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

ALWAYS BE
FORWARD LOOKING

ANNUAL REPORT 2017

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

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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)*
Mr. XU Da

Independent Non-executive Directors

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

JOINT COMPANY SECRETARIES

Mr. QIAN Yiyue
Mr. AU Wai Keung

AUTHORISED REPRESENTATIVES

Mr. QIAN Yiyue
Mr. AU Wai Keung

COMPLIANCE OFFICER

Mr. GUO Langhua

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPLIANCE ADVISER

TC Capital International Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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. 131 West Fourth Ring Road N,
Haidian District
Beijing
PRC

GEM STOCK CODE

8280

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

AUDITORS

Grant Thornton Hong Kong Limited

LEGAL ADVISOR

As to Hong Kong Law

King & Wood Mallesons

As to Cayman Islands Law

Maples and Calder

COMPANY'S WEBSITE

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

CHAIRMAN STATEMENT

On behalf of the board (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 2017.

OVERVIEW

Business Review

In recent years, the TV broadcasting industry in China is undergoing intense competition from the Internet. During the year ended 31 December 2017, we had recorded revenue of approximately RMB398.3 million, which represented a decrease of 38.9% over the revenue of RMB652.0 million for the year ended 31 December 2016. We recorded a loss of RMB92.6 million for the year ended 31 December 2017 as compare to a profit of RMB333.3 million in the year ended 31 December 2016.

Future Prospects

Our Group always strives to improve its operation efficiency and profitability of its businesses. We plan to continue to develop and invest in innovative products and businesses by leveraging our core digital video technology. We intend to apply our key technologies to the platforms of telecom operators by strengthening the cooperation with telecom operators. In particular, we will seek cooperation with the first-tier telecom operator such as China Mobile and China Unicom. We will also proactively seek potential business opportunities that will broaden our sources of income and enhance value to the shareholders.

Appreciation

I would like to take this opportunity to express my heartfelt gratitude to the fellow members of the Board, and on behalf of the Board, the management and entire staff of the Group for their diligent work and contribution in the past year. Last but not the least, I would like to extend my sincerest appreciation to the investors and shareholders of the Company for their continuing confidence in and support for the Group over the years. In 2018, the business portfolio of the Group will continue to be optimised and rationalised to provide the Company's future development and business growth with a motive force. We will devote our best efforts to generate encouraging returns for our supportive shareholders.

Zheng Fushuang
Chairman

23 March 2018

FINANCIAL HIGHLIGHTS

Our revenue decreased by 38.9% to RMB398.3 million for the 2017 Annual Period from RMB652.0 million for the 2016 Annual Period.

We recorded a loss of RMB92.6 million for the 2017 Annual Period as compared to the profit of RMB333.3 million for the 2016 Annual Period.

We recorded an adjusted loss (as defined in the section headed "Management Discussion and Analysis - Non-IFRS Financial Measure" below) RMB75.5 million for the 2017 Annual Period as compared to the adjusted profit of RMB81.5 million for the 2016 Annual Period.

Our Directors do not recommend the payment of dividend for the 2017 Annual Period (2016: nil).

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

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

We have established business relationship with most of the central- and provincial-level TV stations in China and with some of the provincial-level TV broadcasters in China for over 21 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 2017 (the "**2017 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 Co, Ltd. (上海文化廣播影視集團有限公司).

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

FINANCIAL REVIEW

We recorded a revenue of RMB398.3 million for the 2017 Annual Period, representing a decrease of 38.9% from RMB652.0 million for the year ended 31 December 2016 (the "**2016 Annual Period**"). We recorded a loss of RMB92.6 million for the 2017 Annual Period as compared to a profit of RMB333.3 million in the 2016 Annual Period. Such loss was primarily attributable to the non-cash share-based compensation expenses of RMB62.8 million related to the shares of the Company (the "**Shares**") granted by Mr. ZHENG Fushuang to Mr. LIU Baodong and Mr. GUO Langhua in January 2017, the share options granted under the Share Option Scheme and the share awards granted under the Share Award Scheme, both adopted in 2017. The Group recorded a one-off gain of approximately RMB276.1 million arising from fair value gain on redeemable convertible preferred shares for the 2016 Annual Period and no such gain was recorded for the 2017 Annual Period. In addition, the revenue from our sales of solutions, services and products decreased significantly for the 2017 Annual Period than that of the 2016 Annual Period.

MANAGEMENT DISCUSSIONS AND ANALYSIS

ANALYSIS ON ANNUAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME ITEMS

Revenue

We derived revenue primarily from sale of solutions, provision of services and sale of products.

Our revenue decreased by 38.9% to RMB398.3 million for the 2017 Annual Period from RMB652.0 million for the 2016 Annual Period. The decrease was mainly attributable to (i) the traditional television broadcasting industry is undergoing certain transformation with intense competition from the Internet. The advertising revenue of our major television station customers declined significantly which resulting in a corresponding decrease in their expenditures in products and technologies provided by us; (ii) our new products have yet to gain competitive advantage in 2017. Meanwhile, our traditional signature products is facing increasingly fierce competition and their market share was negatively affected; (iii) the pace of development of innovative businesses for other industries was slower than expected and did not record significant contribution to the revenue in 2017; and (iv) in order to ensure the security and stability of news production and broadcasting during several important national conferences convened in 2017, some of our major customers had postponed the timetable for a number of upgrade projects, which led to the delay of some of our major projects.

Cost of Sales

Our cost of sales decreased by 18.0% to RMB341.1 million for the 2017 Annual Period from RMB416.2 million for the 2016 Annual Period, as a result of the decrease of revenue.

Gross Profit and Gross Profit Margin

Our gross profit represents revenue less cost of sales. Our gross profit decreased by 75.7% to RMB57.2 million for the 2017 Annual Period from RMB235.8 million for the 2016 Annual Period primarily due to the decrease of revenue. As a result, our gross profit margin was negatively affected and decreased to 14.4% for the 2017 Annual Period from 36.2% for the 2016 Annual Period. The decrease was primarily attributable to (i) the decrease of revenue, (ii) the fixed cost which comprising part of the cost of sales remained relatively stable. Subsequently, we did not record a proportionate decrease in cost of sales as a result of the decrease of revenue; and (iii) we undertook certain projects with extremely low profit margin for strategic development reason.

Other Income

Other income increased by 144.0% to RMB91.5 million for the 2017 Annual Period from RMB37.5 million for the 2016 Annual Period, primarily due to (i) the gain on deemed disposal of a subsidiary, (ii) the gain on disposal of a joint venture and (iii) the increase of interest income in the 2017 Annual Period.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 13.3% to RMB70.3 million for the 2017 Annual Period as compare to RMB62.1 million for 2016 Annual Period, primarily due to the increase of staff cost.

Administrative Expenses

Our administrative expenses increased by 7.2% to RMB80.3 million for the 2017 Annual Period as compare to RMB74.9 million for the 2016 Annual Period, primarily due to provision for impairment loss on trade and other receivables.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Share-Based Compensation Expense

Our share-based compensation expense substantially increased by 381.2% to RMB62.8 million for the 2017 Annual Period from RMB13.1 million for the 2016 Annual Period, primarily due to (i) the non-cash share-based compensation expenses of RMB31.2 million related to the shares of the Company granted by Mr. ZHENG Fushuang, the ultimate controlling shareholder of the Company, to Mr. LIU Baodong and Mr. GUO Langhua in January 2017 and (ii) the adoption and operation of our Share Option Scheme and Share Award in 2017.

Research and Development Expenses

Our research and development expenses decreased by 38.5% to RMB31.0 million for the 2017 Annual Period from RMB50.3 million for the 2016 Annual Period, primarily due to increase of the staff cost capitalised in the development projects for our intellectual properties.

Finance Costs

Our finance costs increased by 15.1% to RMB9.4 million for the 2017 Annual Period from RMB8.2 million for the 2016 Annual Period, primarily due to the increase of borrowings in the 2017 Annual Period.

Fair Value Gain on Redeemable Convertible Preferred Shares

As a result of the completion of the QIPO Listing, we recorded fair value gain of RMB276.1 million on our redeemable convertible preferred shares for the 2016 Annual Period. The Group did not record any such gain for the 2017 annual period as all the redeemable convertible preferred shares of the Company have been converted to ordinary shares when the shares of the Company listed on the GEM of the Stock Exchange in June 2016.

Share of Profit of Joint Ventures

Our share of profit of joint ventures was approximately RMB0.2 million for the 2017 Annual Period and share of losses of joint ventures of RMB3.6 million for the 2016 Annual Period. Our share of profit of joint ventures for the 2017 Annual Period was due to profit from Beijing Meicam Network Technology Co., Ltd (北京美攝網絡科技有限公司) ("**Beijing Meicam**").

Loss/Profit before Income Tax

As a result of the foregoing factors, we recorded a loss of RMB104.9 million for the 2017 Annual Period as compared to profit before income tax of RMB337.2 million for the 2016 Annual Period.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Income Tax Credit/Expense

We recorded an income tax credit of RMB12.3 million for the 2017 Annual Period as compared to an income tax expense of RMB3.9 million for the 2016 Annual Period. The decrease was mainly due to losses and the impact of deferred income tax assets.

Loss/Profit for the Year

As a result of the foregoing factors, we recorded a loss of RMB92.6 million the 2017 Annual Period as compared to the profit of RMB333.3 million for the 2016 Annual Period.

Other Comprehensive Loss

We recorded other comprehensive loss of RMB15.0 million for the 2017 Annual Period as compared to other comprehensive loss of RMB0.4 million for the 2016 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 2017 as compared to 2016.

Total Comprehensive Loss/Income for the Year

We recorded a total comprehensive loss of RMB107.6 million for the 2017 Annual Period as compared to RMB332.9 million for the 2016 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

Non-controlling interests in the 2017 Annual Period primarily represented the minority interests in Beijing Meicam before the deemed disposal.

ANALYSIS ON ANNUAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Non-current Assets

As at 31 December 2017, our non-current assets were RMB271.9 million (as compared to RMB165.3 million as at 31 December 2016), primarily consisting of goodwill of RMB74.2 million (as compared to RMB74.2 million as at 31 December 2016), intangible assets of RMB144.0 million (as compared to RMB75.8 million as at 31 December 2016) and interests in joint ventures of RMB16.2 million (as compared to nil as at 31 December 2016).

Current Assets

As at 31 December 2017, our current assets were RMB1,038.5 million (as compared to RMB1,129.9 million as at 31 December 2016), primarily consisting of trade and other receivables of RMB582.9 million (as compared to RMB608.7 million as at 31 December 2016), bank balances and cash of RMB298.3 million (as compared to RMB96.6 million as at 31 December 2016), restricted bank deposits of RMB13.5 million (as compared to RMB8.0 million as at 31 December 2016) and pledged bank deposits of RMB111.1 million (as compared to RMB104.1 million as at 31 December 2016).

Current Liabilities

As at 31 December 2017, our current liabilities amounted to RMB554.9 million (as compared to RMB505.5 million as at 31 December 2016), primarily consisting of trade and other payables of RMB330.5 million (as compared to RMB301.6 million as at 31 December 2016), other interest-bearing borrowings of RMB216.6 million (as compared to RMB192.1 million as at 31 December 2016) and provision for taxation of RMB7.8 million (as compared to RMB11.9 million as at 31 December 2016).

Non-current Liabilities

As at 31 December 2017, our non-current liabilities, consisting of deferred tax liabilities only, amounted to RMB4.2 million (as compared to RMB5.0 million as at 31 December 2016).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, the current assets of the Group amounted to RMB1,038.5 million, including RMB582.9 million in trade and other receivables and RMB298.3 million in bank balances and cash. Current liabilities of the Group amounted to RMB554.9 million, of which RMB338.3 million were other current liabilities and RMB216.6 million in other interest bearing borrowings. As at 31 December 2017, the Group had interest-bearing bank and other borrowings of RMB216.6 million (as compared to RMB192.1 million as at 31 December 2016), which were denominated in Renminbi and U.S. dollars bearing fixed and floating interest rates. All of our bank borrowings and other borrowings as at 31 December 2017 are repayable within one year.

The gearing ratio of our Group (calculated as total borrowings divided by total equity) was 28.8% as at 31 December 2017 (2016: 24.5%).

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

COMMITMENTS

As at 31 December 2017, we had operating lease commitments in respect of rented office and various residential properties of approximately RMB7.6 million (2016: RMB9.0 million).

MATERIAL ACQUISITIONS AND DISPOSAL

We had no material acquisitions and disposal of subsidiaries and affiliated companies during the 2017 Annual Period.

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

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 2017, we did not have significant foreign currency risk from our operations. During the 2017 Annual Period, we did not enter into any arrangements to hedge against any fluctuation in foreign currency.

