CHINA DIGITAL VIDEO HOLDINGS LIMITED
中國數字視頻控股有限公司

(incorporated in the Cayman Islands with limited liability)
Stock code: 8280

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FORWARD LOOKING

ANNUAL REPORT
2018

CHARACTERISTICS OF "GEM" OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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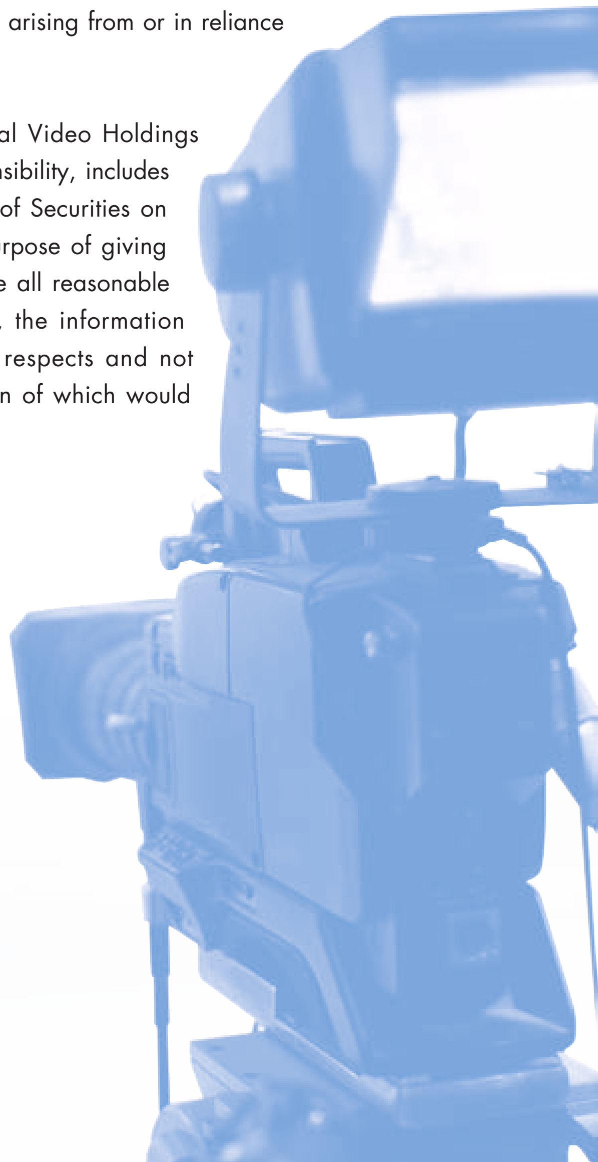
This report, for which the directors (the "**Directors**") of China Digital Video Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange (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 and Chief Executive Officer)*
Mr. LIU Baodong
Mr. XU Da

Independent Non-executive Directors

Dr. LI Wanshou
Mr. Frank CHRISTIAENS
Ms. CAO Qian

JOINT COMPANY SECRETARIES

Mr. QIAN Yiyue
Mr. AU Wai Keung

AUTHORISED REPRESENTATIVES

Mr. QIAN Yiyue
Mr. AU Wai Keung

COMPLIANCE OFFICER

Mr. LIU Baodong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPLIANCE ADVISER

TC Capital International Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 606-607
6/F, China Merchants Building
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

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

CORPORATE INFORMATION

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 annual 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 2018 (the "**2018 Annual Period**").

OVERVIEW

Business Review

During the 2018 Annual Period, we recorded revenue of approximately RMB341.0 million, which represents a decrease of 14.4% over the revenue of RMB398.3 million for the year ended 31 December 2017 (the "**2017 Annual Period**"). We recorded a loss of RMB168.8 million for the 2018 Annual Period as compared to a loss of RMB92.6 million for the 2017 Annual Period.

Future Prospects

As the leading digital video technology solution and service company in the TV broadcasting in China, we will actively adapt to the market development and technological progress. We plan to continue to develop and invest in innovative products and businesses by leveraging our core digital video technology. We will continuously consolidate and expand existing technology, market and brand advantage and endeavor to optimize and improve the efficiency of existing products and reduce costs. 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 2019, 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

22 March 2019

FINANCIAL HIGHLIGHTS

Our revenue decreased by 14.4% to RMB341.0 million for the 2018 Annual Period from RMB398.3million for the 2017 Annual Period.

We recorded a loss of RMB168.8 million for the 2018 Annual Period as compared to the loss of RMB92.6 million for the 2017 Annual Period.

Our Directors do not recommend the payment of dividend for the 2018 Annual Period (2017: 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, to effectively assist and enhance digital video technology content in the upgrade and management works 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 research and development is particularly critical for us because of our focus on the solutions and services business, where the customers demand customized services. Our solutions, services and products businesses facilitate the processing, enhancement and management of digital video content at the post-production stage between the ingestion of raw content and the output of finished content.

We have established business relationship with most of the central- and provincial-level TV stations in China and with some of the provincial-level TV broadcasters in China for over 22 years. We have also served alternative broadcasting platforms, such as cable networks operators, Internet media content providers and IPTV operators. During the 2018 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).

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

FINANCIAL REVIEW

We recorded a revenue of RMB341.0 million for the 2018 Annual Period, representing a decrease of 14.4% from RMB398.3 million for the 2017 Annual Period. We recorded a loss of RMB168.8 million in the 2018 Annual Period as compared to a loss of RMB92.6 million in the 2017 Annual Period.

The increase in loss we recorded for the 2018 Annual Period as compared to that of the 2017 Annual Period was mainly due to (i) the significant increase in net impairment loss on trade and other receivables and contract assets for the 2018 Annual Period than that of the 2017 Annual Period and (ii) the provision of impairment on goodwill of RMB56.7 million for the 2018 Annual Period in relation to our acquisition of digital broadcasting business in 2013 as compared to nil for the 2017 Annual Period. The impairment loss on goodwill was not applicable for the 2017 Annual Period and was mainly due to the underperformance of our digital broadcasting business.

ANALYSIS ON ANNUAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME ITEMS

Revenue

We derived revenue primarily from (i) sale of solutions, (ii) provision of services and (iii) sale of products.

Our revenue decreased by 14.4% to RMB341.0 million for the 2018 Annual Period from RMB398.3 million for the 2017 Annual Period. The decrease was mainly attributable to the overall declining market condition as the traditional TV broadcasting industry faces intense competition from the internet and we experienced significant decrease in revenue from the sale of solutions during the 2018 Annual Period.

Cost of Sales

Our cost of sales decreased by 23.4% to RMB261.3 million for the 2018 Annual Period from RMB341.1 million for the 2017 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 increased by 39.3% to RMB79.7 million for the 2018 Annual Period from RMB57.2 million for the 2017 Annual Period primarily due to the improvement in the gross profit margin of certain of our contracts. As a result, our gross profit margin increased to 23.4% for the 2018 Annual Period from 14.4% for the 2017 Annual Period because we undertook certain projects with relatively low profit margin during the 2017 Annual Period while we did not take such projects during the 2018 Annual Period.

Other Income

Our other income decreased by 60.5% to RMB33.0 million for the 2018 Annual Period from RMB83.4 million for the 2017 Annual Period. The relatively higher other income recorded in the 2017 Annual Period was mainly because during the 2017 Annual Period, the Group lost control over Beijing Meicam Network Technology Co., Ltd (北京美攝網絡科技有限公司) ("**Beijing Meicam**") and disposed of its entire interests in Beijing Hermit Culture & Media Co., Ltd (北京海米文化傳媒有限公司), which resulted in a gain on deemed disposal of a subsidiary of RMB25.8 million and gain on disposal of a joint venture of RMB20.0 million.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 5.3% to RMB66.6 million for the 2018 Annual Period as compared to RMB70.3 million for 2017 Annual Period, primarily due to the increase in sales and marketing staff cost.

Administrative Expenses

Our administrative expenses decreased by 3.6% to RMB41.5 million for the 2018 Annual Period as compared to RMB43.1 million for the 2017 Annual Period, primarily due to the decrease in administrative staff cost.

Share-Based Compensation Expense

Our share-based compensation expense decreased by 82.0% to RMB11.3 million for the 2018 Annual Period from RMB62.8 million for the 2017 Annual Period. The relatively higher share-based compensation expense recorded for the 2017 Annual Period was mainly due to the expenses related to (i) the shares awarded to our then Directors, (ii) the share awards granted under the share award scheme of the Company adopted in 2017 and (iii) the share options granted under the share option scheme of the Company adopted in 2017 during the 2017 Annual Period.

Research and Development Expenses

Our research and development expenses decreased by 7.5% to RMB28.6 million for the 2018 Annual Period from RMB31.0 million for the 2017 Annual Period, primarily due to the decrease in staff costs.

Finance Costs

Our finance costs increased by 29.7% to RMB12.2 million for the 2018 Annual Period from RMB9.4 million for the 2017 Annual Period, primarily due to the increase in interest expenses as the Group was granted new short-term loans during the 2018 Annual Period.

Net Impairment Loss on Trade and Other Receivables and Contract Assets

Our net impairment loss on trade and other receivables and contract assets increased to RMB57.0 million for the 2018 Annual Period from RMB29.1 million for the 2017 Annual Period. The increase was primarily due to the expected increase in credit loss on our customers, based on our operating track record, the current market condition and the outlook in the future.

Impairment Loss on Goodwill

We provided approximately RMB56.7 million as impairment on goodwill in relation to our acquisition of digital broadcasting business in 2013. Such impairment loss is primarily attributable to the underperformance of our digital broadcasting business. We did not record such impairment loss in the 2017 Annual Period.

Loss before Income Tax

As a result of the foregoing factors, we recorded a loss before income tax of RMB160.0 million and RMB104.9 million for the 2018 Annual Period and 2017 Annual Period, respectively.

Income Tax Expense/Credit

We recorded an income tax expense of RMB8.8 million for the 2018 Annual Period as compared to an income credit of RMB12.3 million for the 2017 Annual Period. The increase in income tax expense was mainly due to the change in deferred income tax asset.

Loss for the Year

As a result of the foregoing factors, we recorded a loss of RMB168.8 million the 2018 Annual Period as compared to the loss of RMB92.6 million for the 2017 Annual Period.

Other Comprehensive Income/Loss

We recorded other comprehensive income of RMB10.3 million for the 2018 Annual Period as compared to other comprehensive loss of RMB15.0 million for the 2017 Annual Period, primarily due to the exchange rate differences arising from the translation of foreign operation as a result of Renminbi's appreciation against U.S. dollars during 2018 as compared to 2017.

Loss attributable to Equity Holders and Non-controlling Interests

We had loss attributable to equity holders and non-controlling interests of RMB168.8 million for the 2018 Annual Period as compared to RMB92.6 million for the 2017 Annual Period. The 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 2018, our non-current assets amounted to RMB218.7 million (as compared to RMB271.9 million as at 31 December 2017), primarily consisting of intangible assets of RMB161.8 million (as compared to RMB144.0 million as at 31 December 2017), goodwill of RMB17.5 million (as compared to RMB74.2 million as at 31 December 2017) and interests in associates of RMB16.6 million (as compared to nil as at 31 December 2017). Our intangible assets mainly represent all direct costs incurred in the development of software products. Our goodwill represents the carrying amount of goodwill arose from the acquisition of the digital broadcasting business in 2013. Our interests in associates represents our interests in Beijing Yue Ying Technology Co., Ltd 北京悦影科技有限公司 ("**Beijing Yueying**") and Beijing Meicam. Beijing Meicam was previously classified as our joint venture as at 31 December 2017. During the 2018 Annual Period, our Group's interest in Beijing Meicam was diluted and our interests in Beijing Meicam was reclassified as an associate.

