reserve represents the fair value of share options granted by the Company to employees recognised and is dealt with in accordance with the accounting policy set out in Note 2.21.

26. 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.

26. SHARE-BASED COMPENSATION TRANSACTIONS– *continued*

Equity-settled share option scheme – *continued*

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.

26. SHARE-BASED COMPENSATION TRANSACTIONS– *continued*

Equity-settled share option scheme – ***continued***

On 1 October 2015, 2,935,000 options were granted by the Company to the key employees of the Group under the 2010 Share Option Plan with estimated total fair value of approximately US$3,000,000 (equivalent to approximately RMB19,195,000). The exercise price of the share options granted is US$0.00001 per share. The share options are valid for a period of 10 years from 1 October 2015. Included in the 2,935,000 options, 1,435,000 options granted will vest on the 1 October 2016, and the remaining 1,500,000 options are subject to a vesting scale in which 40%, 30% and 30% of options granted shall vest on 1 October 2016, 1 October 2017 and 1 October 2018 respectively. The options granted are exercisable from 1 October 2016 to 31 December 2021.

The Company has adjusted, pursuant to the authority granted to the board of director under the 2010 Share Option Plan, the total number of shares subject to options granted under the 2010 Share Option Plan to 77,893,000 as a result the Capitalisation Issue (as detailed in Note 23(iii)). Upon completion of such grant and adjustment, no further options will be granted under the 2010 Share Option Plan. The number of share option outstanding disclosed below has been adjusted to reflect the Capitalisation Issue which was completed on 27 June 2016.

The directors have used the discounted cash flow method and market approach to determine the underlying equity fair value of the Company and adopted equity allocation method to determine the fair value of the underlying share value of the Company and the key assumption on valuation at the grant date includes the discount rate of 15.5% and projections of future performance. Based on the fair value of the underlying share value of the Company, the directors have used the Binomial option-pricing model to determine the fair value of the options granted. The fair value of options granted during the year was US$1.02 (equivalent to approximately RMB6.52) per option. The inputs into the model were as follows:

	1 October 2015
Exercise price	US$0.00001
Expected volatility	54.3%
Expected life	10 years
Risk-free rate	2.05%
Expected dividend yield	—

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

Equity-settled share option scheme – *continued*

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

	2016		2015	
	Average exercise price in US$ per share option	Number of share options outstanding	Average exercise price in US$ per share option	Number of share options outstanding
Directors				
At beginning and end of year	1.16	30,940,914	1.16	30,940,914
Employees				
At beginning of year	0.94	47,102,284	1.16	39,352,036
Granted during the year	—	—	0.00001	8,816,658
Forfeited during the year	1.16	(1,021,351)	1.16	(1,066,410)
At end of year	0.94	46,080,933	0.94	47,102,284
Total				
At beginning of year	1.03	78,043,198	1.16	70,292,950
Granted during the year	—	—	0.00001	8,816,658
Forfeited during the year	1.16	(1,021,351)	1.16	(1,066,410)
At end of year	1.03	77,021,847	1.03	78,043,198
Excisable at the end of year	1.16	74,318,272	1.16	69,226,539

As at 31 December 2016, the Group had 77,021,847 (2015: 78,043,198) share options outstanding under the 2010 Share Option Plan, which represented approximately 12.42% (2015: 16.78%) of the issued ordinary shares of the Company as at 31 December 2016. The exercise in full of the outstanding share options would, under the present capital structure of the Group, result in the issue of 77,021,847 (2015: 78,043,198) additional ordinary shares of the Company and additional share capital and share premium of approximately RMB5,000 (2015: RMB5,000) and RMB548,837,000 (2015: RMB521,450,000) (before issue expenses) respectively.

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

The Group recognised a total expense of RMB13,060,000 (2015: RMB3,835,000) for the year ended 31 December 2016 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 consolidated statement of comprehensive income.

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Non-current assets		
Interests in subsidiaries	493,390	452,541
Available-for-sales financial assets	3,697	3,461
	497,087	456,002
Current assets		
Other receivables	48,110	7,154
Bank balances	56,449	725
Pledged bank deposits	104,055	—
	208,614	7,879
Current liabilities		
Other payables	4,098	6,198
Net current assets	204,516	1,681
Total assets less current liabilities	701,603	457,683
Non-current liabilities		
Redeemable convertible preferred shares	—	607,832
Net assets/(liabilities)	701,603	(150,149)
EQUITY		
Share capital – Ordinary shares	42	6
Share capital – Non-redeemable convertible preferred shares	—	26,235
Reserves (Note)	701,561	(176,390)
Total equity/(Capital deficiency)	701,603	(150,149)