CHARGE ON ASSETS

As at 31 December 2017, we had restricted and pledged deposit of RMB124.6 million (2016: RMB112.1 million) held in banks for the purpose of contract related deposits or payments, guarantees issued for trade finance facilities and security of bank borrowings.

NON-IFRS FINANCIAL MEASURES

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

We present our adjusted net (loss)/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 (loss)/profit has material limitations as an analytical tool, as it may not include all items that impact our (loss)/profit for the years. Items excluded from adjusted net (loss)/profit are significant components in understanding and assessing our operating and financial performances. Below is a reconciliation of our (loss)/profit for the years under IFRS to the adjusted net (loss)/profit:

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
(Loss)/Profit for the year	**(92,593)**	333,262
Add:		
Share-based compensation expense	**62,849**	13,060
Fair value gain on redeemable convertible preferred shares	**—**	(276,108)
Listing expenses	**—**	11,309
Gain/(Loss) on disposal of a subsidiary	**(25,768)**	—
Gain/(Loss) on disposal of a joint venture	**(20,000)**	—
Adjusted net (loss)/profit	**(75,512)**	81,523

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the prospectus of the Company dated 15 June 2016 (the "**Prospectus**") with our actual business progress for the 2017 Annual Period is set out below:

Business Objectives	Actual Progress
• enter into additional omnimedia solution contracts with major customers	We have entered into several omnimedia solution contracts with major customers.
• increase spending to promote our solutions compatible with the 4K ultra-high definition standard	We have launched two new products, namely CDV Graphite and VSE xMotion, both of which are compatible with the 4K ultra high definition standard.
• improve the cost-effectiveness of our solutions	Our business department, marketing department and administrative department are working closely together on proposals to improve the cost-effectiveness of our solutions.
• invest in cloud service resources and develop additional cloud service products based on SaaS model	We developed a few cloud service products in 2017 and received positive market review since the launch of the relevant products.
• increase spending to promote Meicam and expand its user base	We have expanded the user base of Meicam to enterprise users due to the launch of the Meicam SDK business.
• initiate internal R&D projects to prepare for eventual spin-offs	We have not yet identified suitable R&D projects for eventual spin-offs.
• pursue strategic investments and acquisitions including conducting market research and due diligence on potential investment and acquisition targets in the PRC	We have committed to make an investment in a private equity fund as a limited partner to create potential synergies with other industry players.
• conduct market research and due diligence on potential investment and acquisition targets in China	We have invested into a private equity fund, details of which are set out in the announcement of the Company dated 28 April 2017. We are also in the process of identifying other suitable investment and acquisition targets.
• increase spending to promote cloud-based solutions	We recorded a moderate increase in the spending to promote cloud-based solutions.
• expand in-house sales team	We have implemented certain measures to optimize sales teams productivity.

Business Objectives	Actual Progress
• commercialize two to three cloud service products	We have commercialized two cloud service products.
• transition the existing digitization and cataloguing of media asset service into a platform for trading digitized and catalogued media assets	We are in the process of upgrading the existing media asset service into a platform for trading digitized and catalogue media assets.
• commercialize Meicam to generate revenue streams through business-to-business transactions	The SDK business developed by Meicam was able to generate revenue in 2017 Annual Report Period.
• complete one to two investments or acquisitions in China	We have invested into a private equity fund, details of which are set out in the announcement of the Company dated 28 April 2017.

USE OF PROCEEDS

The net proceeds from the Listing 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 2017, the net proceeds were applied as follows:

	Application of funds as of 31 December 2017 percentage to total amount of the net proceeds
Business expansion and development	20.8%
Potential strategic investment and acquisition	12.7%
Enhancing the R&D capabilities and upgrading the information technology systems	6.2%
Repayment of certain of existing bank borrowings	10.0%
Promotion and marketing	2.1%
General working capital	7.0%
Total:	58.8%

HUMAN RESOURCES

As at 31 December 2017, we had 976 full-time employees and 42 dispatched workers (2016: 1,047 full-time employees and 48 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the 2017 Annual Period and 2016 Annual Period, the remuneration expense, including both capitalized and expensed but excluding share-based compensation expense, were approximately RMB178.6 million and RMB166.1 million, respectively. In general, employees' salaries are determined based on individual performance, qualification, position and seniority. We place strong emphasis on recruiting skilled personnel. We typically recruit talents from universities and technical schools and conduct annual reviews to assess the employees' performance and determine their salary, bonus and promotion. We also place a strong emphasis on providing training to its employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards.

CONTINGENT LIABILITIES

As at 31 December 2017, we did not have any material contingent liabilities (2016: nil). We are currently not involved in any material legal proceedings, nor are we aware if any proceeding or potential material legal proceedings.

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) 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.

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. We intend to apply our key technologies to the platforms of telecom operators by strengthening the cooperation with telecom operators. In particular, we will seek cooperation with the first-tier telecom operator such as China Mobile and China Unicom.

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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zheng Fushuang (鄭福雙), aged 52, 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 China Digital Video (Beijing) Limited ("**CDV WFOE**"), our principal operating PRC subsidiary, since December 2008. Mr. Zheng has served as a director of Xinxin Holding Co., Ltd (信心控股有限公司) ("**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 deputy director of Energy and Resources of Democratic construction committee (民建中央能源與資源環境委員會), a member of 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.

Since 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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. Guo Langhua (郭朗華), aged 51, 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 54, 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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu Da（徐達）, aged 54, is an executive Director. He is primarily responsible for the overall management and operation of our Group. Mr. Xu was appointed to our Board on 14 June 2017.

Mr. Xu has extensive professional and senior managerial experiences in the fields of communication industry. Prior to joining our Group, Mr. Xu joined China Mobile Communications Corporation (中國移動通信集團公司) ("**CMCC**") as general manager of marketing department and held positions including director and general manager in Shanghai and Anhui branches of CMCC from 2000 to 2016. Prior to joining CMCC, Mr. Xu worked in Fujian Mobile Communications Company Limited (福建省移動通信有限公司) and held positions including deputy general engineer and marketing general manager from 1999 to 2000. Prior to that, Mr. Xu worked in Fujian Wireless Communications Bureau (福建省無線通信局) and held various positions including general engineer and deputy director from 1994 to 1999.

Mr. Xu graduated from Nanjing Institution of Posts and Telecommunications (南京郵電學院), now known as Nanjing University of Posts and Telecommunications (南京郵電大學), with a bachelor degree in Electronic Engineering and obtained his EMBA at Peking University (北京大學) in 2006. Mr. Xu also obtained a doctorate degree in management at The Hong Kong Polytechnic University (香港理工大學) in 2007.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Frank Christiaens, aged 51, 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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Yaqin (張亞勤), aged 52, 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 54, 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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

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 of the Company.

SENIOR MANAGEMENT

Mr. Zheng Fushuang (鄭福雙), aged 52, 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 51, 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 54, 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 49, 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 the 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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. Qian Yiyue (錢禕玥), aged 39, is a joint company secretary of our Company. He was appointed as the Joint Company Secretary 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 SECRETARIES

Mr. Qian Yiyue (錢禕玥), aged 39, 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 46, 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), Xin Point Holdings Limited (信邦控股有限公司) (stock code: 1571) 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 (the "**Code**") as set out in Appendix 15 to the GEM Listing Rules.

In the opinion of the Board, the Company has complied with the Code from 1 January 2017 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 of the Company 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 during 2017 Annual Period is set out as follows:

Executive Directors

Mr. ZHENG Fushuang *(Chairman)*
Mr. GUO Langhua *(Vice Chairman)*
Mr. LIU Baodong *(Chief Executive Officer)*
Mr. XU Da *(appointed on 14 June 2017)*

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 17 to 22 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/her 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, all Directors confirmed that they have complied with the required standards of dealings from 1 January 2017 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. XU Da, 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.

During the 2017 Annual Period, all Directors have participated in continuing professional development by attending training course organised by the Company and reading relevant materials on topics related to corporate governance and regulatory matters.

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.

CORPORATE GOVERNANCE 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 2017 Annual Period.

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 and develop and formulate relevant procedures for the nomination and appointment of Directors. 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 chair 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, effectiveness of the internal audit function, 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 2017 Annual Period have been reviewed by the Audit Committee.

The Audit Committee is of the opinion that the consolidated financial statements of the Group for the 2017 Annual Period comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

ATTENDANCE RECORDS OF MEETINGS

In 2017, the Board held four meetings at which the operating results of the Company were considered and discussed.

Members	Meetings attended/meetings held since 1 January 2017				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	2016 Annual Meeting
Executive Directors					
Mr. ZHENG Fushuang	4/4	—	—	1/1	1/1
Mr. GUO Langhua	4/4	—	1/1	—	1/1
Mr. LIU Baodong	4/4	—	—	—	1/1
Mr. XU Da	2/2	—	—	—	1/1
Independent non-executive Directors					
Mr. ZHANG Yaqin	2/4	2/4	1/1	1/1	0/1
Mr. Frank CHRISTIAENS	4/4	4/4	1/1	—	0/1
Ms. CAO Qian	4/4	4/4	—	1/1	1/1

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

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 2017 Annual Period, the annual remuneration of the members of the senior management is set out below:

	Number of individuals	
	2017	2016
Emolument bands		
Nil - HK$1,000,000	**4**	4
HK$1,000,001 - HK$1,500,000	**1**	2
HK$1,500,001 - HK$2,000,000	**1**	1
HK$2,000,001 - HK$2,500,000	**1**	—
HK$2,500,001 - HK$3,000,000	**2**	—
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 (the "**Joint Company Secretaries**") 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 2017 Annual Period. 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 2017 Annual Period.

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. For the 2017 Annual Period, the emoluments paid or payable for the audit and non-audit services provided by Grant Thornton was as follows:

	Amount (RMB)
Audit services	900,000
Non-audit services	135,000

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises that constant changes taking place in the business environment call for periodic reviews of the system of risk management and 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 risk management and 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 risk management 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 considers 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 2017 Annual Period, the Board has fulfilled the duties mentioned above.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There had been no changes in the constitutional documents of the Company during the 2017 Annual Period.

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. Shareholders and investors may send written enquiries or requests to the Company (including requests for putting forward proposals at shareholders' meetings) as follows:

Address:	China Digital Video Technical Plaza, No. 131 West Fourth Ring Road N, Haidian District, Beijing, PRC (For the attention of the investor relationship officer)
Phone:	(86 10) 8285 2269 (86 10) 8285 3141
Email:	ir@cdv.com

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 and the objective of the Group has been seeking to achieve. 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. We believe that taking adequate and effective measures to fully carry out the environmental, social and governance requirements is the necessary requirement for the Group to improve its sustainable development capability. As a socially responsible corporate citizen, we are committed to integrating the management policies and strategies of sustainable development into all aspects of our operations. This is the second Environmental, Social and Governance ("**ESG**") Report of the Company which outlines our 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 GEM of The Stock Exchange of Hong Kong Limited. This ESG report covers the ESG impacts, policies and initiatives for the period from 1 January 2017 to 31 December 2017.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.

During the reporting period, the Group was not aware of any non-compliance with laws and regulations that have a significant impact to the Group relating to employment and labour practices. Nor the Group identified any incidents that have a significant impact to the Group relating to the use of child or forced labour.

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	348	598	30
Part-time	62	3	3

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	26%	11%	14%

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 Staffs	72%
Middle Managers	50%
Senior Managers	29%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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. On the basis of strictly abiding by the Labor Law of the PRC, the Group has established reasonable employment rules to eliminate child labor and forced labor. The Group strictly complies with the relevant regulations of the following anti-discrimination ordinances. In the process of annual appraisal, the Group decides the level of salary increase and promotion opportunities based solely on the work performance, experience and skills of employees. 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. During the reporting period, the Group was not aware of any non-compliance in relation to labour standards law and regulations.

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 bribery, extortion, fraud and money laundering, 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	Kilograms of CO_2-e
1: Direct Emission	Company-owned car	28,800
2: Energy Indirect Emissions	Electricity consume	813,436
Total:		842,236

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.

As the Group’s principal activities involve office administration, the Group’s environmental protection work mainly focuses on energy-saving at office and environmental-friendly protection. The Group also encouraged its staff and business partners to consume resources in a responsible manner and reduce waste in daily life.

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. The Group's in-house dedicated experts monitor and control quality, time and cost to help ensure effective planning, design and construction from inception to completion. 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.

We are always committed to providing high-quality products and/or services to our customers. Our business team will closely communicate with our existing and potential customer. Whenever needed, we provide tailor-made integrated value-adding solutions based upon our customers' needs and wants whilst adhered to high-lever safety, safeguarding and environmental protection requirements.