Current Assets

As at 31 December 2018, our current assets amounted to RMB946.6 million (as compared to RMB1,038.5 million as at 31 December 2017), primarily consisting of trade and other receivables of RMB566.9 million (as compared to RMB582.9 million as at 31 December 2017), bank balances and cash of RMB137.4 million (as compared to RMB298.3 million as at 31 December 2017) and pledged bank deposits of RMB118.7 million (as compared to RMB111.1 million as at 31 December 2017).

Current Liabilities

As at 31 December 2018, our current liabilities amounted to RMB568.1 million (as compared to RMB554.9 million as at 31 December 2017), primarily consisting of trade and other payables of RMB348.3 million (as compared to RMB330.5 million as at 31 December 2017), other interest-bearing borrowings of RMB203.0 million (as compared to RMB216.6 million as at 31 December 2017) and contract liabilities of RMB12.2 million as compared to nil as at 31 December 2017. Contract liabilities of our Group mainly arose from the advance payments made by customers while the underlying products or services were yet to be provided. Upon the adoption of IFRS 15 in 2018, amounts previously included as "Advances from customers" under "Trade and other payables" were reclassified as contract liabilities.

Non-current Liabilities

As at 31 December 2018, our non-current liabilities, consisting of deferred tax liabilities only, amounted to RMB3.5 million (as compared to RMB4.2million as at 31 December 2017).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, the current assets of the Group amounted to RMB946.6 million, including RMB566.9 million in trade and other receivables and RMB137.4 million in bank balances and cash. Current liabilities of the Group amounted to RMB568.1 million, of which RMB348.3 million were trade payables and RMB203.0 million were interest-bearing bank and other interest bearing borrowings. As at 31 December 2018, the interest-bearing bank and other borrowings 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 2018 are repayable within one year.

The gearing ratio of the Group (calculated as total borrowings divided by total equity) was 34.2% as at 31 December 2018 (2017: 28.8%).

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

COMMITMENTS

As at 31 December 2018, we had operating lease commitments in respect of rented office and various residential properties of approximately RMB9.0 million (2017: RMB7.6 million).

MATERIAL ACQUISITIONS AND DISPOSAL

We had no material acquisitions and disposal of subsidiaries and affiliated companies during the 2018 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 the Company's or our subsidiaries' functional currency. As at 31 December 2018, we did not have significant foreign currency risk from our operations. During the 2018 Annual Period, we did not enter into any arrangements to hedge against any fluctuation in foreign currency.

CHARGE ON ASSETS

As at 31 December 2018, we had restricted and pledged deposit of RMB125.3 million (2017: RMB124.6 million) held in banks for the purpose of contract related deposits or payments, guarantees issued for trade finance facilities and security of bank borrowings.

SIGNIFICANT INVESTMENT

As at 31 December 2018, the Group did not have any significant investment.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

Business Objectives	Actual Progress
• gain market share by offering solutions based on latest industry trends and expanding customer base	The customer base of our solutions services experienced a gradual expansion in 2018.
• create recurring and high margin revenue streams by further strengthening and developing our service business	We continue to explore new performance drivers. No significant high margin revenue stream business has been identified in 2018.
• further develop and invest in innovative products and businesses	We have launched several new products in 2018.
• selectively pursue strategic investments and acquisitions	We are still observing and have not identified a suitable target yet.
• offer comprehensive cloud-based solutions to a larger customer base including individual consumers	Expansion of the customer base requires modification to the core of our existing business operation model and such modification required longer time than expected.
• transition the existing multi-camera recording and editing service into a one-stop service for the production of live entertainment TV programs	We are in a process of transitioning the existing multi-camera recording and editing service into a one-stop service for the production of live entertainment TV programs.
• increase spending to promote the internally developed research and development ("**R&D**") projects and prepare for eventual spinoffs	The schedule has been deferred as we did not identify suitable candidates.
• conduct market research and due diligence on potential investment or acquisition targets overseas	We have been identifying the potential investment targets.

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. The Group did not change its plan on the use of proceeds as stated in the Prospectus.

As of 31 December 2018, the net proceeds were applied as follows:

	Application of funds as of 31 December 2018 as a percentage to total amount of the net proceeds
Business expansion and development	29%
Potential strategic investment and acquisition	12.7%
Enhancing the R&D capabilities and upgrading the information technology systems	10%
Repayment of certain existing bank borrowings	10%
Promotion and marketing	3%
General working capital	10%
Total:	74.7%

The business objective, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry. If the digital video technology solution and services industry in China fails to grow as expected, our future growth and results of operations would be materially and adversely affected. If our new products fails to generate and increase its revenue at the expected level and pace, our overall growth and profitability would be adversely affected.

HUMAN RESOURCES

As at 31 December 2018, we had 801 full-time employees and 47 dispatched workers (2017: 976 full-time employees and 42 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the 2018 Annual Period and 2017 Annual Period, the remuneration expense, including both capitalized and expensed but excluding share-based compensation expense, were approximately RMB165.9 million and RMB178.6 million, respectively. In general, employees' salaries are determined based on individual performance, qualification, position and seniority. We place strong emphasis on recruiting skilled personnel. We typically recruit talents from universities and technical schools and conduct annual reviews to assess the employees' performance and determine their salary, bonus and promotion. We also place a strong emphasis on providing training to its employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards.

CONTINGENT LIABILITIES

As at 31 December 2018, we did not have any material contingent liabilities (2017: nil). We are currently not involved in any material legal proceedings, nor are we aware of 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 53, is the founder of the Group. He is the chairman of the Board, the chief executive officer of the Group 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 the Group. Mr. Zheng was appointed to the 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 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. Liu Baodong (劉保東), aged 55, is the president of the Group and an executive Director. He is primarily responsible for the overall management and operation of the Group. Mr. Liu was appointed to the 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 the 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.

Mr. Xu Da (徐達), aged 55, is an executive Director. He is primarily responsible for the overall management and operation of the Group. Mr. Xu was appointed to the Board on 14 June 2017.

Mr. Xu has extensive professional and senior managerial experiences in the fields of communication industry. Prior to joining the 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 2017. 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's degree in Electronic Engineering and obtained his executive master' degree of business administration 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

Dr. Li Wanshou, aged 55, is an independent non-executive Director of the Company. He was appointed to the Board on 28 June 2018. He is a member of the audit committee, the remuneration committee and the nomination committee of the Company.

Dr. Li is currently the founder and chairman of the board of Synergetic Innovation Fund Management Co., Limited (協同創新基金管理有限公司). Dr. Li has over 18 years' experience in the venture capital industry. He was the former president of the Shenzhen Capital Group Co., Limited (深圳市創新投資集團有限公司) Dr. Li obtained his doctoral degree in economics from the Chinese Academy of Social Sciences Graduate School (中國社會科學院研究生院) and another doctoral degree in management from Xi'an Jiaotong University (西安交通大學). He also obtained a master degree in sociology from Sun Yat-Sen University (中山大學) and a bachelor degree in philosophy from Wuhan University (武漢大學). Dr. Li obtained a number of honors and awards including "Outstanding Achievement Award" issued by the National Development and Reform Commission, 2009-2011 China's top ten venture capitalists issued by Zero2IPO Partners, the Forbes China best venture capitalists, and "the venture capitalists most deserved to be presented to the whole world" jointly issued by the Russian global partner BBS and the National Development and Reform Commission. Dr. Li also serves as the honorary president of Chinese Equity Investors Alliance, the vice director of Huaxia New Supply-side Economics Research Institute, the vice director of China Centre for Promotion of SME Development, the vice director of China Overseas-Educated Scholars Development Foundation, the director of the Equity Investment Center of Sun Yat-Sen University and the Enterprise Tutor of Newhuadu Business School. Dr. Li is also a visiting professor of each of the Chinese Academy of Social Sciences Graduate School, the graduate school of Tsinghua University and the graduate school of Wuhan University. Dr. Li has served as an independent director of Inner Mongolia North Hauler Joint Stock Co., Limited which is listed on the Shanghai Stock Exchange (stock code: 600262) since 2017.

Saved as disclosed above, Dr. Li did not hold any directorships in any public listed companies in the last three years.

Mr. Frank Christiaens, aged 52, is an independent non-executive Director of the Company. He was appointed to the Board on 28 January 2011. He is the chairman of remuneration committee, and a member of the audit committee of the Company.

Mr. Christiaens is currently the chief executive officer, 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.

Ms. Cao Qian (曹茜), aged 55, is an independent non-executive Director of the Company. She was appointed to the Board 23 May 2017. She is the chairlady of the audit committee and a member of nomination committee.

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

Ms. Cao graduated from the Central University of Finance & Economics (中央財經大學) with a bachelor's degree in finance and revenue in July 1986, and received an executive master' degree of business administration 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 2017.

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 and none of the Directors is involved in the events mentioned in Rule 17.50(2) of the GEM Listing Rules.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Zheng Fushuang (鄭福雙), aged 53, is the founder of the Group. He is the chairman of the 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 55, is the chief executive officer of the 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 50, is the vice president and chief technology officer of the 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 the Group, Mr. Sun was a deputy general manager of Xin'aote Video, the predecessor company of the 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.

Mr. Qian Yiyue (錢褘玥), aged 40, is a joint company secretary of the Company. He was appointed as the Joint Company Secretary on 21 August 2015. For position with other members of the 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 the 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 40, is a joint company secretary of the 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 47, is a joint company secretary of the 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 a fellow 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 2018. 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.

INTRODUCTION

We are committed to achieving and maintaining high standards of corporate governance, as the 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, except for the code provision A.2.1 of the Code, the Company has complied with the Code from 1 January 2018 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 as at the date of this Corporate Governance Report is set out as follows:

Executive Directors

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

Independent non-executive Directors

Dr. LI Wanshou *(appointed on 28 June 2018)*
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 15 to 20 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 of directors and the chief executive officer of a Company 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.

Mr. ZHENG Fushuang ("**Mr. Zheng**") was appointed as the chief executive officer of the Company (the "**Chief Executive Officer**") with effect from 3 April 2018 and Mr. Zheng now serves as both of the Chairman and the Chief Executive Officer. Such practice deviates from code provision A.2.1 of the Corporate Governance Code. The Board believes that vesting the roles of both the Chairman and the Chief Executive Officer in the same person can facilitate the execution of the Group's business strategies and boost effectiveness of its operation. The Board is comprised of three executive Directors and three independent non-executive Directors, which is appropriately structured to ensure that there is a balance of power to provide sufficient checks to protect the interests of the Company and its shareholders. Therefore, the Board considers that the deviation from the code provision A.2.1 of the Corporate Governance Code is appropriate in such circumstance. Saved as disclosed above, in the opinion of the Directors, the Company has complied with all the code provisions set out in the Corporate Governance Code from 1 January 2018 up to the date of this annual report.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of Mr. Zheng, Mr. LIU Baodong and Mr. Frank CHRISTIAENS has entered into a service contract with the Company for a period of three years commenced from 27 June 2016, which may be terminated by not less than three months' notice in writing served by either party on the other. Ms. CAO Qian has entered into a service contract with the Company for a period of three years commenced from 27 June 2016, which may be terminated by not less than one month's notice in writing served by either party on the other. Mr. XU Da has entered into a service contract with the Company for a period of three years commenced from 14 June 2017, which may be terminated by not less than three months' notice in writing served by either party on the other. Dr. LI Wanshou has entered into a service contract with the Company for a period of three years commenced from 28 June 2018.