Zheng Fushang
Director

Liu Baodong
Director

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – *continued*

Note:

The movements of the Company's reserves are as follows:

	Share premium RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Accumulated (losses)/ profits RMB'000	Total reserves RMB'000
As 1 January 2015	—	13,638	18,154	(229,172)	(197,380)
Profit for the year	—	—	—	26,339	26,339
Currency translation differences	—	(9,184)	—	—	(9,184)
Share-based compensation (Note 26)	—	—	3,835	—	3,835
Transfer upon forfeiture of share options	—	—	(266)	266	—
As at 31 December 2015 and 1 January 2016	—	4,454	21,723	(202,567)	(176,390)
Profit for the year	—	—	—	246,157	246,157
Currency translation differences	—	29,832	—	—	29,832
Share-based compensation (Note 26)	—	—	13,060	—	13,060
Transfer upon forfeiture of share options	—	—	(256)	256	—
Conversion of convertible preferred shares (Note 23(i))	368,469	—	—	—	368,469
Capitalisation issue (Note 23(iii))	(21)	—	—	—	(21)
Issuance of new shares in connection with the listing of the Company's shares (Note 23(iv))	251,921	—	—	—	251,921
Share issuance expenses (Note 23(iv))	(31,467)	—	—	—	(31,467)
As at 31 December 2016	**588,902**	**34,286**	**34,527**	**43,846**	**701,561**

As at 31 December 2016, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB632,748,000 (2015: nil).

28. DISPOSAL OF A SUBSIDIARY IN 2015

During the year ended 31 December 2015, the Group disposed of its entire 80% interest in China Digital Video Cloud (Beijing) Technology Co., Ltd (北京新奧特雲視科技有限公司, "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. The disposal was completed in May 2015.

	RMB'000
Net liabilities disposed of:	
Property, plant and equipment	673
Inventories	39
Trade and other receivables	364
Bank balances and cash	224
Trade and other payables	(3,140)
	(1,840)
Net gain on disposal of a subsidiary:	
Cash consideration	8,000
Net liabilities disposed of	1,840
Non-controlling interests	(1,968)
	7,872
Net cash inflow arising on disposal:	
Cash consideration received	8,000
Bank balances and cash disposed of	(224)
	7,776

29. OPERATING LEASE COMMITMENTS

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

	2016 RMB'000	2015 RMB'000
Within one year	**8,111**	7,079
In the second to fifth year inclusive	**923**	—
	9,034	7,079

30. SIGNIFICANT NON-CASH TRANSACTIONS

During the year ended 31 December 2016, addition of property, plant and equipment of RMB1,233,000 (2015: RMB1,536,000) was transferred from inventories of the Group.

During the year ended 31 December 2015, the Group has invested in the three joint ventures by contributing the Group's intangible assets with nil carrying amount at date of transfer. A gain on disposal of intangible assets of RMB10,800,000 was recognised in profit or loss of the Group, after eliminating the unrealised profit to extent of the Group's interest in the three joint ventures.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group's accounting policies on related parties are disclosed in Note 2.25. In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material transactions with related parties:

(a) During the year, the related parties that had transactions with the Group were as follows:

Name of related parties	Relationship with the Group
Mr. Zheng	Substantial shareholder of the Company and director of the Company
CDV Cloud	Company in which Mr. Zheng can exercise significant influence
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

31. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(b) During the year, the transactions with related parties of the Group were as follows:

		2016 RMB'000	2015 RMB'000
Xinxin Holding	Rental expenses and property management fee*	13,242	12,868
Xin'aote Video	Rental expenses and property management fee*	762	1,948
Xin'aote Video	Sales of goods and provision of service*	7,818	7,377
CDV Cloud	Sales of goods and provision of service	8,530	3,477
CDV Cloud	Purchase of services	94	292
CDV Cloud	Purchase of intangible assets	943	—
Mr. Zheng	Sale of a subsidiary (Note 28)	—	6,000
Beijing Hermit	Disposal of property, plant and equipment	—	277
Beijing Yueying	Disposal of property, plant and equipment	—	148
Xin'aote Cloud	Disposal of property, plant and equipment	—	352
Xin'aote Cloud	Purchase of property, plant and equipment	291	—

In addition to the above, during year ended 31 December 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.

In the opinion of the directors of the Company, all of the above transactions were entered into in the ordinary course of the Group's business.