We firmly believe that the "honest and faithful" principle is a vital condition for the long-term development of the Group, therefore when producing and installing advertising signs, we strictly conform to the national laws, regulations and other provisions: 1. In the production of advertising signs, we firmly comply with the Advertising Law of the People's Republic of China, avoid spreading false and fake information and accurately, clearly and truthfully present our service content, forms, quality, prices, promises and so on; when designing ad labels, we also abide by the Copyright Law of PRC to prevent infringement of the intellectual property rights of others; 2. When designing advertising signs, we also rigorously observe the Copyright Law of the People's Republic of China to prevent prejudicing other people or organizations' intellectual property rights. 3. For advertising release, we strictly abide by "Provisions on the Registration Administration of Outdoor Advertisements" and "Regulations on the Administration of City Appearance and Sanitation", and apply for registration and approval according to the laws.

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.

During the reporting year, we have donated funds to certain schools in impoverished regions, and providing financial aid to its students. By helping the beneficiaries, we empower them with better learning and development opportunities so they can contribute to society in the future.

REPORT OF THE DIRECTORS

The Board has the pleasure in submitting the annual report together with the audited consolidated financial statements of the Group for the 2017 Annual Period.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries 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.

PERFORMANCE OF THE GROUP'S BUSINESS

Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group and key performance indicator in the Group's business, can be found in the section headed "Management Discussion and Analysis" on pages 6 to 16 of this report. These discussions form part of this directors' report.

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 2017 Annual Period are set out in the consolidated statement of comprehensive income on page 58 of this annual report.

The Board does not recommend the payment of any dividend for the 2017 Annual Period (2016: nil).

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

During the year ended 31 December 2017, the Company repurchased a total of 532,000 ordinary shares of the Company on the Stock Exchange, all of which were cancelled on 24 January 2018. The details of the repurchases were disclosed as follows:

		Repurchased Price		
Date of Repurchase	Number of Shares Repurchased	Highest	Lowest	Total Consideration Paid*
		(HK$)	(HK$)	(HK$)
18 December 2017	**144,000**	**0.87**	**0.87**	125,280
19 December 2017	**66,000**	**0.87**	**0.83**	55,780
20 December 2017	**46,000**	**0.87**	**0.84**	39,080
21 December 2017	**106,000**	**0.86**	**0.84**	90,260
22 December 2017	**42,000**	**0.87**	**0.80**	35,360
27 December 2017	**4,000**	**0.81**	**0.79**	3,200
28 December 2017	**2,000**	**0.80**	**0.80**	1,600
29 December 2017	**122,000**	**0.84**	**0.82**	101,780
Total	**532,000**			452,340

* *Excluding brokerage and cancellation fees*

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

Saved as disclosed herein, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the 2017 Annual Period.

EVENT AFTER THE REPORTING PERIOD

There is no event after the reporting period which would have a material impact on the Company's financial position.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2017, the Company has reserves available for distribution to the shareholders amounted to RMB591,586,000 (2016: RMB632,748,000) 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 2017 Annual Period.

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 the 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	11.9%
– five largest suppliers in aggregate	39.7%

Sales	
– the largest customer	7.4%
– five largest customers in aggregate	27.1%

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

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

Name of Director	Capacity	Number of shares or underlying shares	Approximately percentage of Shares on interest in the Company
Mr. Zheng Fushuang	Founder of a discretionary trust[1]	214,278,278	33.97%[2]
Mr. Guo Langhua	Beneficial owner[3]	34,842,106	5.52%[2]
Mr. Liu Baodong	Beneficial owner[4]	31,237,338	4.95%[2]
Mr. Xu Da	Beneficial owner[5]	62,000,000	0.98%
Mr. Zhang Yaqin	Beneficial owner[6]	750,596	0.12%
Mr. Frank Christiaens	Beneficial owner[6]	750,596	0.12%
Mr. Cao Qian	Beneficial owner[5]	300,000	0.05%

Notes:

1. Mr. Zheng Fushuang is the settlor and a beneficiary of Future Success Trust. Future Success Trust holds the entire issued share capital of ZFS Holdings Limited ("**ZFS Holdings**"), which in turn holds the entire issued share capital of Wing Success Holdings Limited ("**Wing Success**"), 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 2017, the approximate percentage of interest in the Company of Mr. Zheng Fushuang, Mr. Guo Langhua and Mr. Liu Baodong was 33.90%, 5.51% and 4.94%, respectively. As a result of the cancelation of Shares on 24 January 2018, the total issued share capital of the Company decreased from 632,000,000 to 630,782,000 and the approximate percentage of interest in the Company of Mr. Zheng Fushuang, Mr. Guo Langhua and Mr. Liu Baodong was increased to 33.97%, 5.52% and 4.95%.

3. Mr. Guo held 15,921,053 shares and the remaining interest is the options representing 18,921,053 underlying shares upon fully exercise of such options.

4. Mr. Liu held 14,118,669 shares and the remaining interest is the options representing 17,118,669 underlying shares upon fully exercise of such option.

5. Interests in options granted pursuant to the Share Option Scheme.

6. Interests in options granted pursuant to the Pre-IPO Share Option Scheme and/or the Share option Scheme.

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange.

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

As at 31 December 2017, so far as was known to the Directors, the following persons (other than the Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the shares of the Company

Name of shareholder	Capacity	Number of shares or underlying shares held	Approximately percentage of interest in the Company
Mr. Zheng Fushuang	Founder of a discretionary trust[1]	214,278,278	33.97%
HSBC International Trustee Limited	Trust and interest of controlled corporation[2]	214,278,278	33.97%
ZFS Holdings	Interest of controlled corporation[2]	214,278,278	33.97%
Wing Success Holdings Limited	Legal owner and beneficial owner	214,278,278	33.97%
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. Therefore, Mr. Zheng Fushuang is deemed to be interested in the Shares held by Wing Success. As at 31 December 2017, the approximate percentage of interest in the Company was 33.90%. As a result of the cancelation of shares of the Company on 24 January 2018, the total issued share capital of the Company decreased from 632,000,000 to 630,782,000 and the approximate percentage of interest in the Company was increased from 33.90% to 33.97%.

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. Therefore, HSBC International Trustee Limited and ZFS Holdings are each deemed under the SFO to be interested in the shares of the Company held by Wing Success.

Save as disclosed above, as at 31 December 2017, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010, 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 1 January 2017 to 31 December 2017, 615,814 option has been lapsed and cancelled. As at 31 December 2017, there were a total of 76,406,033 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of 12.09% as at 31 December 2017. Save as set out above, no other share options have been or would be granted by us after the Listing pursuant to the Pre- IPO Share Option Scheme.

Grantees	Date of grant	Exercisable period	Exercise price per share (US$)	Number of Shares represented by options at 1 January 2017	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 2017	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	2.52%
Liu Baodong	01/01/2011	01/01/2015-31/12/2021	1.16	14,118,669	–	–	–	14,118,669	14,118,669	2.23%
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	0.68%
David Cui	01/10/2015	01/10/2016-31/12/2021	0.00001	4,505,958	–	–	1,351,787	3,154,171	4,505,958	0.71%

Grantees	Date of grant	Exercisable period	Exercise price per share (US$)	Number of Shares represented by options at 1 January 2017	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 2017	Approximately percentage of issued share capital of the Company
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	36,212,884	–	615,814	–	35,597,070	35,597,070	5.63%
Total				77,021,847	–	615,814	1,351,787[1]	75,054,246	76,406,033	12.09%

Note:

1. Mr. David Cui resigned the role of chief financial officer effective from 1 April 2017. Such unvested options will be vested on 1 October 2018.

SHARE OPTION SCHEME

On 18 May 2017, the Company adopted the Share Option Scheme which is subject to the provisions under Chapter 23 of the GEM Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensation through the grant of options for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. The participants of the Share Option Scheme are any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of our Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to our Group. The basis of eligibility of any of the class of the participants to the grant of any options under the Share Option Scheme shall be determined by the Board from time to time on the basis of their contribution to the development and growth of our Group and any invested entity. The Share Option Scheme will end on 17 May 2027.

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

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

REPORT OF THE DIRECTORS

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

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

The following details the options granted (the "**Granted Options**") pursuant to the Share Option Scheme but not yet exercised as at 31 December 2017. Save as the 30,000 options were lapsed, no options were cancelled, lapsed or exercised during the year ended 31 December 2017.

Grantee	Date of grant	Number of share options outstanding as at 1 January 2017 (note 1)	Closing Price per Share immediately prior to the date of grant	Exercise Price per Share	Exercise Period	Number of options granted during the year ended 31 December 2017	Number of options outstanding as at 31 December 2017	Approximate percentage of shareholding upon fully exercise of share options
Executive Directors								
GUO Langhua	24 May 2017	–	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	3,000,000	3,000,000	0.44%
LIU Baodong	24 May 2017	–	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	3,000,000	3,000,000	0.44%
XU Da	24 May 2017	–	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	6,200,000	6,200,000	1.00%
Independent non-executive Directors								
Frank CHRISTIAENS	24 May 2017	–	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	300,000	300,000	0.05%
ZHANG Yaqin	24 May 2017	–	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	300,000	300,000	0.05%
CAO Qian	24 May 2017	–	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	300,000	300,000	0.05%
Other employees and consultants of the Group	24 May 2017	–	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	48,900,000	48,870,000	7.89%

Note 1: The options were granted on 24 May 2017. For full details of the Share Option Scheme, including the value of the share options granted during the year ended 31 December 2017, please refer to note 26 to the condensed consolidated financial statements on pages 133 to 141 of this report.

SHARE AWARD SCHEME

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

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

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

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

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

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

Save as disclosed, during the year ended 31 December 2017, the Company neither issued new shares nor arranged any funds to be paid to the Trustee for purchasing of shares of the Company from the market.

COMPETING BUSINESSES

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

NON-COMPETITION DEED

Mr. Zheng and Wing Success (the "**Covenantors**") entered into a deed of non-competition on 23 May 2016 in favour of the Company and its subsidiaries (the "**Non-competition Deed**").

Pursuant to which each of the Covenantors has irrevocably, jointly and severally undertaken to our Company that he or it would not, and that his or its associates (except any member of our Group, Beijing Hermit Culture & Media Co., Ltd., Beijing Yueying Technology Co, Ltd. and CDW (Beijing) Yun Duan Technology Co., Ltd. (the "**Group Companies**") would not, during the restricted period set out below, directly or indirectly, either by corporate, partnership, joint venture on his or its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with our existing core business of research, development and sales of post-production digital video technology products, solutions and services (the "**Restricted Business**"). Details of the major terms of the Non-competition Deed was disclosed in the section headed "Relationship with Controlling Shareholders" of the Prospectus. Our Independent Board Committee has reviewed that we complied with the Non-competition Deed during the 2017 Annual Period.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

EQUITY-LINKED AGREEMENTS

Save for the Pre-IPO Share Option Scheme, Share Option Scheme and the Share Award Scheme as set out in this report, no equity-linked agreements were entered into by the Group, or existed during the 2017 Annual Period.

PERMITTED INDEMNITY PROVISION

Under Articles of Association of the Company, the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attached to any of them. Such permitted indemnity provision is currently in force and was in force throughout the 2017 Annual Period.

ENVIRONMENTAL POLICY AND PERFORMANCE

Our environmental policy was set out in the section headed "Environmental, Social and Governance Report – Environmental Protection" in this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and the management are aware, save as disclosed above, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the 2017 Annual Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

DONATIONS

During the 2017 Annual Period, the Group made charitable and other donations amounting to RMB45,000.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes that employees, customers and suppliers and business associates are key stakeholders to the Group's success. It strives to achieve corporate sustainability through engaging its employees, providing quality products and services to its customers, collaborating with business partners (including suppliers and contractors) to deliver quality products and services and supporting our community.

DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management of the Company during the 2017 Annual Period and update to the date of this annual report were:

Executive Directors

Mr. ZHENG Fushuang (Chairman)
Mr. GUO Langhua (Vice Chairman)
Mr. LIU Baodong (Chief Executive Officer)
Mr. XU Da (appointed on 14 June 2017)

Independent non-executive Directors

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 17 to 22 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.

CONTROLLING SHAREHOLDER AND 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 or controlling shareholder had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during 2017 Annual Period.

COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

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

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

FIVE-YEAR FINANCIAL HIGHLIGHTS

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

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSET

There was no specific plan for material investment or capital asset as at 31 December 2017.

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 2017 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 2017 Annual Period. 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 2017 Annual Period are set out in Note 31 to the audited consolidated financial statements. Save as disclosed below, the Directors consider that these significant 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.

On 29 December 2017, CDV WFOE and Xin'aote Digital Media Technology Business Incubator Co., Ltd. (北京新奧特數字傳媒科技企業紙器有限公司) ("**Xin'aote Digital Media**") entered into a property lease agreement, which adopts substantially the same terms and conditions of the Xinxin Lease Agreement for a term of one year commencing from 1 January 2018 and ending 31 December 2018 (the "**Supplemented Xinxin Lease Agreement**").