In accordance with the Company's articles of association, Mr. Zheng, Dr. LI Wanshou and Mr. Frank CHRISTIAENS shall retire from office by rotation at the 2019 annual general meeting and, being eligible, offer themselves for re-election.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE 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 2018 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. XU Da, Dr. Li Wanshou, Mr. Frank CHRISTIAENS 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 2018 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 "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**") and the audit committee (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 annual 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 Dr. LI Wanshou, our independent non-executive Director and Mr. LIU Baodong, 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 2018 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 Dr. LI Wanshou 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.

The Nomination Committee shall assess whether any vacancy on the Board has been created or is expected on a regular basis or as required. In the selection and nomination for new Directors, the Nomination Committee identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. The Nomination Committee utilizes various methods for identifying potential candidates, including recommendations from the members of the Board, management, and professional search firms. All potential candidates are evaluated by the Nomination Committee based on their qualifications. The potential candidates will go through a shortlisting process. Interviews are then set up with the shortlisted candidates for the Nomination Committee to assess them before a decision is made. New Directors are appointed by way of a board resolution, after the Nomination Committee has approved their nominations.

During the 2018 Annual Period, the Nomination Committee reviewed the policy and procedure for the nomination and appointment of new Directors, reviewed the Board's nomination policy and diversity policy and the measurable objectives that the Board has set for implementing such policy and assessed the independence of the Independent non-executive Directors.

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 Dr. LI Wanshou 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 2018 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 2018 Annual Period comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

ATTENDANCE RECORDS OF MEETINGS

In 2018, the Board held 6 meetings at which the operating results of the Company were considered and discussed.

Members	Meetings attended/meetings held since 1 January 2018				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	2018 Annual General Meeting and Extraordinary General Meeting
Executive Directors					
Mr. ZHENG Fushuang	6/6	–	–	1/1	1/2
Mr. GUO Langhua *(retired on 28 June 2018)*	2/2	–	1/1	–	1/1
Mr. LIU Baodong	5/6	–	–	–	2/2
Mr. XU Da	5/6	–	–	–	0/2
Independent non-executive Directors					
Mr. ZHANG Yaqin *(retired on 28 June 2018)*	0/2	0/2	0/1	0/1	0/1
Dr. Li Wanshou *(appointed on 28 June 2018)*	4/4	2/2	–	–	0/1
Mr. Frank CHRISTIAENS	6/6	3/3	1/1	–	1/2
Ms. CAO Qian	5/6	2/3	–	1/1	1/2

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 2018 Annual Period, the annual remuneration of the members of the senior management is set out below:

	Number of individuals	
	2018	2017
Nil - HK$1,000,000	**2**	4
HK$1,000,001 - HK$1,500,000	**–**	1
HK$1,500,001 - HK$2,000,000	**1**	1
HK$2,000,001 - HK$2,500,000	**1**	1
HK$2,500,001 - HK$3,000,000	**–**	2

JOINT COMPANY SECRETARIES

The joint company secretaries of the Company (the "**Joint Company Secretaries**") are Mr. QIAN Yiyue ("**Mr. Qian**") and Mr. AU Wai Keung ("**Mr. Au**"). 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 2018 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 2018 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 2018 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	930,000
Non-audit services	190,000

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 2018 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 2018 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

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 Environmental, Social and Governance ("**ESG**") Report ("**ESG Report**") of the Company outlines the 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 GEM Listing Rules. This ESG Report covers the ESG impacts, policies and initiatives for the period from 1 January 2018 to 31 December 2018 (the "**Reporting Period**").

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.

2. HUMAN CAPITAL – *continued*

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. The Group did not identify any incidents that have a significant impact to the Group relating to the use of child or forced labour.

2. HUMAN CAPITAL – *continued*

a. Working Conditions

The Company strives to provide a harmonious, fair and equitable working environment that is conducive to the development and well-being of its employees and where all employees will be treated equally and no discrimination or harassment in workplace will be tolerated. 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 based on the employee's sex, age, marriage status, race, religious belief or other factors irrelevant to the job. Fair and structured recruitment guidelines are also in place for talent acquisition. In general, employees' salaries are determined based on individual performance, qualification, position and seniority.

Total Workforce by Age Group and Employment Type

	Workforce by Age Group and Employment Type		
	Below 30	30 – 50	Over 50
Full-time	236	531	34
Part-time	19	3	4

Employment Turnover Rate by Age Group

	Turnover Rate by Age Group (Both Full & Part-Time)		
	Below 30	30 – 50	Over 50
Turnover Rate	35%	27%	19%

With the aim of boosting employee morale as well as enhancing their sense of belonging, we held a 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 and Training

The professional skills and capabilities of the Company’s employees are vital to its long-term success. Customised training programmes were 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.

Percentage of Employees Trained by Employee Category

General Staffs	74%
Middle Managers	45%
Senior Managers	26%

2. HUMAN CAPITAL – *continued*

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 Period, 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 sets out the details of anti-corruption rules which the employees must strictly adhere to. Acceptance of any form of benefits from suppliers by staff members is strictly forbidden. During the Reporting Period, 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 daily business of the Group does not have significant adverse effects on the environment or natural resources. As a service provider, we did not use any packaging material for finished products during the Reporting Year.

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.

3. ENVIRONMENTAL PROTECTION – *continued*

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

a. Emissions and 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.

The total electricity consumption by the Group was 840,000 kWh during the Reporting Period.

Scope	**Details**	**Kilograms of CO2-e**
1: Direct Emission	Company-owned car	26,730
2: Energy Indirect Emissions	Electricity consumed	663,600
Total:		690,330

b. Waste Management

The main non-hazardous waste generated by the Group during the Reporting Period was domestic waste and paper waste. 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 to make 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.

c. Water Management

Our water consumption during the Reporting Period was mainly water used in the offices.

The Group conducts checks and maintenance on water pipes to avoid any water leakage or other issues in the water supply system on a regular basis.

During the Reporting Period, the Group did not experience any issue in sourcing water.

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 has dedicated staff who monitor and control quality, time and cost to 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 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 Period, 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 maintains close communication with our existing and potential customers. 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.

4. VALUE CHAIN – *continued*

b. Relationship with Suppliers

The Group has maintained restrict control over the quality offered by the suppliers or vendors. The Group evaluates the performance of its major suppliers or vendors 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 Period, 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 2018 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 14 of this annual report. These discussions form part of this directors' report.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual 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 2018 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 2018 Annual Period (2017: nil).

POLICY ON PAYMENT OF DIVIDENDS

The Company has adopted a policy on payment of dividends (the "**Dividend Policy**"), which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company. The Company will declare and/or recommend the payment of dividends to the Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its operational results, cash flow situation, financial conditions, general business conditions and strategies.

The Board has complete discretion on whether to pay a dividend, subject to the Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors affecting the Group. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

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

During the 2018 Annual Period, the Company repurchased a total of 1,136,000 ordinary shares of the Company on the Stock Exchange. As at 31 December 2018, all of such repurchased shares were cancelled. The details of the repurchases were disclosed as follows:

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

* *Excluding brokerage and cancellation 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 2018 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 2018, the Company has reserves available for distribution to the shareholders amounted to RMB354,338,000 (2017: RMB591,586,000) 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 2018 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	8.4%
– five largest suppliers in aggregate	25.2%

Sales	
– the largest customer	7.8%
– five largest customers in aggregate	22.3%

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 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**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 shareholder	Capacity	Number of shares or underlying shares	Approximate percentage of interest in the Company
Mr. Zheng Fushuang	Founder of a discretionary trust [1]	214,278,278	33.99%
Mr. Liu Baodong	Beneficial owner [2]	31,237,338	4.96%
Mr. Xu Da	Beneficial owner [3]	6,200,000	0.98%
Mr. Frank Christiaens	Beneficial owner [4]	750,596	0.12%
Ms. Cao Qian	Beneficial owner [3]	300,000	0.05%

Notes:

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, which in turn holds the entire issued share capital of Wing Success Holdings Limited, the controlling shareholder of the Company. Therefore, Mr. Zheng Fushuang is deemed to be interested in the Shares held by Wing Success Holdings Limited.

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

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

4. Among the 750,596 shares, 450,594 shares are interests in options granted pursuant to the Pre-IPO Share Option Scheme and 300,000 shares are interests in options granted pursuant to the Share Option Scheme.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange.

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

As at 31 December 2018, so far as was known to the Directors, the following persons (other than the Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the shares of the Company

Name of shareholder	Capacity	Number of shares held	Approximate percentage of interest in the Company
Mr. Zheng Fushuang	Founder of a discretionary trust[1]	214,278,278	33.99%
HSBC International Trustee Limited	Trust and interest of controlled corporation[2]	214,278,278	33.99%
ZFS Holdings Limited	Interest of controlled corporation[2]	214,278,278	33.99%
Wing Success Holdings Limited	Legal owner and beneficial owner[2]	214,278,278	33.99%
Eagle Eyes Investment Limited	Interest of controlled corporation[3]	98,098,000	15.56%
New Horizon Capital IV, L.P.	Interest of controlled corporation[3]	98,098,000	15.56%
New Horizon Capital Partners III, L.P.	Interest of controlled corporation[3]	98,098,000	15.56%
Carvillo Success Limited	Legal owner and beneficial owner[3]	98,098,000	15.56%

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, which in turn holds the entire issued share capital of Wing Success Holdings Limited. Therefore, Mr. Zheng Fushuang is deemed to be interested in the Shares held by Wing Success Holdings Limited.

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

3. New Horizon Capital Partners III Ltd is the controlling shareholder of New Horizon Capital III, L.P., who in turn is a controlling shareholder of Eagle Eyes Investment Limited, which holds 80% interest in Carvillo Success Limited. Therefore, New Horizon Capital Partners III Ltd, New Horizon Capital III, L.P. and Eagle Eyes Investment Limited are deemed to be interested in the Shares held by Carvillo Success Limited.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010, 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 of the Company dated 15 June 2016. No further options were granted under the Pre-IPO Share Option Scheme during the 2018 Annual Period.