* These related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(c) Guarantee provided by related parties

As disclosed in Note 21(b), Mr. Zheng and Xinxin Holding have provided guarantees in respect of bank borrowing of RMB15,000,000 (2015: RMB9,959,000) granted to the Group as at 31 December 2016.

(d) Trade and other receivables from related parties

	2016 RMB'000	2015 RMB'000
Trade receivables		
Xin' aote Video	10,180	3,533
CDV Cloud	2,789	3,309
	12,969	6,842
Other receivables		
Xinxin Holding	3,893	7,552
Xin' aote Video	—	1,630
CDV Cloud	652	344
	4,545	9,526
	17,514	16,368

The amounts due from related parties are unsecured, interest free and are repayable on demand. No balance due from related companies is past due or impaired.

The maximum outstanding of trade and other receivables from related parties during the year is as follows:

	2016 RMB'000	2015 RMB'000
Xinxin Holding	7,552	67,052
Xin'aote Video	10,190	7,125
Wisdom Group Limited	—	3,048
CDV Cloud	3,441	3,653

31. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(e) Other payables to related parties

	2016 RMB'000	2015 RMB'000
Xin'aote Video	475	—

The amounts due to related parties are unsecured, interest free and are repayable on demand.

(f) 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:

	2016 RMB'000	2015 RMB'000
Basic salaries and allowances	5,341	3,553
Discretionary bonus	282	—
Retirement benefit scheme contributions	294	171
Share-based compensation expense	13,060	3,835
	18,977	7,559

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the Board of Directors.

(a) Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and financial liabilities.

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables		
Trade and other receivables	527,697	403,484
Structured deposits	215,000	—
Pledged bank deposits	112,069	6,359
Bank balances and cash	96,605	181,085
Available-for-sale financial assets	66,697	3,461
	1,018,068	594,389
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	193,715	134,144
Other interest-bearing borrowings	192,062	75,309
Financial liabilities designated at fair value through profit or loss		
Redeemable convertible preferred shares	—	607,832
	385,777	817,285

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS – *continued*

(b) Foreign currency risk

The transactions of the Company are denominated and settled in its functional currency, USD. The majority of the assets and liabilities of the Company, including bank balances and Preferred Shares, were denominated in USD. The Group's subsidiaries mainly operate in the PRC and majority of the transactions are settled in RMB, except for certain bank balances and bank borrowings which are denominated in USD.

Foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. As at 31 December 2015, the Group has short-term bank borrowings and bank balances denominated in USD of RMB42,427,000 and RMB2,115,000 respectively. If RMB had strengthened/weakened by 5% against USD with all other variables held constant, the profit after income tax and accumulated loss would have been approximately RMB2,015,000 higher/lower and RMB2,015,000 lower/higher respectively for the year ended 31 December 2015.

As at 31 December 2016, the Group has short-term bank borrowings and bank balances denominated in USD of RMB34,685,000 and RMB160,000 respectively. If RMB had strengthened/weakened by 5% against USD with all other variables held constant, the profit after income tax and retained earnings would have been approximately RMB1,726,000 higher/lower and RMB1,726,000 lower/higher respectively for the year ended 31 December 2016.

The Group does not hedge its foreign currency risk. However, management monitors the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

(c) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from its bank balances and structured deposits which carry interest at effective market rates and interest-bearing borrowings. Borrowings bearing variable rates expose the Group to cash flow interest rate risk. As at 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased the Group's profit after income tax and retained earnings by approximately RMB3,650,000 respectively. As at 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased the Group's profit after income tax and decreased the Group's accumulated losses by approximately RMB1,412,000 respectively.

Interest rate risk also arose from redeemable convertible preferred shares, the valuation of which is affected by market interest rate. As at 31 December 2015, the estimated fair value of redeemable convertible preferred shares would have been approximately RMB37,943,000 lower/RMB44,842,000 higher, should the discount rate used in the discount cash flow analysis were higher/lower by 100 basis point from management's estimates.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS – *continued*

(d) Price risk

The Group is exposed to price risk in relation to the Group's investment in unlisted trust funds which are carried at fair value. The sensitivity analysis is determined based on the exposure to price risk of the unlisted trust funds held by the Group at the end of each reporting date. If the fair value of the respective instrument held by the Group had been 10% higher/lower, the profit for the year would have been increased/decreased by RMB6,300,000 (2015: nil) respectively.

Price risk also arose from the Group's Preferred Shares carried at fair value through profit or loss. Fair value of Preferred Shares is mainly affected by changes in the Group's equity value and key market risk variables such as discount rate (Note 32(c)).