During the 2017 Annual Period, the rental paid under the Xinxin Holding amounted to approximately RMB12.1 million (2016: approximately RMB13.2 million) and the rental payable will not exceed RMB17.5 million for the year ended 31 December 2018.

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 2017 Annual Period, the rental paid under the Supplemented Xin'aote Video Lease Agreement amounted to nil (2016: approximately RBM0.8 million).

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**").

On 29 December 2017, CDV WFOE and Xin'aote Video entered into a framework agreement, which adopts substantially the same terms and conditions of the Supply Framework Agreement for a term of one year commencing from 1 January 2018 and ending 31 December 2018 (the "**Supplemented Supply Framework Agreement**").

During the 2017 Annual Period, the amount received under the Supply Framework Agreement amounted to approximately RMB3.1 million (2016: approximately RMB7.8 million). The estimated annual sales under the Supplemented Supply Framework Agreement will not exceed RMB18.0 million for the year ended 31 December 2018.

The Xinxin Lease Agreement, the supplemented Xinxin Lease Agreement, Xin'aote Video Lease Agreement, the Supply Framework Agreement and the Supplemented 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%.

REPORT OF THE DIRECTORS

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, TC Capital International Limited ("**TC Capital**"), save as the compliance adviser agreement entered into between the Company and TC Capital dated 27 February 2018, none of TC Capital or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in 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 2017 Annual Period and is of the opinion that the audited financial statements of the Group for the 2017 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

23 March 2018

INDEPENDENT AUDITOR'S REPORT

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 58 to 153, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 2.19, 3.1(c), 3.1(f), 11 and 12 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2017, the Group has goodwill of RMB74,220,000 and intangible assets of RMB143,998,000. 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 intangible assets with 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	How the matter was addressed in our audit
As at 31 December 2017, the Group had trade receivables amounting to RMB406,856,000. 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.	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 included in the 2017 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

23 March 2018

Lin Ching Yee Daniel
Practising Certificate No.: P02771

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	4	398,307	651,976
Cost of sales		(341,095)	(416,155)
Gross profit		57,212	235,821
Other income	5	91,518	37,504
Selling and marketing expenses		(70,304)	(62,072)
Administrative expenses		(80,311)	(74,917)
Share-based compensation expense	26	(62,849)	(13,060)
Research and development expenses		(30,960)	(50,328)
Finance costs	6	(9,436)	(8,201)
Fair value gain on redeemable convertible preferred shares	24	–	276,108
Share of profit/(loss) of joint ventures	14	235	(3,647)
(Loss)/Profit before income tax		(104,895)	337,208
Income tax credit/(expense)	7	12,302	(3,946)
(Loss)/Profit for the year	6	(92,593)	333,262
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on the translation of foreign operation		(15,008)	(388)
Total comprehensive (loss)/income for the year		(107,601)	332,874
(Loss)/Profit for the year attributable to:			
Equity holders of the Company		(90,339)	338,706
Non-controlling interests		(2,254)	(5,444)
		(92,593)	333,262
Total comprehensive (loss)/income for the year attributable to:			
Equity holders of the Company		(105,347)	338,318
Non-controlling interests		(2,254)	(5,444)
		(107,601)	332,874
(Loss)/Earnings per share for (loss)/profit attributable to ordinary equity holders of the Company			
(expressed in RMB cents per share)	8		
Basic		(14.57)	76.61
Diluted		(14.57)	11.46

The notes on pages 65 to 153 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	3,946	4,710
Intangible assets	11	143,998	75,787
Goodwill	12	74,220	74,220
Interests in joint ventures	14	16,235	—
Available-for-sale financial assets	17	15,000	3,697
Deferred tax assets	22	18,470	6,915
		271,869	165,329
Current assets			
Inventories	15	32,716	34,499
Trade and other receivables	16	582,875	608,738
Available-for-sale financial assets	17	—	63,000
Structured deposits	18	—	215,000
Restricted bank deposits	19	13,507	8,014
Pledged bank deposits	19	111,081	104,055
Bank balances and cash	19	298,344	96,605
		1,038,523	1,129,911
Current liabilities			
Trade and other payables	20	330,450	301,593
Income tax liabilities		7,825	11,850
Other interest-bearing borrowings	21	216,627	192,062
		554,902	505,505
Net current assets		483,621	624,406
Total assets less current liabilities		755,490	789,735
Non-current liabilities			
Deferred tax liabilities	22	4,235	4,982
Net assets		751,255	784,753

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
EQUITY			
Share capital	23	43	42
Reserves	25	751,212	794,110
Equity attributable to equity holders of the Company		751,255	794,152
Non-controlling interests		–	(9,399)
Total equity		751,255	784,753

Zheng Fushuang
Director

Liu Baodong
Director

The notes on pages 65 to 153 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Equity attributable to equity holders of the Company											
	Share capital – Ordinary shares RMB'000	Share capital – Non-redeemable convertible preferred shares RMB'000	Treasury shares* RMB'000	Share premium* RMB'000	Statutory reserve* RMB'000	Translation reserve* RMB'000	Share option reserve* RMB'000	Other 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Equity attributable to equity holders of the Company											
	Share capital – Ordinary shares RMB'000	Share capital – Non-redeemable convertible preferred shares RMB'000	Treasury shares* RMB'000	Share premium* RMB'000	Statutory reserve* RMB'000	Translation reserve* RMB'000	Share option reserve* RMB'000	Other reserve* RMB'000	Accumulated profits* RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	42	–	–	588,902	28,982	2,477	34,527	–	139,222	794,152	(9,399)	784,753
Comprehensive loss for the year												
Loss for the year	–	–	–	–	–	–	–	–	(90,339)	(90,339)	(2,254)	(92,593)
Other comprehensive loss for the year	–	–	–	–	–	(15,008)	–	–	–	(15,008)	–	(15,008)
Total comprehensive loss for the year	–	–	–	–	–	(15,008)	–	–	(90,339)	(105,347)	(2,254)	(107,601)
Transactions with owners												
Issue of shares of share award scheme (note 23(v))	1	–	(1)	–	–	–	–	–	–	–	–	–
Share repurchased and not yet cancelled (note 23(vi))	–	–	–	(399)	–	–	–	–	–	(399)	–	(399)
Deemed disposal of a subsidiary (note 28)	–	–	–	–	–	–	–	–	–	–	11,653	11,653
Share-based compensation (note 26)	–	–	–	–	–	–	21,451	41,398	–	62,849	–	62,849
Transfer upon forfeiture of share options	–	–	–	–	–	–	(136)	–	136	–	–	–
Total transactions with owners	1	–	(1)	(399)	–	–	21,315	41,398	136	62,450	11,653	74,103
Balance at 31 December 2017	43	–	(1)	588,503	28,982	(12,531)	55,842	41,398	49,019	751,255	–	751,255

* These reserves accounts comprise the Group's reserves of RMB751,212,000 (2016: RMB794,110,000) in the consolidation of financial position as at 31 December 2017.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
(Loss)/Profit before income tax		(104,895)	337,208
Adjustments for:			
Depreciation of property, plant and equipment		6,027	6,940
Amortisation of intangible assets		17,983	14,165
Interest income		(9,393)	(3,999)
Finance costs		9,436	8,201
Provision for impairment loss on trade and other receivables		37,239	17,393
Reversal of provision for impairment loss on trade and other receivables		(8,155)	(1,980)
Provision for inventory obsolescence		2,918	3,649
Provision for impairment of available-for-sale financial assets		3,697	—
Loss on disposal of property, plant and equipment		186	166
Write-off of intangible assets		2,266	—
Fair value gain on redeemable convertible preferred shares		—	(276,108)
Share-based compensation expense		62,849	13,060
Share of (profit)/losses of joint ventures		(235)	3,647
Gain on disposal of a joint venture	14(a)	(20,000)	—
Gain on deemed disposal of a subsidiary	28	(25,768)	—
Operating profit before working capital changes		(25,845)	122,342
Decrease in inventories		(1,135)	(6,632)
Increase in trade and other receivables		(6,221)	(210,043)
Increase in trade and other payables		94,868	77,964
Cash generated from/(used in) operations		61,667	(16,369)
Income tax paid		(4,025)	(8,924)
Net cash from/(used in) operating activities		57,642	(25,293)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from investing activities			
Interest received		**10,080**	5,831
Purchase of property, plant and equipment		**(7,785)**	(3,983)
Proceeds from disposal of property, plant and equipment		**2,226**	77
Purchase of intangible assets		**(34,532)**	(3,689)
Addition in development costs through internal development		**(53,928)**	(18,285)
Redemption/(Placement) of structured deposits		**215,000**	(215,000)
Deemed disposal of a subsidiary	28	**(673)**	—
Purchase of available-for-sale financial assets		**(15,000)**	(63,000)
Proceeds from disposal of available-for-sale financial assets		**63,000**	—
Proceeds from disposal of a joint venture	14(a)	**20,000**	—
(Increase)/Decrease in time deposits with original maturities exceeding three months		**(159,504)**	74,654
(Increase)/Decrease in amounts due from joint ventures		**(16,836)**	6,692
(Increase)/Decrease in amounts due from related parties		**1,471**	4,981
Increase in restricted bank deposits		**(5,493)**	(1,655)
Increase in pledged bank deposits		**(7,026)**	(104,055)
Net cash from/(used in) investing activities		**11,000**	(317,432)
Cash flows from financing activities			
Interest paid		**(9,879)**	(8,379)
Increase in amounts due to related parties		**3,696**	475
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)
Proceeds from bank borrowings		**174,404**	110,000
Repayment of bank borrowings		**(144,685)**	(11,542)
Addition of other borrowings		**9,000**	43,007
Repayment of other borrowings		**(57,746)**	(24,712)
Payment for repurchase of shares		**(399)**	—
Net cash (used in)/from financing activities		**(25,609)**	329,313
Net decrease in cash and cash equivalents		**43,033**	(13,412)
Cash and cash equivalents at beginning of year		**21,109**	30,935
Effect of foreign exchange rate changes on cash and cash equivalents held		**(798)**	3,586
Cash and cash equivalents at end of year	19	**63,344**	21,109

The notes on pages 65 to 153 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

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

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

As at 31 December 2017, 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 2017 were approved for issue by the board of directors (the "Board") on 23 March 2018.

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 GEM 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) Amended standards adopted by the Group

The Group has applied the following amended IFRSs, which have become effective for the accounting period beginning on 1 January 2017 and relevant to the Group:

Amendments to IAS 7	Statement of Cash Flows: Disclosure Initiative
Amendments to IAS 12	Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle	Disclosure of Interests in Other Entities

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 7 "Disclosure Initiative"

The amendments require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. A reconciliation between the opening and closing balances of liabilities arising from financing activities is set out in note 30(a). Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 30(a), the application of these amendments has had no impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 and amended standards and interpretations not yet adopted

At the date of authorisation of these consolidated financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contract[3]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[2]
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC – Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective date not yet determined

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 and amended standards and interpretations not yet adopted – *continued*

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended IFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended IFRSs are not expected to have a material impact on the Group's consolidated financial statements.

<u>IFRS 9 "Financial instruments</u>"

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

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

The directors have identified the following areas that are expected to be most impacted by the application of IFRS 9:

- The impairment of financial assets applying the expected credit loss model. This will apply to the Group's trade receivables. For contract assets arising from IFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing components.

- The measurement of equity investments at cost less impairment. All such investments will instead be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition to IFRS 9. This will affect the Group's investment in unlisted equity investments (see note 17) which the Group intends to hold beyond 1 January 2018. Currently, the Group is not intending to elect to present changes in the equity investment in other comprehensive income but will account for its equity investments at fair value through profit or loss.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 and amended standards and interpretations not yet adopted – *continued*

IFRS 15 "Revenue from Contracts with Customers"

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

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2.16. Currently, revenue arising from solution sales and provision of services are recognised over time, whereas revenue from products sales is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

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 and amended standards and interpretations not yet adopted – *continued*

<u>IFRS 15 "Revenue from Contracts with Customers" – *continued*</u>

(a) Timing of revenue recognition – *continued*

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises from products sales and provision of services. However, revenue for solution sales is expected to be affected as follows:

The Group has assessed that it is likely that under IFRS 15 transfer of control over the solution under those contracts will not fall into any category mentioned above and therefore revenue will need to be recognised at a point of time when the solution is delivered to the customers and the relevant installation services are fully performed. This will result in revenue, and some associated costs, for those contracts being recognised later as the Group currently recognises the revenue from solution sales by using "percentage of completion method".