Outstanding Share Options

From 1 January 2018 to 31 December 2018, 180,237 share option had been lapsed and cancelled. As at 31 December 2018, there were a total of 76,225,796 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of 12.1% as at 31 December 2018. 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 2018	Exercised during the period	Lapsed during the period	Number of unvested option	Number of vested options	Number of Shares represented by options at 31 December 2018	Approximately percentage of issued share capital of the Company
Directors of the Company										
Liu Baodong	01/01/2011	01/01/2015 - 31/12/2021	1.16	14,118,669	–	–	–	14,118,669	14,118,669	2.24%
Frank Christiaens	01/01/2011	01/01/2014 - 31/12/2021	1.16	450,596	–	–	–	450,596	450,596	0.07%
Senior management of the Company										
Sun Jichuan	01/01/2011	01/01/2015 - 31/12/2021	1.16	450,596	–	–	–	450,596	450,596	0.07%
Qian Yiyue	01/01/2011	01/01/2015 - 31/12/2021	1.16	450,596	–	–	–	450,596	450,596	0.07%
Qian Yiyue	01/10/2015	01/10/2017 - 31/12/2021	0.00001	4,310,700	–	–	–	4,310,700	4,310,700	0.68%
Other employees of the Company	01/01/2011	01/01/2015- 31/12/2021	1.16	52,118,918	–	180,237	–	51,938,681	51,938,681	8.24%
Other employees of the Company	01/10/2015	01/01/2016- 31/12-2021	0.00001	4,505,958	–	–	–	4,505,958	4,505,958	0.71%
Total				**76,406,033**	**–**	**180,237**	**–**	**76,225,796**	**76,225,796**	**12.09%**

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 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 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 the 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.

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

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

An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by the Board at its absolute discretion and notified by the 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 2018. Save as the 310,300 options were lapsed, no options were cancelled, lapsed or exercised during the year ended 31 December 2018.

Grantee	Date of grant	Number of share options outstanding as at 1 January 2018	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 2018	Number of options exercised during the year ended 31 December 2018	Number of options lapsed during the year ended 31 December 2018	Number of options cancelled during the year ended 31 December 2018	Number of options outstanding as at 31 December 2018	Approximate percentage of shareholding upon fully exercise of share options Executive Directors
Executive Directors											
LIU Baodong	24 May 2017	3,000,000	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	–	–	–	–	3,000,000	0.48%
XU Da	24 May 2017	6,200,000	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	–	–	–	–	6,200,000	0.98%
Independent non-executive Directors											
Frank CHRISTIAENS	24 May 2017	300,000	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	–	–	–	–	300,000	0.05%
CAO Qian	24 May 2017	300,000	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	–	–	–	–	300,000	0.05%
Other employees and consultants of the Group	24 May 2017	52,170,000	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	–	–	310,300	–	51,859,700	8.22%

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 year ended 31 December 2018, the Company neither issued new shares nor arranged any funds to be paid to the Trustee for purchasing of shares of the Company from the market.

COMPETING BUSINESSES

For the 2018 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 Holdings Limited (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 the Company that he or it would not, and that his or its associates (except any member of the 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 2018 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 annual report, no equity-linked agreements were entered into by the Group, or existed during the 2018 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 2018 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 annual 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 2018 Annual Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

DONATIONS

During the 2018 Annual Period, the charitable and other donations amounting made by the Group was nil.

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 2018 Annual Period and update to the date of this annual report were:

Executive Directors

Mr. ZHENG Fushuang *(Chairman and Chief Executive Officer)*
Mr. GUO Langhua *(retired on 28 June 2018)*
Mr. LIU Baodong
Mr. XU Da

Independent non-executive Directors

Mr. ZHANG Yaqin *(retired on 28 June 2018)*
Dr. LI Wanshou *(appointed on 28 June 2018)*
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 15 to 20 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, ARRANGEMENTS 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 2018 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, except for the code provision A2.1 of the Code, the Company has complied with all the code provisions set out in the Corporate Governance Code from 1 January 2018 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 2018.

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 2018 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 2018 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 2018 Annual Period are set out in note 31 to the 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 29 December 2017, China Digital Video (Beijing) Limited (新奥特(北京)視頻技術有限公司)("**CDV WFOE**"), an indirect wholly owned subsidiary of the Company, and Xin'aote Digital Media Technology Business Incubator Co., Ltd. (北京新奥特數字傳媒科技孵化器有限公司) ("**Xin'aote Digital Media**") entered into a property lease agreement for a term of one year commencing from 1 January 2018 and ending 31 December 2018 (the "**2018 Property Lease Agreement**"), pursuant to which CDV WFOE shall lease certain office and warehouse premises from Xin'aote Digital Media.

During the 2018 Annual Period, the rental expenses incurred under the 2018 Property Lease Agreement amounted to approximately RMB14.8 million (2017: approximately RMB12.1 million).

On 29 December 2017, CDV WFOE (as the supplier) and Xin'aote Group Co. Ltd. (北京新奧特集團有限公司) ("**Xin'aote Group**") (as the customer) entered into a framework agreement (the "**2018 Supply Framework Agreement**") for a term of one year commencing from 1 January 2018 and ending 31 December 2018, pursuant to which Xin'aote Group shall purchase the solutions, products and services from CDV WFOE on an exclusive basis.

During the 2018 Annual Period, the revenue recognised under the 2018 Supply Framework Agreement amounted to approximately RMB10.0 million (2017: approximately RMB3.1 million).

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 confirms that the Company has compiled with the disclosure requirements under Chapter 20 of the GEM Listing Rules in respect of the continuing connected transactions disclosed above.

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 2018 Annual Period and is of the opinion that the audited financial statements of the Group for the 2018 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

22 March 2019

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 165, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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(e), 11 and 12 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the Group has goodwill of RMB17,481,000 and intangible assets of RMB161,766,000. 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: – Assessing the independence, competence and relevant experiences of the external valuation expert engaged by the management. – Reviewing the cash flow forecast of the CGUs from the management. – Evaluating 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 historical financial information. – Testing the management's sensitivity calculations by applying our own sensitivity analysis to the cash flows forecast and discount rates to ascertain the extent to which reasonable adverse changes would, either individually or in aggregate require an impairment on the other intangible assets.

Provision for impairment of trade and other receivables and contract assets

Refer to notes 2.9, 2.10, 3.1(a), 17 and 18 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the Group had trade and other receivables and contract assets amounting to RMB566,871,000 and RMB77,761,000, respectively. The Group determines the provision for impairment of trade and other receivables and contract assets based on the Group's past history, existing market conditions and forward-looking information. We identified the provision for impairment of trade and other receivables and contract assets as a key audit matter due to its significance to the consolidated financial statements and considerable amounts of judgement and estimation being applied in the assessment of credit risk under the expected credit loss model. These judgements and assumptions include but not limited to the debtors' payment history and creditworthiness, historical default rates, and forward-looking macroeconomic factors.	Our procedures in relation to the provision for impairment included: – Reviewing the payment history of the debtors. – Assessing, on a sample basis, the management's forecast of future repayments and understanding of the debtor's financial condition. – Assessing the management's judgement on significant increase in credit risk. – Reviewing the ageing of the trade receivables and evaluating the parameters in estimating the expected credit loss rate. – Checking, on a sample basis, the accuracy of the provision in accordance with the expected credit loss rate applied by the Group.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information included in the 2018 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

22 March 2019

Lin Ching Yee Daniel
Practising Certificate No.: P02771

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	4	**341,047**	398,307
Cost of sales		**(261,347)**	(341,095)
Gross profit		**79,700**	57,212
Other income	5	**32,962**	83,363
Selling and marketing expenses		**(66,583)**	(70,304)
Administrative expenses		**(41,542)**	(43,072)
Share-based compensation expense	26	**(11,308)**	(62,849)
Research and development expenses		**(28,646)**	(30,960)
Finance costs	6	**(12,242)**	(9,436)
Net impairment loss on trade and other receivables and contract assets		**(57,029)**	(29,084)
Impairment loss on goodwill	12	**(56,739)**	—
Share of profit of joint ventures	14	**1,415**	235
Loss before income tax		**(160,012)**	(104,895)
Income tax (expense)/credit	7	**(8,808)**	12,302
Loss for the year	6	**(168,820)**	(92,593)
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on the translation of foreign operation		**10,330**	(15,008)
Total comprehensive loss for the year		**(158,490)**	(107,601)
Loss for the year attributable to:			
Equity holders of the Company		**(168,735)**	(90,339)
Non-controlling interests		**(85)**	(2,254)
		(168,820)	(92,593)
Total comprehensive loss for the year attributable to:			
Equity holders of the Company		**(158,405)**	(105,347)
Non-controlling interests		**(85)**	(2,254)
		(158,490)	(107,601)
Loss per share for loss attributable to equity holders of the Company			
(expressed in RMB cents per share)	8		
Basic		**(27.29)**	(14.57)
Diluted		**(27.29)**	(14.57)

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 2.1.1(a).

The notes on pages 65 to 165 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	3,674	3,946
Intangible assets	11	161,766	143,998
Goodwill	12	17,481	74,220
Interests in joint ventures	14	1,530	16,235
Interests in associates	15	16,648	—
Other financial assets	19	9,868	15,000
Deferred tax assets	23	7,766	18,470
		218,733	271,869
Current assets			
Inventories	16	39,298	32,716
Trade and other receivables	17	566,871	582,875
Contract assets	18	77,761	—
Restricted bank deposits	20	6,518	13,507
Pledged bank deposits	20	118,733	111,081
Bank balances and cash	20	137,403	298,344
		946,584	1,038,523
Current liabilities			
Trade and other payables	21	348,333	330,450
Contract liabilities	18	12,227	—
Other interest-bearing borrowings	22	202,956	216,627
Income tax liabilities		4,583	7,825
		568,099	554,902
Net current assets		378,485	483,621
Total assets less current liabilities		597,218	755,490
Non-current liabilities			
Deferred tax liabilities	23	3,488	4,235
Net assets		593,730	751,255

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
EQUITY			
Share capital	24	**43**	43
Reserves	25	**591,672**	751,212
Equity attributable to equity holders of the Company		**591,715**	751,255
Non-controlling interests		**2,015**	–
Total equity		**593,730**	751,255

Zheng Fushuang
Director

Liu Baodong
Director

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 2.1.1(a).

The notes on pages 65 to 165 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Equity attributable to equity holders of the Company										
	Share capital 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 24(i))	1	(1)	–	–	–	–	–	–	–	–	–
Share repurchased and not yet cancelled (note 24(ii))	–	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Equity attributable to equity holders of the Company										
	Share capital 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/(losses)* RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018	43	(1)	588,503	28,982	(12,531)	55,842	41,398	49,019	751,255	–	751,255
Adjustment from the adoption of IFRS 9 and IFRS 15 (note 2.1.1(a))	–	–	–	–	–	–	–	(11,656)	(11,656)	–	(11,656)
Adjusted balance at 1 January 2018	43	(1)	588,503	28,982	(12,531)	55,842	41,398	37,363	739,599	–	739,599
Comprehensive (loss)/income for the year											
Loss for the year	–	–	–	–	–	–	–	(168,735)	(168,735)	(85)	(168,820)
Other comprehensive income for the year	–	–	–	–	10,330	–	–	–	10,330	–	10,330
Total comprehensive loss for the year	–	–	–	–	10,330	–	–	(168,735)	(158,405)	(85)	(158,490)
Transactions with owners											
Share repurchased and cancelled (note 24(ii))	–	–	(787)	–	–	–	–	–	(787)	–	(787)
Share-based compensation (note 26)	–	–	–	–	–	8,312	2,996	–	11,308	–	11,308
Vesting of shares held under the Share Award Scheme (note 26(c))	–	–	9,763	–	–	–	(9,763)	–	–	–	–
Capital contribution from a non-controlling shareholder	–	–	–	–	–	–	–	–	–	2,100	2,100
Transfer upon forfeiture of share options	–	–	–	–	–	(38)	–	38	–	–	–
Total transactions with owners	–	–	8,976	–	–	8,274	(6,767)	38	10,521	2,100	12,621
Balance at 31 December 2018	43	(1)	597,479	28,982	(2,201)	64,116	34,631	(131,334)	591,715	2,015	593,730

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 2.1.1(a).