If the Group's equity value had increased/decreased by 10% with all other variables held constant, the profit after income tax for the year ended 31 December 2015 would have been RMB46,860,000 lower/RMB49,073,000 higher.

(e) Credit risk

The Group is exposed to credit risk in relation to its cash and bank deposits and trade and other receivables.

The carrying amounts of each class of the financial assets as summarised in Note 32(a) above represent the Group's maximum exposure to credit risk in relation to financial assets. To manage this risk arising from cash and deposits, the Group only transacts with state-owned financial institutions and reputable commercial banks which are all high-credit-quality financial institutions. There has been no recent history of default in relation to these financial institutions.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparties' past history of making payments when due and current ability to pay, and take into account information specific to the counterparties as well as pertaining to the economic and business environment in which the counterparties operates. Monitoring procedures have been implemented to ensure the following-up action is taken to recover overdue debts.

In addition, the Group reviews the recoverable amount of each individual trade and other receivables balance at the end of each reporting periods to ensure adequate impairment losses are made for irrecoverable amounts. Given the constant repayment history, the directors are of the view that the risk of default by these counterparties is low.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS – *continued*

(f) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants and its relationship with its bankers and related parties to ensure that the Group maintain sufficient reserves of cash and cash equivalents and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Analysed below is the Group's remaining contractual maturities for its non-derivative financial liabilities as at 31 December 2016. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	Within 1 year or on demand RMB'000	Over 1 year but within 5 years RMB'000	Total contractual undiscounted amount RMB'000	Carrying amount RMB'000
At 31 December 2016				
Trade and other payables	**193,715**	**—**	**193,715**	**193,715**
Other interest-bearing borrowings	**195,334**	**—**	**195,334**	**192,062**
	389,049	**—**	**389,049**	**385,777**
At 31 December 2015				
Trade and other payables	134,144	—	134,144	134,144
Other interest-bearing borrowings	73,828	4,528	78,356	75,309
Redeemable convertible preferred shares	—	779,566	779,566	607,832
	207,972	784,094	992,066	817,285

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS – *continued*

(g) Fair value measurements recognised in the consolidated statement of financial position

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

	2016		
	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets			
Available-for-sale financial assets			
– Unlisted trust funds	63,000	–	63,000

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS – *continued*

(g) Fair value measurements recognised in the consolidated statement of financial position – *continued*

	2015		
	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000
Financial liabilities			
Financial liabilities designated at fair value through profit or loss			
– Redeemable convertible preferred shares	–	607,832	607,832

The Group's financial instruments classified within Level 2 of the fair value hierarchy represent the unlisted trust funds. The fair value of the unlisted trust funds is determined by reference to the net asset value of the underlying investment in the trust funds.

The Group's financial instruments classified within Level 3 of the fair value hierarchy represent the redeemable convertible preferred shares. The valuation process and the reconciliation of the carrying amount of the redeemable convertible preferred shares are disclosed in Note 24. During the year ended 31 December 2015, included in profit or loss were unrealised gain of RMB70,820,000.

For the years ended 31 December 2016 and 2015, there were no transfers amongst level 1, level 2 and level 3 in the fair value hierarchy.

33. CAPITAL MANAGEMENT

The objectives of the Group when managing capital are to safeguard the ability of the Group in continuing as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

The Group monitors capital by regularly reviewing the capital structure. As part of this review, the directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debts.

34. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2016:

On 4 January 2017, 15,921,053 and 14,118,669 shares of the Company were transferred from Wing Success to two executive directors of the Company as a recognition of their contributions to the Group. The transfer of shares constituted a share-based compensation transaction. The estimated total fair value of the shares were amounted to approximately RMB31,235,000.

FOUR-YEAR FINANCIAL SUMMARY

Below is the summary of audited financial statement for the relevant years:

RMB'000	For the year ended 31 December			
	2016	2015	2014	2013
Revenue	**651,976**	605,983	406,369	502,964
Profit for the year	**333,262**	114,114	(69,400)	(12,190)
Total comprehensive income for the year	**332,874**	79,282	(71,014)	1,782
Profit/(loss) for the year attributable to:				
Equity holders of the Company	**338,706**	120,219	(66,582)	(12,190)
Non-controlling interests	**(5,444)**	(6,105)	(2,818)	—

	As at 31 December			
	2016	2015	2014	2013
Total assets	**1,295,240**	804,709	713,036	748,261
Total liabilities	**510,487**	928,593	925,005	890,102
Net assets/(liabilities)	**784,753**	(123,884)	(211,969)	(141,841)