(b) Contracts with multiple performance obligations

Many of the Group's solutions contracts comprise a variety of performance obligations including, but not limited to, goods delivery, installation and training and warranty. Under IFRS 15, the Group must evaluate the separability of the promised goods or services based on whether they are "distinct". A promised good or service is "distinct" if both:

- the customer benefits from the items either on its own or together with other readily available resources; and
- it is "separately identifiable" (i.e. the Group does not provide a significant service integrating, modifying or customizing it).

While this represents significant new guidance, the implementation of this new guidance did not have a significant impact on the amount of revenue recognised by the Group in any year.

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 and amended standards and interpretations not yet adopted – *continued*

IFRS 15 "Revenue from Contracts with Customers" – *continued*

The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of "open" contracts for solution sales at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial results from 2018 onwards.

IFRS 16 "Leases"

IFRS 16 "Leases" will replace IAS 17 and three related Interpretations.

As disclosed in note 2.13, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

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 and amended standards and interpretations not yet adopted – *continued*

IFRS 16 "Leases" – *continued*

IFRS 16 will primarily affect the Group's accounting as a lessee of leases of offices and residential properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the profit or loss over the period of the lease. As disclosed in note 29, as at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB7,601,000 for offices and residential properties, the majority of which is payable within 1 year after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt IFRS 16 retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

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.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity respectively.

(i) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary comprises 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. 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 either fair value or at the non-controlling interests' proportionate share of the acquiree's net identifiable assets.

Acquisition-related costs are expensed as incurred.

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 net identifiable assets acquired is recorded as goodwill. If these amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

(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 transactions with the owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Basis of consolidation – *continued*

(b) Separate financial statements

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. Cost 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.

2.3 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 of the joint ventures in profit or loss and the group's share of movements of joint ventures in other comprehensive income.

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 at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognised in profit or loss.

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.

(c) Group companies

The results and financial position of foreign operations (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.6 Property, plant and equipment

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

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 any component accounted for as a separate asset is derecognised when replaced. All other costs, such as repairs and maintenance are charged to profit or loss during the financialreporting period in which they are incurred.

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 and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. There are included in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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 for the purpose of impairment testing (see note 2.19). The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purpose, being the operation segments. 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.

2.8 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(b) 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 subsequently 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) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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

(b) Research and development costs – continued

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 10 years).

All other development costs are expensed as incurred.

(c) Club membership

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

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 and available-for-sale financial assets. 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.

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FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial assets – *continued*

(a) 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.

(b) 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.

For available-for-sale investments in equity securities 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial assets – *continued*

Impairment of financial assets

At each reporting date, financial assets 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial assets – *continued*

Impairment of financial assets – continued

(a) Financial assets carried at amortised cost – *continued*

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 carried at fair value

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.

(c) Financial assets carried at cost

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of the impairment losses is recognised in profit or loss of the period in which the impairment occurs and not reversed in subsequent periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial assets – *continued*

Impairment of financial assets – continued

(c) Financial assets carried at cost – *continued*

Impairment losses on financial assets other than 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 and unquoted equity securities carried at cost 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Financial liabilities

The Group's financial liabilities included borrowings, trade and other payables and redeemable convertible preferred shares. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognized in accordance with the Group's accounting policy for borrowing costs. 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Financial liabilities – *continued*

Redeemable convertible preferred shares – continued

- 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.

All redeemable convertible preferred shares of the Company had been converted into ordinary shares of the Company upon the Listing (see note 24).

2.13 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.13 Leases – *continued*

(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. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

2.14 Provisions and contingent liabilities

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.15 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 2.12). All non-redeemable convertible preferred shares of the Company had been converted into ordinary shares of the Company upon the Listing (see note 24).

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.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2.16 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.16 Revenue recognition – *continued*

(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 recognised 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.

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.17 Interest income

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

2.18 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 consolidated 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 consolidated statement of comprehensive income.

2.19 Impairment of non-financial assets

Goodwill arising on acquisition of a subsidiary, property, plant and equipment, other intangible assets, interests in joint ventures and the Company's interests in subsidiaries are subject to impairment testing. Goodwill and other 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*

2.19 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.

2.20 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.20 Employee benefits – *continued*

(c) Equity-settled share-based compensation transactions

The Group operates a number of equity-settled, share-based compensation plan (including share option schemes and share award scheme), under which the entity receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the services received in exchange for the grant of the equity instruments is recognised as expense.

In terms of share options and awarded shares, 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 share options and awarded 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 share options are exercised, 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 share options and awarded shares 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 in the separate financial statements of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 Accounting for income taxes – *continued*

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 realise 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 realise 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.

2.22 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

2.23 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.24 Related parties

For the purpose of these consolidated financial statements, a party is considered to be related to the Group if:

(a) the party is a person, or a close member of that person's family and 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 of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

(i) the entity and the Group are members of the same group.

(ii) one entity is an associate or joint venture of the other entity.

(iii) the entity and the Group 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 Estimation uncertainties

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 estimates the provision for impairment of trade and other receivables (note 16) 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. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivable requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference with impact the carrying amount of the trade and other receivables and provision for doubtful debt expense in the year in which such estimate has been changed. As at 31 December 2017, the carrying amount of trade and other receivables was RMB582,875,000 (2016: RMB608,738,000).

(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. If the market condition was to deteriorate, resulting in a lower net realisable value for such inventories, additional allowances may be required. As at 31 December 2017, the carrying amount of inventories was RMB32,716,000 (2016: RMB34,499,000).

(c) 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 calculations requires the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flows management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. As at 31 December 2017, the carrying amount of goodwill was RMB74,220,000 (2016: RMB74,220,000).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

3.1 Estimation uncertainties – *continued*

(d) Percentage of completion of solutions sales

As stated in note 2.16(b), 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. If the actual costs differ from management's estimates, the percentage-of-completions and relevant revenue recognised would be adjusted accordingly.

(e) Capitalisation of development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.8(b) to the consolidated 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 2017, the best estimate of the carrying amount of capitalised development cost was RMB66,092,000 (2016: RMB21,891,000).

(f) Depreciation, amortisation 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 may 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. When such a decline has occurred, the carrying amount is reduced to recoverable amounts. The recoverable amounts of the assets have been determined based on the higher of fair value less cost of disposal and value-in-use calculations. These calculations require the use of judgement and estimates. As at 31 December 2017, the carrying amount of property, plant and equipment and intangible assets was RMB3,946,000 (2016: RMB4,710,000) and RMB143,998,000 (2016: RMB75,787,000) respectively.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

3.1 Estimation uncertainties – *continued*

(g) 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. As at 31 December 2017, the Group had income tax liabilities of RMB7,825,000 (2016: RMB11,850,000). The details of the deferred tax assets and liabilities are set out in note 22.

(h) Recognition of share-based compensation expenses

As detailed in note 26, the Company has granted share options to the Group's management and employees on 24 May 2017. The directors, with the assistance of an independent professional valuer, have used the Binomial Option-Pricing Model to determine the total fair value of the options granted, which is to be expensed over the vesting period as appropriate. Significant estimate on assumptions, such as share price volatility and dividend yield, is required to be made by the directors in applying the Binomial Option-Pricing Model. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share options, which may in turn significantly impact the determination of the share-based compensation expenses.

(i) Fair value of retained interests in Beijing Meicam

As detailed in note 28, the Group has lost in control over Beijing Meicam Network Technology Co., Ltd ("Beijing Meicam") during the year ended 31 December 2017. The directors, with the assistance of an independent professional valuer, have established the appropriate valuation techniques and inputs to determine the fair value of the retained interest in Beijing Meicam. The determination of the fair value involves management's judgement and assumption. Any change in such judgement and assumption would affect the fair value of the retained interest in Beijing Meicam and the gain on deemed disposal of a subsidiary for the year ended 31 December 2017.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

3.2 Critical judgement in applying the entity's accounting policies

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

Prior to the deemed disposal of Beijing Meicam in November 2017 (as detailed in note 28), the Group is able to gain power and 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. Accordingly, Beijing Meicam was classified a subsidiary of the Company prior to the deemed disposal.

(b) Classification of available-for-sales financial assets

As detailed in note 17(a), the Group held 27.27% equity interests in a private equity fund. The Group classified the investment as available-for-sales financial assets because the directors considered that the Group has no contractual right to appoint representative in the investment committee and concluded that the Group is not in a position to control or exercise any significant influence over the financial and operating policies of the private equity fund or to participate in their operations.

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:

	2017 **RMB'000**	2016 RMB'000
Solutions	**288,799**	463,694
Services	**67,873**	97,646
Products	**41,635**	90,636
	398,307	651,976

Geographical information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

4. REVENUE AND SEGMENT INFORMATION – *continued*

Information about major customers

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

	2017 RMB'000	2016 RMB'000
Customer A (Note)	N/A	127,797

Note: There is no single customer that contributed over 10% of the Group's revenue for the year ended 31 December 2017.

5. OTHER INCOME

	2017 RMB'000	2016 RMB'000
Other revenue		
Interest income	9,393	3,999
Reversal of provision for impairment loss on trade and other receivables	8,155	1,980
Value-added tax ("**VAT**") refunds (note a)	16,043	22,763
	33,591	28,742
Other net income/gain		
Gain on deemed disposal of a subsidiary (note 28)	25,768	–
Gain on disposal of a joint venture (note 14(a))	20,000	–
Net foreign exchange gain	3,761	–
Subsidy income from government (note b)	6,333	8,685
Sundry income	2,065	77
	57,927	8,762
	91,518	37,504

Notes:

(a) The sales of software products in the PRC are subject to VAT calculated at 17%. Companies which develop their own software products and have the software products registered with the relevant authorities in the PRC are entitled to a refund of VAT equivalent to the excess over 3% of the sales invoice amount paid in the month when output VAT exceeds input VAT.

(b) Subsidy income mainly relates to cash subsidies in respect of operating and development activities from governments which are either unconditional grants or grants with conditions having been satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

6. (LOSS)/PROFIT FOR THE YEAR

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

	2017 RMB'000	2016 RMB'000
Finance costs		
Interest on bank and other borrowings, wholly repayable within five years	9,436	8,201
Employee benefit expenses		
Salaries, bonus and allowances	100,100	120,797
Retirement benefit scheme contributions	23,855	27,757
Severance payments	753	242
Share-based compensation expense	62,849	13,060
	187,557	161,856
Other items		
Auditors' remuneration	1,467	1,751
Listing-related expenses	—	11,309
Operating lease charges on premises	14,906	15,405
Cost of software and hardware equipment recognised as an expense, including	238,199	309,251
– Provision for inventory obsolescence	2,918	3,649
Depreciation of property, plant and equipment	6,027	6,940
Amortisation of intangible assets	17,983	14,165
Provision for impairment loss on trade and other receivables	37,239	17,393
Provision for impairment loss on available-for-sale financial assets	3,697	—
Loss on disposal of property, plant and equipment	186	166
Write-off of intangible assets	2,266	—
Net foreign exchange (gain)/loss	(3,761)	4,512

7. INCOME TAX EXPENSE

	Notes	2017 RMB'000	2016 RMB'000
Current tax - PRC enterprise income tax			
Current year		–	9,083
Over-provision in respect of prior year		–	(5,802)
		–	3,281
Deferred tax			
Origination and reversal of temporary differences	22	(9,069)	(2,110)
Effect on deferred tax balances resulting from changes in tax rates	22	(3,233)	2,775
		(12,302)	665
Income tax (credit)/expense		(12,302)	3,946

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:

	2017 RMB'000	2016 RMB'000
(Loss)/Profit before income tax	(104,895)	337,208
Tax on profit before income tax, calculated at the statutory rates applicable to profits in the tax jurisdiction concerned	(15,999)	22,763
Tax effect on non-taxable income	(3,865)	–
Tax effect on non-deductible expenses	8,654	2,617
Tax effect on preferential income tax rates applicable to certain subsidiaries	6,024	(14,485)
Tax effect on super deduction in research and development activities	(4,988)	(2,302)
Over-provision in respect of prior year	–	(5,802)
Utilisation of tax losses previously not recognised	–	(1,620)
Effect on deferred tax balances resulting from changes in tax rates	(3,233)	2,775
Others	1,105	–
Income tax (credit)/expense	(12,302)	3,946

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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) 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 accordingly entitled to a preferential income tax rate of 10% for the year ended 31 December 2016. In 2017, CDV WFOE enjoyed preferential income tax rate of 15% and continues to enjoy the preferential income tax rate of 15% until year 2018.

Pursuant to the relevant laws and regulations in the PRC, ZhengQi (Beijing) Video Technology Co., Ltd (北京正奇聯訊科技有限公司, "Beijing Zhengqi"), a subsidiary of the Company, obtained the HNTE in 2014 and accordingly enjoyed preferential income tax rate of 15% for the years from 2014 to 2016. In 2017, Beijing Zhengqi renewed the HNTE and continues to enjoy the preferential income tax rate of 15% for the years from 2017 to 2019.