* These reserves accounts comprise the Group's reserves of RMB591,672,000 (2017: RMB751,212,000) in the consolidated statement of financial position as at 31 December 2018.

The notes on pages 65 to 165 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Loss before income tax		**(160,012)**	(104,895)
Adjustments for:			
Depreciation of property, plant and equipment		**4,990**	6,027
Amortisation of intangible assets		**27,565**	17,983
Interest income		**(18,172)**	(9,393)
Interest expenses		**12,242**	9,436
Provision for impairment loss on trade and other receivables and contract assets		**78,554**	37,239
Reversal of provision for impairment loss on trade and other receivables and contract assets		**(21,525)**	(8,155)
Provision for inventory obsolescence		**1,183**	2,918
Provision for impairment of available-for-sale financial assets		**–**	3,697
Impairment loss on goodwill	12	**56,739**	–
Loss on disposal of property, plant and equipment		**209**	186
Loss on deemed disposal of a joint venture		**1,002**	–
Write-off of intangible assets		**1,854**	2,266
Share-based compensation expense		**11,308**	62,849
Share of profit of joint ventures	26	**(1,415)**	(235)
Fair value loss on financial assets at fair value through profit or loss		**5,132**	–
Gain on disposal of a joint venture	14(d)	**–**	(20,000)
Gain on deemed disposal of a subsidiary	28	**–**	(25,768)
Operating loss before working capital changes		**(346)**	(25,845)
Increase in inventories		**(7,765)**	(1,135)
(Increase)/Decrease in trade and other receivables		**(72,965)**	13,662
Decrease in contract assets		**97,781**	–
Increase in trade and other payables		**41,588**	94,868
Decrease in contract liabilities		**(5,271)**	–
Cash generated from operations		**53,022**	81,550
Income tax paid		**–**	(4,025)
Net cash from operating activities		**53,022**	77,525

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Cash flows from investing activities			
Interest received		**8,654**	10,080
Purchase of property, plant and equipment		**(7,046)**	(7,785)
Proceeds from disposal of property, plant and equipment		**2,119**	2,226
Purchase of intangible assets		**–**	(34,532)
Addition in development costs through internal development		**(47,187)**	(53,928)
(Placement)/Redemption of structured deposits		**–**	215,000
Deemed disposal of a subsidiary	27	**–**	(673)
Purchase of available-for-sale financial assets		**–**	(15,000)
Proceeds from disposal of available-for-sale financial assets		**–**	63,000
Investments in a joint venture		**(1,530)**	–
Proceeds from disposal of a joint venture	14(d)	**–**	20,000
Decrease/(Increase) in time deposits with original maturities exceeding three months		**135,000**	(159,504)
Decrease/(Increase) in amounts due from joint ventures		**15,151**	(16,836)
(Increase)/Decrease in amounts due from related parties		**(4,253)**	1,471
Increase in loan receivables		**(156,236)**	(19,883)
Decrease/(Increase) in restricted bank deposits		**6,989**	(5,493)
Increase in pledged bank deposits		**(7,652)**	(7,026)
Net cash used in investing activities		**(55,991)**	(8,883)
Cash flows from financing activities			
Interest paid		**(11,865)**	(9,879)
Increase in amounts due to related parties		**4,020**	3,696
Capital contribution from non-controlling shareholders		**2,100**	–
Proceeds from bank borrowings		**218,000**	174,404
Repayment of bank borrowings		**(199,404)**	(144,685)
Addition of other borrowings		**–**	9,000
Repayment of other borrowings		**(35,687)**	(57,746)
Payment for re-purchase of shares		**(787)**	(399)
Net cash used in financing activities		**(23,623)**	(25,609)
Net (decrease)/increase in cash and cash equivalents		**(26,592)**	43,033
Cash and cash equivalents at beginning of year		**63,344**	21,109
Effect of foreign exchange rate changes on cash and cash equivalents held		**651**	(798)
Cash and cash equivalents at end of year	20	**37,403**	63,344

The notes on pages 65 to 165 are an integral part of these financial statements.

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 in the People's Republic of China (the "PRC").

As at 31 December 2018, 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 2018 were approved for issue by the board of directors (the "Board") on 22 March 2019.

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 assets at fair value through profit or loss. The measurement bases are fully described in the accounting policies below.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

In the current year, the Group has applied the following new and amended IFRSs, which have become effective for the accounting period beginning on 1 January 2018 and relevant to the Group:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 1 and IAS 28	Annual Improvements to IFRSs 2014-2016 Cycle
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration

Except as described below, the application of the new and amended 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.

IFRS 9 "Financial Instruments"

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

When adopting IFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transition requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in accumulated profits. The details of new significant accounting policy are set out in note 2.9 and 2.10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – *continued*

(a) New and amended standards adopted by the Group – *continued*

IFRS 9 "Financial Instruments" – *continued*

The adoption of IFRS 9 has impacted the following areas:

– unlisted equity investments (note 19) previously classified as available-for-sale investments under IAS 39 measured at cost less impairment are now classified as financial assets at fair value through profit or loss ("FVTPL"). The fair value of the unlisted equity investments approximated to its investment costs of RMB15,000,000 as at 1 January 2018 and therefore no adjustment was recorded to opening accumulated profits.

– IFRS 9 replaces the "incurred loss" model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the "incurred loss" accounting model in IAS 39.

  The Group applies the new ECL model to the following items:

  – financial assets measured at amortised cost (including restricted bank deposits, pledged bank deposits, cash and bank balance and trade and other receivables); and

  – contract assets as defined in IFRS 15.

For contract assets arising from IFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime ECL as these items do not have a significant financing component. For other financial assets, the Group applies a general approach of recognising ECL.

Upon the adoption of IFRS 9, the Group recognised additional ECL on the Group's trade receivables and contract assets of RMB2,701,000 and RMB11,254,000 respectively, which resulted in a decrease in accumulated profits (net of deferred tax impact) of RMB11,862,000 as at 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – *continued*

(a) New and amended standards adopted by the Group – *continued*

IFRS 9 "Financial Instruments" – *continued*

ECL

For further details on the Group's accounting policy for accounting for ECL, see note 2.10.

The following table reconciles the provision for impairment determined in accordance with IAS 39 as at 31 December 2017 with the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	RMB'000
Provision for impairment at 31 December 2017 under IAS 39	55,759
Additional ECL recognised at 1 January 2018 on:	
– Trade receivables	2,701
– Contract assets recognised on adoption of IFRS 15	11,254
ECL allowance at 1 January 2018 under IFRS 9	69,714

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – *continued*

(a) New and amended standards adopted by the Group – *continued*

IFRS 9 "Financial Instruments" – *continued*

The reclassifications and remeasurements made to balances recognised in the consolidated statement of financial position at the date of initial application of IFRS 9 (i.e. 1 January 2018) are summarised as follows:

	Measurement category				
	Original IAS 39 category	New IFRS 9 category	31 December 2017 (IAS 39)	Adoption of IFRS 9 Re-measurement	1 January 2018 (IFRS 9)
			RMB'000	RMB'000	RMB'000
Non-current financial assets					
Unlisted equity investment	Available- for-sale	FVTPL	15,000	–	15,000
Current financial assets					
Trade and other receivables	Loans and receivables	Amortised cost	513,569	(2,701)	510,868
Restricted bank deposits	Loans and receivables	Amortised cost	13,507	–	13,507
Pledged bank deposits	Loans and receivables	Amortised cost	111,081	–	111,081
Bank balances and cash	Loans and receivables	Amortised cost	298,344	–	298,344
			936,501	(2,701)	933,800
Total financial asset balances			**951,501**	**(2,701)**	**948,800**

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – *continued*

(a) New and amended standards adopted by the Group – *continued*

IFRS 9 "Financial Instruments" – *continued*

The total impact on the Group's accumulated profits as at 1 January 2018 as a result of application of IFRS 9 is as follows:

	RMB'000
Accumulated profits as at 31 December 2017	49,019
Recognition of ECL on trade receivables	(2,701)
Recognition of ECL on contract assets	(11,254)
Deferred tax impact	2,093
Accumulated profits as at 1 January 2018	37,157

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – *continued*

(a) New and amended standards adopted by the Group – *continued*

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to IFRS 15 Revenue from Contracts with Customers" (hereinafter referred to as "IFRS 15") replace IAS 18 "Revenue", IAS 11 "Construction Contracts", and several revenue-related Interpretations.

The Group has elected to use the cumulative effect transition method, with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated profits at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IASs 11 and 18.

In accordance with the transition guidance under IFRS 15, the Group has only been applied to contracts that are incomplete as at 1 January 2018.

Summary of nature and effect of the changes on previous accounting policies are set out below:

i) Timing of revenue recognition

Previously, the Group's revenue arising from solution sales and provision of services are recognised over time, whereas revenue from products sales is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three 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; or

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*

(a) New and amended standards adopted by the Group – *continued*

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

i) 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 Group 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 is considered in determining when the transfer of control occurs.

Under the transfer-of-control approach in IFRS 15, revenue arising from solution sales will need to be recognised at a point of time when the control of the solution is transferred to the customers and the relevant installation and integration services are fully performed. This results in change in revenue, and some associated costs, for those contracts being recognised as the Group previously recognised the revenue from solution sales by using "percentage of completion method" under IAS11.

Upon the initial application of IFRS 15, the Group has recognised additional revenue of RMB206,000, which resulted in an increase in accumulated profits and decrease in amounts due to customers for contract work of RMB206,000 and RMB206,000, respectively.

ii) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

The adoption of IFRS 15 does not have a significant impact on adjusting the transaction price containing significant financing component on the financial statements as at date of initial application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – *continued*

(a) New and amended standards adopted by the Group – *continued*

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

iii) Presentation of contract assets and liabilities

Previously, contract balances relating to solution sales and service contracts in progress were presented as "amounts due from customers for contract work" or "amounts due to customers for contract work" in the consolidated statement of financial position under "trade and other receivables" or "trade and other payables" respectively.

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2.17) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

At the date of initial application of IFRS 15, unbilled receivables of RMB182,349,000 arising from some of contracts are conditional and hence such balance was reclassified from "Trade and other receivables" to "Contract assets". Besides, advances from customers of RMB17,498,000 previously included in "Trade and other payables" were reclassified to "Contract liabilities".

iv) Accounting for warranties

As set out in note 2.17, the Group are required to determine whether the warranties under products and solutions contracts are assurance-type warranties or service-type warranties under IFRS 15. No significant impact on the financial statement as at date of initial application as all of the warranties included in the contracts are considered as assurance-type warranties, which are consistent with their previous accounting treatment.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IASs 11 and 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – *continued*

(a) New and amended standards adopted by the Group – *continued*

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

iv) Accounting for warranties – continued

The following table summarises the impact of transition to IFRS 15 on accumulated profits at 1 January 2018:

	RMB'000
Accumulated profits as at 31 December 2017	49,019
Increase in revenue because of the timing of revenue recognition	206
Accumulated profits as at 1 January 2018	49,225

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of initial application of IFRS 15 (1 January 2018). Line items that were not affected by the changes have not been included.