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 2017 and 2016.

(d) PRC withholding tax

According to the relevant laws and regulations in the PRC, the Group is also liable to a 10% withhoing 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. (LOSS)/EARNINGS PER SHARE

For the purpose of computing basic and diluted (loss)/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 (loss)/earnings per share for the years ended 31 December 2017 and 2016.

(a) Basic (loss)/earnings per share

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

	2017 RMB'000	2016 RMB'000
(Loss)/Earnings		
(Loss)/Profit attributable to equity holders of the Company	(90,339)	338,706
Undeclared dividend of preferred shares	–	(5,193)
(Loss)/Profit used to determine basic (loss)/earnings per share	(90,339)	333,513

	2017	2016
Number of shares (in thousands)		
Weighted average number of ordinary shares outstanding for basic (loss)/earnings per share	619,985	435,346

8. EARNINGS PER SHARE – *continued*

(b) Diluted (loss)/earnings per share

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

	2017 RMB'000	2016 RMB'000
(Loss)/Earnings		
(Loss)/Profit attributable to ordinary equity holders of the Company used to determine basic (loss)/earnings per share	(90,339)	333,513
Change in fair value on redeemable convertible preferred shares	–	(276,108)
Undeclared dividend of preferred shares	–	5,193
(Loss)/Profit used to determine diluted (loss)/earnings per share	(90,339)	62,598

	2017	2016
Number of shares (in thousands)		
Weighted average number of ordinary shares used to determine basic (loss)/earnings per share	619,985	435,346
Effect of deemed conversion of preferred shares (after capitalisation issue adjustment)	–	109,272
Effect of deemed issue of shares under the 2010 Share Option Plan	–	1,477
	619,985	546,095

For the year ended 31 December 2017, the Company has two categories of potential dilutive ordinary shares: the 2010 Share Option Plan and the 2017 Share Option Scheme. Diluted loss per share for the year ended 31 December 2017 was calculated based on the weighted average number of ordinary share outstanding adjusted to assume conversion or exercise of all dilutive potential ordinary shares. The diluted loss per share for the year ended 31 December 2017 was the same as the basic loss per share as all the potential ordinary shares were anti-dilutive.

For the year ended 31 December 2016, the Company has the following three categories of dilutive potential ordinary shares: non-redeemable convertible Series A-1 Preferred Shares, redeemable convertible preferred shares (including Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares and Series C Preferred Shares) and the 2010 Share Option Plan of the Company. The computation of diluted earnings per share has assumed the conversion of non-redeemable convertible Series A-1 preferred shares, redeemable convertible Series A, Series A-1, Series B, Series C preferred shares and the 2010 Share Option Plan of the Company.

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 RMB'000	Basic salaries and allowances RMB'000	Discretionary Bonus RMB'000	Retirement benefit contribution RMB'000	Share-based compensation expense RMB'000	Total RMB'000
Year ended 31 December 2017							
Executive directors:							
Mr. Liu Baodong	(i)	603	617	–	105	927	2,252
Mr. Zheng Fushuang		603	726	–	–	–	1,329
Mr. Guo Langhua		603	726	–	–	927	2,256
Mr. Xu Da	(ii)	–	–	–	–	1,915	1,915
Independent non-executive directors:							
Mr. Frank Christiaens		202	–	–	–	133	335
Mr. Zhang Yaqin		202	–	–	–	133	335
Ms. Cao Qian	(iii)	202	–	–	–	133	335
		2,415	2,069	–	105	4,168	8,757
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	(iii)	101	–	–	–	–	101
		1,338	2,095	240	26	–	3,699

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 14 June 2017.

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

There were no arrangements under which a director of the Company waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2016.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2016: three) directors whose emoluments are reflected in the analysis presented above. The emoluments paid/payable to the remaining one (2016: two) individuals during the year are as follows:

	2017 RMB'000	2016 RMB'000
Basic salaries and allowances	457	1,569
Bonus	412	—
Retirement benefit scheme contributions	104	126
Share-based compensation expense	1,915	13,060
	2,888	14,755

The emoluments fell within the following bands:

	2017	2016
Emolument bands		
HK$3,000,001 - HK$4,000,000	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 2017 and 2016.

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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 2016					
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
Year ended 31 December 2017					
Opening net book amount	81	3,398	312	919	4,710
Additions	—	7,773	12	—	7,785
Disposal	—	(2,407)	(4)	(1)	(2,412)
Deemed disposal of a subsidiary (note 28)		(110)	—	—	(110)
Depreciation	(60)	(5,579)	(187)	(201)	(6,027)
Closing net book amount	**21**	**3,075**	**133**	**717**	**3,946**
At 31 December 2017					
Cost	10,900	53,254	2,394	2,602	69,150
Accumulated depreciation	(10,879)	(50,179)	(2,261)	(1,885)	(65,204)
Net book amount	**21**	**3,075**	**133**	**717**	**3,946**

10. PROPERTY, PLANT AND EQUIPMENT – *continued*

Depreciation charges recognised is analysed as follows:

	2017 RMB'000	2016 RMB'000
Cost of sales	**1**	19
Selling and marketing expenses	**2,070**	2,376
Administrative expenses	**2,648**	2,285
Research and development expenses	**1,308**	2,260
	6,027	6,940

11. INTANGIBLE ASSETS

	Video-related and broadcasting intellectual properties, patents, trademarks and licenses RMB'000	Development costs RMB'000	Club membership RMB'000	Total RMB'000
At 1 January 2016				
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
Year ended 31 December 2017				
Opening net book amount	51,630	21,891	2,266	75,787
Transfers	9,727	(9,727)	—	—
Additions	34,532	53,928	—	88,460
Write-off	—	—	(2,266)	(2,266)
Amortisation	(17,983)	—	—	(17,983)
Closing net book amount	**77,906**	**66,092**	**—**	**143,998**
At 31 December 2017				
Cost	142,688	66,092	—	208,780
Accumulated amortisation	(64,782)	—	—	(64,782)
Net book amount	**77,906**	**66,092**	**—**	**143,998**

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:

	2017 RMB'000	2016 RMB'000
Cost of sales	**17,727**	12,775
Selling and marketing expenses	**32**	25
Administrative expenses	**46**	1,196
Research and development expenses	**178**	169
	17,983	14,165

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:

	2017 RMB'000	2016 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% (2016: 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 20%, (2016: 18.0%) for the year ended 31 December 2017 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.

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13. SUBSIDIARIES

Particulars of the subsidiaries, each of which is a limited liability company, as at 31 December 2017, 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

14. INTERESTS IN JOINT VENTURES

	2017 RMB'000	2016 RMB'000
Cost of investments	16,000	—
Share of profit	235	—
	16,235	—

14. INTERESTS IN JOINT VENTURES – *continued*

As the reporting dates, 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
			2017	2016	
Beijing Hermit Culture & Media Co., Ltd 北京海米文化傳媒有限公司 ("Beijing Hermit") (note a and b)	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 b)	PRC	RMB11,363,636	**35.2%**	35.2%	Development and provision of video related application, in PRC
CDV (Beijing) Yun Duan Technology Co., Ltd 新奧特(北京)雲端科技有限公司 ("Xin'aote Cloud") (note b)	PRC	RMB25,000,000	**40%**	40%	Mobile application development and operation, in PRC
Beijing Meicam (note c)	PRC	RMB25,000,000	**40%**	40%	Mobile application development and operation, in PRC

Notes:

(a) In October 2017, the Group has disposed its entire interests in Beijing Hermit to an independent third party for a cash consideration of RMB20,000,000. Accordingly, a gain on disposal of a joint venture of RMB20,000,000 was recognised in profit or loss during the year ended 31 December 2017 (note 5).

(b) The Group has discontinued recognising its share of loss of the joint ventures. The amounts of unrecognized share of loss of the joint ventures, extracted from the management accounts of the joint ventures, both for the year and cumulatively, are as follows:

	2017 RMB'000	2016 RMB'000
Unrecognised share of loss of joint venture for the year	**2,405**	3,015
Accumulated unrecognised share of loss of joint ventures	**5,420**	3,015

(c) During the year ended 31 December 2017, the Group has terminated the act in concert agreement with another investor of Beijing Meicam in which the investor no longer be required to vote in the same way as the Group, resulting in a loss in control over Beijing Meicam. Accordingly, the retained interest in Beijing Meicam of RMB16,000,000 was reclassified as interest in a joint venture (note 28). The share of profit from Beijing Meicam by the Group was amounted to RMB235,000 for the year ended 31 December 2017.

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15. INVENTORIES

	2017 RMB'000	2016 RMB'000
Equipments and parts	**25,009**	18,131
Work-in-progress	**7,707**	16,368
	32,716	34,499

16. TRADE AND OTHER RECEIVABLES

	Notes	2017 RMB'000	2016 RMB'000
Trade and bills receivables			
From third parties		**454,085**	468,248
From related parties	31(d)	**8,530**	12,969
		462,615	481,217
Less: provision for impairment of trade receivables		**(55,759)**	(32,355)
	(a)	**406,856**	448,862
Other receivables	(b)		
Deposits, prepayments and other receivables		**29,376**	53,931
Deposit for guarantee certificate over tendering and performance		**29,650**	17,617
Loan receivable		**19,883**	—
Advance to suppliers		**66,805**	68,058
Amounts due from related parties	31(d)	**3,074**	4,545
Amounts due from joint ventures		**22,923**	6,087
VAT receivables		**2,330**	7,979
Advances to employees		**8,666**	6,395
		182,707	164,612
Less: provision for impairment of other receivables		**(6,688)**	(4,736)
		176,019	159,876
		582,875	608,738

16. TRADE AND OTHER RECEIVABLES – *continued*

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:

	2017 **RMB'000**	2016 RMB'000
Trade receivables	**12,507**	14,538
Deposit for guarantee certificate over tender and performance	**16,351**	2,172
	28,858	16,710

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 2017, trade and bills receivables contained retention money receivables (net of provisions) of RMB56,984,000 (2016: RMB42,672,000). 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:

	2017 RMB'000	2016 RMB'000
Billed:		
0 to 90 days	30,983	113,039
91 to 180 days	21,972	43,545
181 to 365 days	82,119	99,348
1 to 2 years	89,433	23,802
	224,507	279,734
Unbilled*	182,349	169,128
	406,856	448,862

* 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.

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

	2017 RMB'000	2016 RMB'000
Balance at the beginning of the year	32,355	18,050
Provision for impairment	35,157	16,100
Reversal of provision for impairment	(8,025)	(1,795)
Written off as uncollectible	(3,728)	—
Balance at the end of the year	55,759	32,355

16. TRADE AND OTHER RECEIVABLES – *continued*

(a) Trade and bills receivables – *continued*

At each reporting date, the Group reviews for evidence of impairment on both an individual and collective basis. As at 31 December 2017, the Group has determined trade receivables of RMB35,157,000 (2016: RMB16,100,000) as individually impaired. Based on this assessment, provision for impairment loss of RMB35,157,000 (2016: RMB16,100,000) has been recognised has been made during the year ended 31 December 2017. Provision for impairment loss 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.

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:

	2017 RMB'000	2016 RMB'000
1 to 90 days past due	**30,983**	113,039
91 to 180 days past due	**21,972**	43,545
181 to 360 days past due	**82,119**	99,348
1 to 2 years past due	**89,433**	23,802
	224,507	279,734

Trade receivables that were past due but not impaired were RMB182,349,000 (2016: RMB169,128,000). These 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.

As at 31 December 2016, certain of the Group's trade and bills receivables of RMB20,355,000 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. The Group has fully settled the unsecured borrowing during the year ended 31 December 2017 (note 21(d)).

16. TRADE AND OTHER RECEIVABLES – *continued*

(a) Trade and bills receivables – *continued*

As at 31 December 2017, 2% and 9% (2016: 9% and 23%) of trade receivables are due from the largest and 5 major customers respectively in cooperation with the Group's business.

(b) Other receivables

Deposit for guarantee certificate

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

Loan receivable

As at 31 December 2017, the Group has a loan receivable of approximately RMB19,884,000 (2016: nil) from a third party. The loan receivable is secured by a property, carrying fixed interest of 6% per annum and wholly repayable within one year. As at 31 December 2017, the market value of the property is approximately RMB20,479,000.

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 and deposits to be incurred in the ordinary course of business. These advances are unsecured, interest-free and repayable on demand.