	Carrying amounts under IASs 11 and 18 at 31 December 2017 RMB'000	Re-classification RMB'000	Re-measurement RMB'000	Carrying amounts under IFRS 15 at 1 January 2018 RMB'000
Current assets				
Trade and other receivables	582,875	(182,349)	—	400,526
Contract assets	—	182,349	—	182,349
Current liabilities				
Trade and other payables	330,450	(17,498)	(206)	312,746
Contract liabilities	—	17,498	—	17,498
Equity				
Reserves	751,212	—	206	751,418

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – *continued*

(a) New and amended standards adopted by the Group – *continued*

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

iv) Accounting for warranties – continued

The following tables summarise the estimated impact of adoption of IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under IFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under IAS 18 and IAS 11 if those superseded standards had continued to apply to 2018 instead of IFRS 15. These tables show only those line items impacted by the adoption of IFRS 15:

	Amounts reported in accordance with IFRS 15 (A) RMB'000	Hypothetical amounts under IASs 18 and 11 (B) RMB'000	Difference: Estimated impact of adoption of IFRS 15 on 2018 (A) – (B) RMB'000
Line items in the consolidated statement of comprehensive income for year ended 31 December 2018 impacted by the adoption of IFRS 15:			
Revenue	341,047	342,630	(1,583)
Cost of sales	(261,347)	(262,313)	966
Gross profit	79,700	80,317	(617)
Loss before income tax	(160,012)	(159,395)	(617)
Income tax expense	(8,808)	(8,808)	–
Loss for the year	(168,820)	(168,203)	(617)
Total comprehensive loss for the year	(158,490)	(157,873)	(617)
Loss for the year attributable to:			
Equity holders of the Company	(168,735)	(168,118)	(617)
Non-controlling interests	(85)	(85)	–
Total comprehensive loss for the year attributable to:			
Equity holders of the Company	(158,405)	(157,788)	(617)
Non-controlling interests	(85)	(85)	–
Loss per share for loss attributable to equity holders of the Company			
(expressed in RMB cents per share)			
Basic	(27.29)	(27.29)	–
Diluted	(27.29)	(27.29)	–

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – *continued*

(a) New and amended standards adopted by the Group – *continued*

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

iv) Accounting for warranties – continued

	Amounts reported in accordance with IFRS 15 (A) RMB'000	Hypothetical amounts under IASs 18 and 11 (B) RMB'000	Difference: Estimated impact of adoption of IFRS 15 on 2018 (A) – (B) RMB'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of IFRS 15:			
Trade and other receivables	566,871	645,114	(78,243)
Contract assets	77,761	–	77,761
Total current assets	946,584	947,066	(482)
Trade and other payables	348,333	360,424	(12,091)
Contract liabilities	12,227	–	12,227
Total current liabilities	568,099	567,963	136
Net current assets	378,485	379,102	(617)
Total assets less current liabilities	597,218	597,835	(617)
Net assets	593,730	594,347	(617)
Reserves	591,672	592,289	(617)
Equity attributable to equity holders of the Company	591,715	592,332	(617)
Total equity	593,730	594,347	(617)
Line items in the consolidated statement of cash flows for the year ended 31 December 2018 impacted by the adoption of IFRS 15:			
Loss before income tax	(160,012)	(159,395)	(617)
Operating loss before working capital changes	(346)	271	(617)
Increase in trade and other receivables	(72,965)	24,334	(97,299)
Decrease in contract assets	97,781	–	97,781
Increase in trade and other payables	41,588	36,182	5,406
Decrease in contract liabilities	(5,271)	–	(5,271)
Cash generated from operations	53,022	53,022	–
Net cash from operating activities	53,022	53,022	–

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 16	Leases[1]
IFRS 17	Insurance Contract[3]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
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[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRS 3	Definition of a Business[5]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[1]
IFRIC – Int 23	Uncertainty over Income Tax Treatments[1]

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

2 Effective for annual periods beginning on or after 1 January 2020

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

4 Effective date not yet determined

5 Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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.

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"

IFRS 16 "Leases" replaced IAS 17 and three related Interpretations.

As disclosed in note 2.14, 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 lease liability and 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.

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.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore 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.

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*

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application (if any) as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply IFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease. As disclosed in note 29, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounting to RMB9,011,000 for offices and residential properties, all of which are payable within one year or of low-value assets. Therefore, the Group plans to use the practical expedients of short-term lease to recognise the rental expense over the lease term and the directors expect that the adoption of IFRS 16 does not have material impact to the Group's consolidated financial statements.

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Basis of consolidation – *continued*

(a) Subsidiaries – continued

(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.

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 Associates and joint ventures

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions relating about relevant activities require the unanimous consent of the parties sharing control.

In consolidated financial statements, an investment in an associate or a joint venture is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate or joint venture is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate or joint venture's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the associate or joint venture for the year, including any impairment loss on the investment in associate or joint venture recognised for the year.

Unrealised gains on transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the associates or joint venture. Where unrealised losses on assets sales between the Group and its associate or joint venture are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate or joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate or joint venture's accounting policies to those of the Group when the associate or joint venture's financial statements are used by the Group in applying the equity method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.3 Associates and joint ventures – *continued*

When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. For this purpose, the Group's interest in the associate or joint venture is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or joint venture.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates or joint venture. At each reporting date, the Group determines whether there is any objective evidence that the investment in associate or joint venture is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (i.e. higher of value in use and fair value less costs of disposal) of the associate or joint venture and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including cash flows arising from the operations of the associate or joint venture and the proceeds on ultimate disposal of the investment.

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate or joint control over a joint venture. If the retained interest in that former associate or joint venture is a financial asset, the retained interest is measured at fair value, which is regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9. The difference between (i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and (ii) the carrying amount of the investment at the date the equity method was discontinued, is recognised in the profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would have been required if the associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

2.5 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 mainly 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.5 Foreign currency translation – *continued*

(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.

2.6 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 reporting 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 net identifiable 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 operating 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 and any accumulated impairment losses. 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.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described in note 2.19.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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

(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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Policy applicable from 1 January 2018

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at FVTPL, plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of comprehensive income.

Financial assets are classified into the following categories:

– amortised cost;

– FVTPL; or

– fair value through other comprehensive income ("FVOCI").

The classification is determined by both:

– the entity's business model for managing the financial asset; and

– the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, interest income or other financial items, except for ECL of trade and other receivables which is presented as "Net impairment loss on trade and other receivables and contract assets" in the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial instruments – *continued*

Financial assets – *continued*

Policy applicable from 1 January 2018 – *continued*

Subsequent measurement of financial assets

Debt instruments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

– they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

– the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in "Other income" in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's restricted bank deposits, pledged bank deposits, bank balances and cash and trade and other receivables fall into this category of financial assets.

Equity instruments

Equity investments are classified as measured at FVTPL unless the equity investments are not held for trading purposes and on initial recognition of the investments the Group makes an election to designate the investments as measured at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective.

Dividends from investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other income" in the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial instruments – *continued*

Financial assets – *continued*

Policy applicable from 1 January 2018 – *continued*

Subsequent measurement of financial assets – *continued*

Equity instruments – *continued*

The equity instruments at FVTPL are not subject to impairment assessment. Changes in the fair value of financial assets at FVTPL are recognised in "Other income" in the consolidated statement of comprehensive income.

Policy applicable before 1 January 2018

The Group's accounting policies for financial assets other than investments in subsidiaries and joint ventures prior to 1 January 2018 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial instruments – *continued*

Financial assets – *continued*

Policy applicable before 1 January 2018 – *continued*

(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 note 2.10 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.

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.

Financial liabilities

Classification and measurement of financial liabilities

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

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

Borrowings

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial instruments – *continued*

Financial liabilities – *continued*

Policy applicable before 1 January 2018 – *continued*

Classification and measurement of financial liabilities – *continued*

Trade and other payables

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

2.10 Impairment of financial assets and contract assets

Policy applicable from 1 January 2018

IFRS 9's impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost, trade receivables and contract assets recognised and measured under IFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

– financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and

– financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.10 Impairment of financial assets and contract assets – *continued*

Policy applicable from 1 January 2018 – *continued*

Trade receivables and contract assets

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.10 Impairment of financial assets and contract assets – *continued*

Policy applicable from 1 January 2018 – *continued*

Other financial assets measured at amortised cost – *continued*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade receivables, contract assets and other financial assets measured at amortised cost are set out in note 32(d).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.10 Impairment of financial assets and contract assets – *continued*

Policy applicable before 1 January 2018

Prior to 1 January 2018, financial assets are reviewed to determine whether there is any objective evidence of impairment at each reporting date.

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
- 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*

2.10 Impairment of financial assets and contract assets – *continued*

Policy applicable before 1 January 2018 – *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) 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 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.

2.12 Cash and cash equivalents

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

2.13 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.17) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.10 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.9).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.17). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.9).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.14 Leases

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

(a) Classification of assets leased to the Group

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

(b) Operating lease charges as the lessee

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

2.15 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*

2.16 Share capital

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

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.

2.17 Revenue recognition

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

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer

2. Identifying the performance obligations

3. Determining the transaction price

4. Allocating the transaction price to the performance obligations

5. Recognising revenue when/as performance obligation(s) are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.17 Revenue recognition – *continued*

Further details of the Group's revenue and other income recognition policies are as follows:

(a) Sales of products

Sale of products, including software and hardware equipment, are recognised when or as the Group transfers control of the assets to the customer. Invoices for goods transferred are due upon receipt by the customer.

For stand-alone sales of products that are neither customised by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods.

(b) Solutions sales

Revenue from solution sales contracts are recognised at a point of time when the control of the goods is transferred to the customers and the relevant installation and integration services are fully performed.

The Group generally provides for warranties for repairs to any defects and does not provide extended warranties in its solution contract with customers. As such, most existing warranties are considered as assurance-type warranties under IFRS 15, which are accounted for under IAS 37. Retention receivables, prior to expiration of retention period, are classified as contract assets. The relevant amount of contract asset is reclassified to trade receivables when the retention period expires.

(c) Services

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

(d) Dividend income

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

(e) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of ECL allowance) of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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, interests in associates 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 of disposal, 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.19 Impairment of non-financial assets – *continued*

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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.20 Employee benefits – *continued*

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

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.

2.21 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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 Accounting for income taxes – *continued*

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

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

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

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

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

(b) intends either to settle on a net basis, or to 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 Dividend distribution

Dividend distribution to the Company's 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*

2.23 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 (or an associate or joint venture of a member of a group of which the other entity is a member).

  (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) Estimation of impairment of trade and other receivables and contract assets within the scope of ECL upon application of IFRS 9

Since the initial adoption of IFRS 9, the Group makes allowances on items subjects to ECL (including trade and other receivables and contract assets) based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period as set out in note 2.10. As at 31 December 2018, the carrying amounts of trade and other receivables and contract assets were RMB566,871,000 (net of ECL allowance of RMB108,263,000) and RMB77,761,000 (net of ECL allowance of RMB6,807,000), respectively.

Before the adoption of IFRS 9, the Group estimates the provision for impairment of trade and other receivables (note 17) 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. As at 31 December 2017, the carrying amount of trade and other receivables was RMB582,875,000 (net of loss allowance of RMB62,447,000).

When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade receivables and other items within the scope of ECL upon application of IFRS 9/before application of IFRS 9 and ECL allowance/loss allowance in the periods in which such estimate has been changed.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

3.1 Estimation uncertainties – *continued*

(b) Allowance for inventories

The management reviews the condition of inventories (note 16) 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 2018, the carrying amount of inventories was RMB39,298,000 (2017: RMB32,716,000). The Group has made provision for inventory obsolescence of RMB639,000 (2017: RMB2,918,000) for the year ended 31 December 2018.

(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. Provision for impairment on goodwill was amounted to RMB56,739,000 (2017: nil) for the year ended 31 December 2018.

(d) 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 2018, the carrying amount of capitalised development cost was RMB66,094,000 (2017: RMB66,092,000).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

3.1 Estimation uncertainties – *continued*

(e) 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 the 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 2018, the carrying amount of property, plant and equipment and intangible assets was RMB3,674,000 (2017: RMB3,946,000) and RMB161,766,000 (2017: RMB143,998,000) respectively.

(f) 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 2018, the Group had income tax liabilities of RMB4,583,000 (2017: RMB7,825,000). The details of the deferred tax assets and liabilities are set out in note 23.

(g) 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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

3.1 Estimation uncertainties – *continued*

(h) 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.

(i) Percentage of completion of solutions sales

Prior to 1 January 2018, the Group recognises revenue and costs according to the stage of completion for its solutions sales contracts under IAS 11. 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.

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 an unlisted equity investment

As detailed in note 19(iii), the Group held 27.72% (2017: 27.27%) equity interests in a private equity fund as at 31 December 2018. The Group classified the investment as available-for-sales financial assets prior to the application of IFRS 9 and as financial assets at FVTPL upon application of IFRS 9, 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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

3.2 Critical judgement in applying the entity's accounting policies – *continued*

(c) Classification of Beijing Jingqi Chuangzhi Technology Co., Ltd (北京精奇創智科技有限公司, "Beijing Jingqi")

As detailed in note 14(a), the Group held 38.25% equity interest in Beijing Jingqi and classified Beijing Jingqi as the joint venture of the Group because the appointment of the sole director of Beijing Jingqi require unanimous consent from the Group and the second largest investor of Beijing Jingqi who sharing the control.

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:

	2018 RMB'000	2017 RMB'000
Solutions	**223,360**	288,799
Services	**64,824**	67,873
Products	**52,863**	41,635
	341,047	398,307

An analysis of the Group's timing of revenue recognition within the scope of IFRS 15 for the year ended 31 December 2018 is as follows:

	RMB'000
At a point of time	**276,223**
Over time	**64,824**
	341,047

4. REVENUE AND SEGMENT INFORMATION – *continued*

Geographical information

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

Information about major customers

There is no single customer that contributed to over 10% of the Group's revenue for the years ended 31 December 2018 and 2017.

5. OTHER INCOME

	2018	2017
	RMB'000	RMB'000
Other revenue		
Interest income	**18,172**	9,393
Value-added tax ("VAT") refunds (note a)	**12,041**	16,043
	30,213	25,436
Other net (loss)/income		
Gain on deemed disposal of a subsidiary (note 28)	**–**	25,768
Gain on disposal of a joint venture (note 14(d))	**–**	20,000
Net fair value loss on financial assets at FVTPL (note 32(f))	**(5,132)**	–
Net foreign exchange gain	**–**	3,761
Subsidy income from government (note b)	**6,617**	6,333
Sundry income	**1,264**	2,065
	2,749	57,927
	32,962	83,363

Notes:

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

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

6. LOSS FOR THE YEAR

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

	2018 RMB'000	2017 RMB'000
Finance costs		
Interest on bank and other borrowings, wholly repayable within five years	**12,242**	9,436
Employee benefit expenses		
Salaries, bonus and allowances	**91,181**	100,100
Retirement benefit scheme contributions	**20,866**	23,855
Severance payments	**897**	753
Share-based compensation expense	**11,308**	62,849
	124,252	187,557
Other items		
Auditors' remuneration	**1,456**	1,467
Operating lease charges on premises	**18,431**	14,906
Cost of software and hardware equipment recognised as an expense, including	**168,876**	238,199
– Provision for inventory obsolescence	**639**	2,918
Depreciation of property, plant and equipment	**4,990**	6,027
Amortisation of intangible assets	**27,565**	17,983
Provision for impairment loss on available-for-sale financial assets	**–**	3,697
Loss on deemed disposal of a joint venture	**1,002**	–
Loss on disposal of property, plant and equipment	**209**	186
Write-off of intangible assets	**1,854**	2,266
Net foreign exchange loss/(gain)	**2,773**	(3,761)

7. INCOME TAX EXPENSE/(CREDIT)

	Notes	2018 RMB'000	2017 RMB'000
Current tax - PRC enterprise income tax			
Over-provision in respect of prior years		(3,242)	–
Deferred tax			
Origination and reversal of temporary differences	23	12,050	(9,069)
Effect on deferred tax balances resulting from changes in tax rates	23	–	(3,233)
		12,050	(12,302)
Income tax expense/(credit)		8,808	(12,302)

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 loss before income tax can be reconciled as follows:

	2018 RMB'000	2017 RMB'000
Loss before income tax	(160,012)	(104,895)
Tax on loss before income tax, calculated at the statutory rates applicable to profits in the tax jurisdiction concerned	(38,547)	(15,999)
Tax effect on non-taxable income	–	(3,865)
Tax effect on non-deductible expenses	18,053	8,654
Tax effect on preferential income tax rates applicable to certain subsidiaries	15,376	6,024
Tax effect on tax loss and deductible temporary differences not recognised	20,704	–
Tax effect on super deduction in research and development activities	(3,835)	(4,988)
Over-provision in respect of prior years	(3,242)	–
Effect on deferred tax balances resulting from changes in tax rates	–	(3,233)
Others	299	1,105
Income tax expense/(credit)	8,808	(12,302)

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.

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

(c) PRC enterprise income tax

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the 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, certain of the Company's subsidiaries in the PRC obtained the "High and New Technology Enterprise" qualification and enjoyed preferential income tax rate of 15% for the years ended 31 December 2017 and 2018.

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"). The Group have made its best estimate for the Super Deduction to be claimed in ascertaining their assessable profits for years ended 31 December 2018 and 2017.

(d) PRC withholding tax

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

8. LOSS PER SHARE

(a) Loss per share

Basic loss per share is calculated based on the loss attributable to equity holders of the Company of RMB168,735,000 (2017: RMB90,339,000) and the weighted average number of shares of 618,400,000 shares (2017: 619,985,000 shares) outstanding during the year, excluding the ordinary shares purchased by the Company and held as treasury shares (note 24(ii)).

(b) Diluted loss per share

For the years ended 31 December 2018 and 2017, the Company has two categories of potential dilutive ordinary shares: the 2010 Share Option Plan and the 2018 Share Option Scheme. The diluted loss per share for the years ended 31 December 2018 and 2017 was the same as the basic loss per share as all the potential ordinary shares were anti-dilutive.

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	Retirement benefit contribution RMB'000	Share-based compensation expense RMB'000	Total RMB'000
Year ended 31 December 2018						
Executive directors:						
Mr. Liu Baodong	(i)	960	606	79	387	2,032
Mr. Zheng Fushuang	(ii)	720	605	–	–	1,325
Mr. Guo Langhua	(v)	360	303	–	387	1,050
Mr. Xu Da	(iii)	–	–	–	800	800
Independent non-executive directors:						
Mr. Frank Christiaens		202	–	–	–	202
Mr. Zhang Yaqin	(v)	100	–	–	–	100
Ms. Cao Qian		202	–	–	–	202
Dr. Li Wanshou	(iv)	100	–	–	–	100
		2,644	1,514	79	1,574	5,811
Year ended 31 December 2017						
Executive directors:						
Mr. Liu Baodong	(i)	603	617	105	927	2,252
Mr. Zheng Fushuang	(ii)	603	726	–	–	1,329
Mr. Guo Langhua	(v)	603	726	–	927	2,256
Mr. Xu Da	(iii)	–	–	–	1,915	1,915
Independent non-executive directors:						
Mr. Frank Christiaens		202	–	–	133	335
Mr. Zhang Yaqin	(v)	202	–	–	133	335
Ms. Cao Qian		202	–	–	133	335
		2,415	2,069	105	4,168	8,757

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

(a) Directors' remuneration – *continued*

Notes:

(i) Mr. Liu Baodong was resigned from the chief executive officer of the Group with effect from 3 April 2018.

(ii) Mr. Zheng Fushuang was appointed as the chief executive officer of the Group with effect from 3 April 2018.

(iii) Appointed on 14 June 2017.

(iv) Appointed on 28 June 2018.

(v) Resigned on 28 June 2018.

There were no arrangements under which a director of the Company waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2017: four) directors whose emoluments are reflected in the analysis presented above. The emoluments paid/payable to the remaining one (2017: one) individuals during the year are as follows:

	2018 RMB'000	2017 RMB'000
Basic salaries and allowances	1,086	457
Bonus	420	412
Retirement benefit scheme contributions	119	104
Share-based compensation expense	800	1,915
	2,425	2,888

The emoluments fell within the following bands:

	2018	2017
Emolument bands		
HK$2,000,001 - HK$3,000,000	1	–
HK$3,000,001 - HK$4,000,000	–	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 2018 and 2017.