16. TRADE AND OTHER RECEIVABLES – *continued*

(b) Other receivables – *continued*

Provision for impairment of other receivables

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

	2017 RMB'000	2016 RMB'000
Balance at the beginning of the year	**4,736**	3,628
Provision for impairment	**2,082**	1,293
Reversal of provision for impairment	**(130)**	(185)
Balance at the end of the year	**6,688**	4,736

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Unlisted equity investments, at cost		**18,697**	3,697
Less: Provision for impairment		**(3,697)**	–
	a	**15,000**	3,697
Current assets			
Unlisted trust funds, at fair value	b	**–**	63,000

Notes:

a) During the year ended 31 December 2017, the Group entered into agreements with certain independent third parties to set up a private equity fund in the PRC. Details of which are stated in the Company's announcement dated 28 April 2017. The Group has injected RMB15,000,000 and held 27.27% equity interests in the private equity fund. The investment is classified under available-for-sale financial assets.

The Group's unlisted equity investments are stated at costs less impairment losses as the investments do 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.

During the year ended 31 December 2017, the management reviewed the recoverable amount of the equity investments by taking into account its business development and financial positions. An impairment loss of RMB3,697,000 were made against the investment costs for the year ended 31 December 2017.

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS – *continued*

Notes: – *continued*

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.

During the year ended 31 December 2017, the Group has disposed the unlisted trust funds upon the expiry of the investing period of the trust funds.

18. STRUCTURED DEPOSITS

As at 31 December 2016, the structured deposits consisted of deposits RMB215,000,000 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. During the year ended 31 December 2017, the structured deposits were fully redeemed upon maturity.

19. RESTRICTED BANK DEPOSITS, PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

	2017 **RMB'000**	2016 RMB'000
Cash at bank and on hand	**75,991**	28,263
Short-term time deposits	**346,941**	180,411
	422,932	208,674
Restricted bank deposits	**(13,507)**	(8,014)
Pledged bank deposits	**(111,081)**	(104,055)
Bank balances and cash per the consolidated statement of financial position	**298,344**	96,605
Time deposits with banks with original maturities exceeding 3 months	**(235,000)**	(75,496)
Cash and cash equivalents per the consolidated statement of cash flows	**63,344**	21,109

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 2017, included in bank balances and cash of RMB111,081,000 (2016: RMB104,055,000) are pledged deposits held at bank for security of the Group's bank borrowing (note 21).

As at 31 December 2017, included in bank balances and cash of RMB13,507,000 (2016: RMB8,014,000) are restricted bank deposits for the purpose of contract related deposits or payments and guarantees issued for trade finance facilities.

19. RESTRICTED BANK DEPOSITS, PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH – *continued*

The Group's major subsidiaries are based in the PRC and majority of their transactions are denominated in RMB. As at 31 December 2017, included in bank balances and cash and pledged bank deposits of the Group is RMB298,774,000 (2016: RMB48,010,000) 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 2017 and 2016, 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:

	2017 RMB'000	2016 RMB'000
RMB	**298,774**	48,010
USD	**121,055**	160,381
Others	**3,103**	283
	422,932	208,674

20. TRADE AND OTHER PAYABLES

	Notes	**2017 RMB'000**	2016 RMB'000
Trade and bills payables			
To third parties	(a)	**191,655**	154,763
Other payables			
Amounts due to customers for contract work	(b)	**206**	521
Advances from customers		**17,498**	13,760
Other payables and accrued charges		**28,632**	24,732
Other tax liabilities		**72,091**	87,231
Staff costs and welfare accruals		**12,532**	13,745
Amounts due to related parties	31(e)	**4,171**	475
Deferred income related to government grants		**3,665**	6,366
		138,795	146,830
		330,450	301,593

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

20. TRADE AND OTHER PAYABLES – *continued*

(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:

	2017 **RMB'000**	2016 RMB'000
0 to 90 days	**93,244**	97,649
91 to 180 days	**15,716**	25,041
181 to 365 days	**35,565**	18,627
1 to 2 years	**35,738**	2,544
2 to 3 years	**2,171**	2,587
Over 3 years	**9,221**	8,315
	191,655	154,763

(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 position in consolidated statement of financial position for ongoing contracts is as follows:

	2017 **RMB'000**	2016 RMB'000
Aggregate costs incurred plus recognised profits less recognised losses to date	**–**	–
Less: Progress billings	**(206)**	(521)
	(206)	(521)

21. OTHER INTEREST-BEARING BORROWINGS

	Notes	2017 RMB'000	2016 RMB'000
Short-term bank borrowings, secured	(a)	145,404	86,000
Short-term bank borrowings, unsecured	(b)	29,000	58,685
Other borrowings, secured	(c)	8,190	4,370
Other borrowings, unsecured	(d)	34,033	43,007
		216,627	192,062

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

(a) Short-term bank borrowings, secured

As at 31 December 2017, the secured bank borrowings of RMB145,404,000 (2016: RMB86,000,000) were secured by pledge of the Group's secured bank deposits of approximately RMB111,081,000 (2016:RMB104,055,000) and the guarantee provided by Mr. Zheng and Xinxin Holding Co., Ltd. ("Xinxin Holding").

(b) Short-term bank borrowings, unsecured

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

	2017 RMB'000	2016 RMB'000
Cross-guarantee by Mr. Zheng and Xinxin Holding	10,000	15,000
Guarantee by Xinxin Holding	15,000	—
Guarantee by third parties	4,000	9,000
	29,000	24,000

In addition, during the year ended 31 December 2016, 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 (equivalent to US$5.0 million) as at 31 December 2016 respectively.

21. OTHER INTEREST-BEARING BORROWINGS – *continued*

(b) Short-term bank borrowings, unsecured – *continued*

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).

(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 was 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 carried an effective interest rate of 3.70% per annum and was fully repaid during the year ended 31 December 2017.

21. OTHER INTEREST-BEARING BORROWINGS – *continued*

(d) Other borrowings, unsecured

As at 31 December 2017 and 2016, the unsecured other borrowings included short-term borrowings entered with independent third parties, which are repayable within one year or on demand.

As at 31 December 2016, the unsecured other borrowing also included debt factoring loan with full recourse from a non-bank financial institution which are repayable within one year (note 16(a)).

(e) Effective interest rates

	Original currency	2017	2016
Short-term bank borrowings, secured	RMB	4.6%	3.9%
Short-term bank borrowings, unsecured	USD	4.6%	2.9%
Short-term bank borrowings, unsecured	RMB	4.8% - 6.0%	4.8% - 5.7%
Other borrowings, secured	RMB	3.7%	3.7%
Other borrowings, unsecured	RMB	4.4% - 8.6%	3.7% - 8.6%

22. DEFERRED TAXATION

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets	**(18,470)**	(6,915)
Deferred tax liabilities	**4,235**	4,982
	(14,235)	(1,933)

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

	2017 RMB'000	2016 RMB'000
At the beginning of the year	**(1,933)**	(2,598)
Recognised in profit or loss (note 7)	**(9,069)**	(2,110)
Effect from changes in tax rates (note 7)	**(3,233)**	2,775
At the end of the year	**(14,235)**	(1,933)

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 2016	5,729
Recognised in profit or loss	(747)
At 31 December 2016 and 1 January 2017	4,982
Recognised in profit or loss	(747)
At 31 December 2017	**4,235**

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22. DEFERRED TAXATION – *continued*

Deferred tax assets

	Tax losses RMB'000	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 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 and 1 January 2017	—	3,839	1,294	1,782	6,915
Attributable to change in tax rate (note 7)	—	1,725	617	891	3,233
Recognised in profit or loss	4,500	3,803	437	(418)	8,322
At 31 December 2017	4,500	9,367	2,348	2,255	18,470

As at 31 December 2017, the Group had unused tax losses of approximately RMB30,108,000 (2016: nil) to carry forward against future taxable income. These tax losses will be expired in 2022.

As at 31 December 2017, no deferred tax liability had been provided for the PRC withholding tax that would be payable on the unremitted earnings of approximately RMB40,185,000 (2016: RMB107,741,000). 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 AND TREASURY SHARES

A summary of the movements in the Company's issued ordinary share capital and treasury shares during the year is as follows:

	Note	Number of shares	Nominal value of shares US$
Authorised:			
Ordinary shares of the Company:			
As at 1 January 2016, at US$0.00001 each		4,887,515,214	48,875
Re-designation and reclassification on 27 June 2016	(ii)	112,484,786	1,125
As at 31 December 2016 and 2017		**5,000,000,000**	**50,000**

	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:				
At 1 January 2016		80,000,000	800	6
Conversion of preferred shares	(i)	74,795,203	748	5
Issuance of shares upon capitalisation issue	(iii)	310,204,797	3,102	21
Issuance of new shares in connection with the listing of the Company's shares	(iv)	155,000,000	1,550	10
At 31 December 2016 and 1 January 2017		620,000,000	6,200	42
Issuance of shares for share award scheme	(v)	12,000,000	120	1
As at 31 December 2017		**632,000,000**	**6,320**	**43**

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23. SHARE CAPITAL AND TREASURY SHARES – *continued*

	Notes	Number of treasury shares	Nominal value of shares US$	Equivalent nominal value of shares RMB'000
Treasury shares of the Company:				
At 1 January 2016, 31 December 2016 and 1 January 2017		—	—	—
Issuance of shares for share award scheme	(v)	12,000,000	120	1
Shares repurchased and not yet cancelled	(vi)	532,000	5	—
As at 31 December 2017		**12,532,000**	**125**	**1**

Notes:

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

Immediately prior to the Listing, all the redeemable and non-redeemable convertible preferred shares were converted into ordinary shares, giving rise to 74,795,203 ordinary shares (before capitalisation issue adjustment). As a result, all the preferred shares were derecognised 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 authorised 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 Company's prospectus dated 15 June 2016 (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.

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23. SHARE CAPITAL AND TREASURY SHARES – *continued*

Notes: – *continued*

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

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

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

(v) Issuance of new shares for share award scheme

During the year ended 31 December 2017, 12,000,000 ordinary shares of US$0.00001 each were issued under the specific mandate granted by the shareholders of the Company at the annual general meeting on 20 March 2017 for the Company's share award scheme. The shares were issued to the trustee of the share award scheme and have been classified as treasury shares of the Company. Details of which were set out in note 26(c) to the consolidated financial statements.

(vi) Repurchase of shares

During the year ended 31 December 2017, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate consideration paid HK$'000	Equivalent aggregate consideration paid RMB'000
December 2017	532,000	0.87	0.79	452	399

As at 31 December 2017, the 532,000 shares repurchased and not yet cancelled were recognised as treasury shares. The treasury shares were subsequently cancelled in January 2018.

24. REDEEMABLE AND NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES

The movement in the redeemable and non-redeemable convertible preferred shares during the year ended 31 December 2016, are as follows.

	Notes	Number of shares	Nominal value of shares US$
Redeemable convertible preferred shares			
– Series A			
As at 1 January 2016, at US$0.00001 each		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 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 2016, at US$0.00001 each		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 2016, at US$0.00001 each		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 2016		–	–
Non-redeemable convertible preferred shares			
– Series A-1			
As at 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		–	–

24. REDEEMABLE AND NON-REDEEMABLE CONVERTIBLE PREFERRED SHARES – *continued*

The movement of the Preferred Shares are set out below:

	Financial liabilities at fair value through profit or loss RMB'000	Non-redeemable convertible preferred shares included in equity RMB'000
At 1 January 2016	607,832	26,235
Changes in fair value recognised in profit or loss	(276,108)	—
Converted into ordinary shares (note 23(i))	(342,239)	(26,235)
Currency translation differences	10,515	—
At 31 December 2016	—	—

Notes:

Prior to the Listing, the Company issued Series A, Series A-1, Series B and Series C redeemable convertible preferred shares and Series A-1 non-redeemable convertible preferred shares (collectively, the "Preferred Shares").

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, resulting a fair value gain of approximately RMB276,108,000 for the year ended 31 December 2016.

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 and any premium paid for the repurchase of shares of the Company.

(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 shareholding 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 different 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 2.20.

(e) Other reserve

Other reserve represents (i) capital contribution from the Company's ultimate holding company by way of transferring shares to the employees and (ii) share based compensation arising from the Share Award Scheme adopted by the Company.

26. SHARE-BASED COMPENSATION TRANSACTIONS

(a) The 2010 Share Option Plan

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

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

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

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

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

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

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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

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

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

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

The Company has adjusted, pursuant to the authority granted to the Board 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.

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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

	2017		2016	
	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**	**46,080,933**	0.94	47,102,284
Forfeited during the year	**1.16**	**(615,814)**	1.16	(1,021,351)
At end of year	**0.94**	**45,465,119**	0.94	46,080,933
Total				
At beginning of year	**1.03**	**77,021,847**	1.03	78,043,198
Forfeited during the year	**1.16**	**(615,814)**	1.16	(1,021,351)
At end of year	**1.03**	**76,406,033**	1.03	77,021,847
Excisable at the end of year	**1.04**	**75,054,246**	1.06	74,318,272

As at 31 December 2017, the Group had 76,406,033 (2016: 77,021,847) share options outstanding under the 2010 Share Option Plan, which represented approximately 12.09% (2016: 12.42%) of the issued ordinary shares of the Company as at 31 December 2017. The exercise in full of the outstanding share options would, under the present capital structure of the Group, result in the issue of 76,406,033 (2016: 77,021,847) additional ordinary shares of the Company and additional share capital and share premium of approximately RMB5,000 (2016: RMB5,000) and RMB513,180,000 (2016: RMB548,837,000) (before issue expenses), respectively.

None of the above share options were exercised during the years ended 31 December 2017 and 2016. The weighted average remaining contractual life of options outstanding at 31 December 2017 was 4.0 years (2016: 5.0 years).

The Group recognised an expense of RMB2,191,000 (2016: RMB13,060,000) for the year ended 31 December 2017 in relation to the 2010 Share Option Plan.

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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

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

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

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

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

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

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

The amount of HK$1.00 is payable as consideration for each grant of options under the 2017 Share Option Scheme, upon acceptance of such grant.

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

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

During the year ended 31 December 2017, 62,000,000 options were granted under the 2017 Share Option Scheme on 24 May 2017 with estimated total fair values of approximately RMB29,510,000.

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

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

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

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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

	2017	
	Average exercise price in HK$ per share option	Number of share options
Directors		
At beginning of year	—	—
Granted during the year	1.33	13,100,000
At end of year	1.33	13,100,000
Employees		
At beginning of year	—	—
Granted during the year	1.33	48,900,000
Forfeited during the year	1.33	(30,000)
At end of year	1.33	48,870,000
Total		
At beginning of year	—	—
Granted during the year	1.33	62,000,000
Forfeited during the year	1.33	(30,000)
At end of year	1.33	61,970,000
Exercisable at the end of year	1.33	25,310,000

As at 31 December 2017, the Group had 61,970,000 share options outstanding under the 2017 Share Option Scheme, which represented approximately 9.81% of the issued ordinary shares of the Company as at 31 December 2017. The exercise in full of the outstanding share options would, under the present capital structure of the Group, result in the issue of 61,970,000 additional ordinary shares of the Company and additional share capital and share premium of approximately RMB5,000 and RMB68,645,000 (before issue expenses), respectively.

Save as the 30,000 options were lapsed, none of the above share options were cancelled, lapsed or exercised during the year. The weighted average remaining contractual life of options outstanding at 31 December 2017 was 9.4 years.

The Group recognised an expense of RMB19,260,000 for the year ended 31 December 2017 in relation to the 2017 Share Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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

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

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

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

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

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

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

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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

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

Pursuant to the resolution passed at the annual general meeting of the Company held on 18 May 2017, 12,000,000 share awards were granted by the Company to the key employees of the Group under the 2017 Share Award Scheme with estimated fair value of approximately RMB14,325,000. The fair value of the awarded shares was determined with reference to the market price of the Company's shares at the grant date. The 12,000,000 awarded shares are subject to a vesting scale in which 40%, 30% and 30% of the awarded shares shall vest on 18 May 2017, 20 March 2018 and 20 March 2019 respectively.

During the year ended 31 December 2017, the Company has issued 12,000,000 new shares to the Trustee for the Share Award Scheme and classified as treasury shares of the Company (note 23(v)). The Group had 12,000,000 share awards outstanding under the Share Award Scheme, which represented approximately 1.90% of the issued ordinary shares of the Company as at 31 December 2017.

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

	2017 Number of share awards
Employees	
At beginning of year	–
Granted during the year	12,000,000
At end of year	**12,000,000**

The Group recognised an expense of RMB10,163,000 for the year ended 31 December 2017 in relation to the 2017 Share Award Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

(d) On 4 January 2017, 15,921,053 and 14,118,669 shares of the Company were transferred from the ultimate holding company of the Company, Wing Success Holdings Limited, to two executive directors of the Company as a recognition of their contributions to the Group. The transfer of shares was accounted for as a share-based compensation transaction by way of capital contribution from shareholder. The fair value of the shares amounting to approximately RMB31,235,000 were recognised to profit or loss for the year ended 31 December 2017.

(e) The Group recognised a total expense of RMB62,849,000 (2016: RMB13,060,000) for the year ended 31 December 2017 in relation to the above share options and share awards. The share-based compensation expense was shown as a separate item on the face of the consolidated statement of comprehensive income.

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 RMB'000	2016 RMB'000
Non-current assets		
Interests in subsidiaries	**493,285**	493,390
Available-for-sales financial assets	**–**	3,697
	493,285	497,087
Current assets		
Other receivables	**23,906**	24,597
Amount due from a subsidiary	**43,775**	23,513
Pledged bank deposits	**111,081**	104,055
Bank balances	**12,926**	56,449
	191,688	208,614
Current liabilities		
Other payables	**3,209**	4,098
Net current assets	**188,479**	204,516
Net assets	**681,764**	701,603
EQUITY		
Share capital – Ordinary shares	**43**	42
Reserves (note)	**681,721**	701,561
Total equity	**681,764**	701,603

Zheng Fushuang
Director

Liu Baodong
Director

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

Note:

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

	Treasury shares RMB'000	Share premium RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Other reserve RMB'000	Accumulated (losses)/ profits RMB'000	Total reserves RMB'000
As at 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 and 1 January 2017	–	588,902	34,286	34,527	–	43,846	701,561
Loss for the year	–	–	–	–	–	(40,899)	(40,899)
Currency translation differences	–	–	(39,590)	–	–	–	(39,590)
Share-based compensation (note 26)	–	–	–	19,651	41,398	–	61,049
Transfer upon forfeiture of share options	–	–	–	(136)	–	136	–
Share repurchased and not yet cancelled (note 23(vi))	–	(399)	–	–	–	–	(399)
Issue of shares of share award scheme (note 23(v))	(1)	–	–	–	–	–	(1)
As at 31 December 2017	**(1)**	**588,503**	**(5,304)**	**54,042**	**41,398**	**3,083**	**681,721**

As at 31 December 2017, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB591,586,000 (2016: RMB632,748,000).

28. DEEMED DISPOSAL OF A SUBSIDIARY

In November 2017, the Group has terminated the act in concert agreement with another investor of Beijing Meicam of which the investor no longer be required to vote in the same way as the Group, resulting in a loss in control over Beijing Meicam. Accordingly, the fair value of the retained interest in Beijing Meicam, which was determined by discounted cash flow approach, was reclassified as interest in a joint venture (note 14).

	RMB'000
Fair value of retained interest	16,000

	RMB'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	110
Trade and other receivables	2,833
Bank balances and cash	673
Trade and other payables	(25,037)
Net liabilities disposed of	(21,421)
Deemed gain on disposal of a subsidiary:	
Fair value of retained interest	16,000
Non-controlling interests	(11,653)
Net liabilities disposed of	21,421
	25,768
Net cash inflow arising on deemed disposal:	
Bank balances and cash disposed of	673

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:

	2017 RMB'000	2016 RMB'000
Within one year	7,601	8,111
In the second to fifth year inclusive	–	923
	7,601	9,034

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a) Reconciliation of liabilities arising from financing activities

The table below set out the reconciliation of liabilities arising from financing activities for the year ended 31 December 2017.

	Bank borrowings RMB'000	Other borrowings RMB'000	Interest payables RMB'000	Amounts due to related parties RMB'000	Total RMB'000
At 1 January 2017	144,685	47,377	443	475	192,980
Changes from financing cash flows:					
Financing cash inflow	174,404	9,000	—	4,925	188,329
Financing cash outflow	(144,685)	(57,746)	—	(1,229)	(203,660)
Interest accrued	—	—	9,436	—	9,436
Interest paid	—	—	(9,879)	—	(9,879)
Other non-cash changes	—	43,592	—	—	43,592
At 31 December 2017	174,404	42,223	—	4,171	220,798

b) Major non-cash transactions

During the year ended 31 December 2017, addition of property, plant and equipment of nil (2016: RMB1,233,000) was transferred from inventories of the Group.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group's accounting policies on related parties are disclosed in note 2.24. 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
China Digital video Cloud (Beijing) Technology Co., Ltd. ("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 Group Co. Ltd. 北京新奥特集團有限公司, previously known as Xin'aote Silicon Valley Video Technology Co., Ltd. 新奥特硅谷視頻技術有限責任公司 ("Xin'aote Group")	Controlled by Mr. Zheng

31. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

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

		2017 RMB'000	2016 RMB'000
Xinxin Holding	Rental expenses and property management fee*	**12,093**	12,196
Xin'aote Group	Rental expenses and property management fee*	**–**	762
Xin'aote Group	Sales of goods and provision of service*	**3,137**	7,818
CDV Cloud	Sales of goods and provision of service	**821**	8,530
CDV Cloud	Purchase of services	**–**	94
CDV Cloud	Purchase of intangible assets	**1,338**	943
Xin'aote Cloud	Purchase of property, plant and equipment	**–**	291

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.

(c) Guarantee provided by related parties

As at 31 December 2017, Mr. Zheng and Xinxin Holding have provided guarantees in respect of total bank borrowing of RMB25,000,000 (2016: RMB15,000,000) granted to the Group.

(d) Trade and other receivables from related parties

	2017 RMB'000	2016 RMB'000
Trade receivables		
Xin' aote Group	**7,214**	10,180
CDV Cloud	**1,316**	2,789
	8,530	12,969
Other receivables		
Xinxin Holding	**3,074**	3,893
CDV Cloud	**–**	652
	3,074	4,545
	11,604	17,514

31. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(d) Trade and other receivables from related parties – *continued*

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:

	2017 RMB'000	2016 RMB'000
Xinxin Holding	**3,893**	7,552
Xin'aote Group	**10,180**	10,190
CDV Cloud	**3,441**	3,441

(e) Other payables to related parties

	2017 RMB'000	2016 RMB'000
Xin'aote Group	**4,053**	475
CDV Cloud	**118**	—
	4,171	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:

	2017 RMB'000	2016 RMB'000
Basic salaries and allowances	**5,336**	5,341
Discretionary bonus	**89**	282
Retirement benefit scheme contributions	**372**	294
Share-based compensation expense	**4,826**	13,060
	10,623	18,977

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.

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables		
Trade and other receivables	513,569	527,697
Structured deposits	–	215,000
Restricted bank deposits	13,507	8,014
Pledged bank deposits	111,081	104,055
Bank balances and cash	298,344	96,605
Available-for-sale financial assets	15,000	66,697
	951,501	1,018,068
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	236,990	193,715
Other interest-bearing borrowings	216,627	192,062
	453,617	385,777

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, 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 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 lower/higher and RMB1,726,000 lower/higher respectively for the year ended 31 December 2016.

As at 31 December 2017, the Group has short-term bank borrowings and bank balances denominated in USD of RMB32,442,000 and RMB151,000 respectively. If RMB had strengthened/weakened by 5% against USD with all other variables held constant, the loss after income tax and retained earnings would have been approximately RMB1,615,000 higher/lower and RMB1,615,000 lower/higher respectively for the year ended 31 December 2017.

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 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased the Group's loss after income tax and increased the Group's retained earnings by approximately RMB2,635,000 respectively. 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.

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. As at 31 December 2016, 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. The Group is not exposed to price risk as at 31 December 2017.

(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 2017. 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 2017				
Trade and other payables	**236,990**	**—**	**236,990**	**236,990**
Other interest-bearing borrowings	**221,512**	**—**	**221,512**	**216,627**
	458,502	**—**	**458,502**	**453,617**
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

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 measured at fair value in the consolidated statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets. 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 is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

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

	Level 2	
	2017	2016
	RMB'000	RMB'000
Financial assets		
Available-for-sale financial assets		
– Unlisted trust funds	**–**	63,000

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.

For the years ended 31 December 2017 and 2016, 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.

FIVE-YEAR FINANCIAL SUMMARY

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

RMB'000	For the year ended 31 December				
	2017	2016	2015	2014	2013
Revenue	**398,307**	651,976	605,983	406,369	502,964
(Loss)/Profit for the year	**(92,593)**	333,262	114,114	(69,400)	(12,190)
Total comprehensive income for the year	**(107,601)**	332,874	79,282	(71,014)	1,782
(Loss)/Profit for the year attributable to:					
Equity holders of the Company	**(90,339)**	338,706	120,219	(66,582)	(12,190)
Non-controlling interests	**(2,254)**	(5,444)	(6,105)	(2,818)	—

RMB'000	As at 31 December				
	2017	2016	2015	2014	2013
Total assets	**1,310,392**	1,295,240	804,709	713,036	748,261
Total liabilities	**554,902**	510,487	928,593	925,005	890,102
Net assets/(liabilities)	**751,255**	784,753	(123,884)	(211,969)	(141,841)