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 2017					
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
Year ended 31 December 2018					
Opening net book amount	**21**	**3,075**	**133**	**717**	**3,946**
Additions	**922**	**6,122**	**2**	**—**	**7,046**
Disposal	**—**	**(2,328)**	**—**	**—**	**(2,328)**
Depreciation	**(242)**	**(4,608)**	**(112)**	**(28)**	**(4,990)**
Closing net book amount	**701**	**2,261**	**23**	**689**	**3,674**
At 31 December 2018					
Cost	**11,822**	**51,591**	**2,336**	**2,602**	**68,351**
Accumulated depreciation	**(11,121)**	**(49,330)**	**(2,313)**	**(1,913)**	**(64,677)**
Net book amount	**701**	**2,261**	**23**	**689**	**3,674**

10. PROPERTY, PLANT AND EQUIPMENT – *continued*

Depreciation charges recognised is analysed as follows:

	2018 RMB'000	2017 RMB'000
Cost of sales	–	1
Selling and marketing expenses	2,681	2,070
Administrative expenses	701	2,648
Research and development expenses	1,608	1,308
	4,990	6,027

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 2017				
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)	–	–
Write-off	–	–	(2,266)	(2,266)
Additions	34,532	53,928	–	88,460
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
Year ended 31 December 2018				
Opening net book amount	**77,906**	**66,092**	**–**	**143,998**
Transfers	**45,331**	**(45,331)**	**–**	**–**
Write-off	**–**	**(1,854)**	**–**	**(1,854)**
Additions	**–**	**47,187**	**–**	**47,187**
Amortisation	**(27,565)**	**–**	**–**	**(27,565)**
Closing net book amount	**95,672**	**66,094**	**–**	**161,766**
At 31 December 2018				
Cost	**188,019**	**66,094**	**–**	**254,113**
Accumulated amortisation	**(92,347)**	**–**	**–**	**(92,347)**
Net book amount	**95,672**	**66,094**	**–**	**161,766**

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:

	2018 **RMB'000**	2017 RMB'000
Cost of sales	**27,301**	17,727
Selling and marketing expenses	**36**	32
Administrative expenses	**58**	46
Research and development expenses	**170**	178
	27,565	17,983

12. GOODWILL

The net carrying amount of goodwill can be analysed as follows:

	2018 **RMB'000**	2017 RMB'000
Net carrying amount:		
As at 1 January	**74,220**	74,220
Impairment loss for the year	**(56,739)**	–
As at 31 December	**17,481**	74,220

The carrying amount of the cash generating unit of which the goodwill is allocated, being the research and sales of video-related and broadcasting equipment and software and provision of related technical services business conducted by a subsidiary, ZhengQi (Beijing) Video Technology Co., Ltd. (北京正奇聯訊有限公司, "Beijing Zhengqi"), which was acquired by the Group in 2013. 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% (2017: 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 21.9% (2017: 20.0%) for the year ended 31 December 2018 was applied in the value in use model.

Impairment testing taking into account the management's expectations on the market developments resulted in the impairment of goodwill associated with the cash generating unit. The recoverable amount of the cash generating unit in which the goodwill has been allocated was amounted to RMB27,600,000. Accordingly, an impairment loss on goodwill of RMB56,739,000 was recognised in the profit or loss during the year ended 31 December 2018.

Apart from the considerations described in determining the value in use of the cash generating units above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates. However, the estimate of recoverable amount of the cash generating unit is particularly sensitive to the discount rate applied. The impact from a reasonable change in the discount rate is assessed together with other critical accounting estimates and assumptions (note 3.1(c)).

13. SUBSIDIARIES

Particulars of the subsidiaries, each of which is a limited liability company, as at 31 December 2018 and 2017, were as follows:

Name of company	Country/Place and date of establishment	Issued and paid-up capital	Equity interest held	Principal activities and place of operation
Directly held by the Company				
China Digital Video (Beijing) Limited ("CDV WFOE")	PRC/ 21 June 2007	US$50,000,000	100% (2017: 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/ 23 October 2012	RMB20,000,000	100% (2017: 100%)	Research, development and sales of video-related and broadcasting equipment and software and provision of related technical service, in PRC
Guangdong Xin'aote Video Technology Company Limited (廣東新奧特視頻技術有限公司)	PRC/ 29 October 2018	RMB10,000,000	80%* (2017: nil)	Research, development and sales of video-related and broadcasting equipment and software and provision of related technical service, in PRC
Beijing ZhengQi Network Technology Co., Ltd. (北京正奇網訊科技有限公司)	PRC/ 13 September 2018	RMB10,000,000	80%* (2017: nil)	Research, development and sales of video-related and broadcasting equipment and software and provision of related technical service, in PRC
Beijing Tianmei Global Technology Company Limited (北京天美環球科技有限公司, "Tianmei Technology")	PRC/ 16 August 2012	RMB1,000,000	100%# (2017: nil)	Investments holding

13. SUBSIDIARIES – *continued*

* These subsidiaries were newly setup during the year ended 31 December 2018. The directors of the Company consider that the non-controlling interests in these subsidiaries during the year ended 31 December 2018 were not material to the Group and thus no separate financial information of these subsidiaries are presented.

Obtained control through contractual arrangements (note).

The English name of certain companies referred here in represent management's best effort at translating the Chinese names of these companies as no English name has been registered.

Note:

Pursuant to the applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in an entity conducting radio and television program production business. In order to enable investments to be made into the restricted businesses, CDV WFOE entered into a series of contractual arrangements (the "Contractual Arrangements") with Tianmei Technology and its owner, which enable CDV WFOE and the Group to:

- exercise effective financial and operational control over Tianmei Technology;
- exercise equity holder's voting right of Tianmei Technology;
- receive substantially all of the economic interest returns generated by Tianmei Technology in consideration for the business support, technical and consulting services provided by CDV WFOE, at CDV WFOE's discretion;
- obtain an irrevocable and exclusive right to purchase all or part of equity interest in and/or assets of Tianmei Technology from its owner at a minimum purchase price permitted under the PRC laws and regulations;
- obtain a pledge over the entire equity interest of Tianmei Technology from its owner as collateral security for all of Tianmei Technology's payments due to CDV WFOE and to secure performance of Tianmei Technology's obligations under the Contractual Arrangements.

The details of the Contractual Arrangements are set out in the announcement issued by the Company dated 13 June 2018.

The Group does not have any equity interest in Tianmei Technology. However, as a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with Tianmei Technology and has the ability to affect those returns through its power over Tianmei Technology and is considered to control Tianmei Technology. Consequently, the Company regards Tianmei Technology as consolidated structured entity under IFRSs. The Group has consolidated the financial position and results of Tianmei Technology in the consolidated financial statements.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Tianmei Technology and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Tianmei Technology. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with relevant PRC laws and regulations and are legally enforceable.

14. INTERESTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
At 1 January	16,235	–
Addition	1,530	–
Reclassification from interest in a subsidiary (note 28)	–	16,000
Share of profit	1,415	235
Loss on deemed disposal of a joint venture	(1,002)	–
Reclassification to interests in associates (note 15)	(16,648)	–
At 31 December	1,530	16,235
Share of net assets	1,333	1,533
Goodwill	197	14,702
	1,530	16,235

At the reporting dates, the Group had interests in the following joint ventures, all of which are unlisted corporate entities whose quoted market price is not available and considered not individually material to the Group:

Name of company	Country/Place of establishment	Registered/ Paid in capital	Equity interest held by the Group 2018	Equity interest held by the Group 2017	Principal activities and place of operation
Beijing Yue Ying Technology Co., Ltd 北京悦影科技有限公司 ("Beijing Yueying") (note c & e)	PRC	RMB11,363,636 (2017: RMB11,363,363)	N/A	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 e)	PRC	RMB25,000,000 (2017: RMB25,000,000)	40%	40%	Mobile application development and operation, in PRC
Beijing Meicam (note b)	PRC	RMB30,000,000 (2017: RMB25,000,000)	N/A	40%	Mobile application development and operation, in PRC
Beijing Jingqi	PRC	RMB4,000,000 (2017: nil)	38.25%	–	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 – *continued*

Notes:

(a) During the year ended 31 December 2018, the Group has established Beijing Jingqi with other investors and obtained 38.25% equity interest in Beijing Jingqi. The Group has classified Beijing Jingqi as a joint venture of the Group because the appointment of the sole director of the company require unanimous consent of the parties sharing control. The share of loss of Beijing Jingqi for the period from its establishment to 31 December 2018 is considered to be immaterial.

(b) 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).

During the year ended 31 December 2018, the Group's interest in Beijing Meicam was diluted from 40% to 33% upon the additional contributions by the new investors and a loss on deemed disposal of partial interest in a joint venture of RMB1,002,000 was recognised in profit or loss for the year ended 31 December 2018. The Group has lost the joint control but retained significant influence over Beijing Meicam and accordingly, the investment in Beijing Meicam was reclassified from an interest in a joint venture to associate (note 15(a)).

The share of profit from Beijing Meicam by the Group was amounted to RMB1,415,000 (2017: RMB235,000) for the year ended 31 December 2018.

(c) During the year ended 31 December 2018, the Group's interest in Beijing Yueying was reduced from 35.2% to 29.92%, resulting in loss of joint control over Beijing Yueying. The Group retained significant influence over Beijing Yueying and accordingly, Beijing Yueying was reclassified as the associate of the Group during the year ended 31 December 2018. The Group's retained interest in Beijing Yueying was amounted to nil on the date of reclassification (note 15(a)).

(d) During the year ended 31 December 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).

(e) The Group has discontinued recognising its share of loss of the joint ventures. The amounts of unrecognised 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:

	2018 **RMB'000**	2017 RMB'000
Unrecognised share of loss of joint venture for the year*	**256**	2,405
Accumulated unrecognised share of loss of joint ventures	**4,222**	5,420

* The amount of unrecognised share of loss of Beijing Yueying for the year ended 31 December 2018 was excluded upon the reclassification.

15. INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
At 1 January	–	–
Reclassification from interests in joint venture	16,648	–
At 31 December	16,648	–
Share of net assets	4,774	–
Goodwill	11,874	–
	16,648	–

As at 31 December 2018, the Group had interests in the following associates, all of which are unlisted corporate entities whose quoted market price is not available and considered not individually material to the Group:

Name of company	Country/Place of establishment	Registered/ Paid in capital	Equity interest held by the Group	Principal activities and place of operation
Beijing Yue Ying Technology Co., Ltd 北京悅影科技有限公司 ("Beijing Yueying") (note a & b)	PRC	RMB11,363,636	29.92%	Development and provision of video related application, in PRC
Beijing Meicam(note a)	PRC	RMB30,000,000	33.33%	Mobile application development and operation, in PRC

Notes:

(a) During the year ended 31 December 2018, Beijing Yueying and Beijing Meicam were reclassified from the Group's joint ventures to associates (Note14(b)&(c)).

(b) The Group has discontinued recognising its share of loss of Beijing Yueying as the Group has no legal or constructive obligations on behalf of Beijing Yueying. The amount of unrecognised share of loss for the year and the accumulated unrecognised share of loss of Beijing Yueying was amounted to RMB454,000 (2017: RMB1,000,000) and RMB1,454,000 (2017: RMB1,000,000), respectively.

16. INVENTORIES

	2018 RMB'000	2017 RMB'000
Equipment and parts	**25,350**	25,009
Work-in-progress	**13,948**	7,707
	39,298	32,716

17. TRADE AND OTHER RECEIVABLES

	Notes	2018 RMB'000	2017 RMB'000
Trade and bills receivables			
From third parties		**328,622**	454,085
From related parties	31(d)	**19,603**	8,530
		348,225	462,615
Less: ECL allowance/loss allowance of trade receivables	32(d)	**(92,886)**	(55,759)
	(a)	**255,339**	406,856
Other receivables	(b)		
Deposits, prepayments and other receivables		**8,441**	28,585
Deposit for guarantee certificate over tendering and performance		**32,225**	29,650
Loan receivables		**176,119**	19,883
Interest receivables		**10,309**	791
Advance to suppliers		**67,800**	66,805
Amounts due from related parties	31(d)	**7,327**	3,074
Amounts due from joint ventures		**7,772**	22,923
VAT receivables		**1,610**	2,330
Advances to employees		**15,306**	8,666
		326,909	182,707
Less: ECL allowance/loss allowance of other receivables	32(d)	**(15,377)**	(6,688)
		311,532	176,019
		566,871	582,875

17. 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:

	2018 **RMB'000**	2017 RMB'000
Trade receivables*	**–**	12,507
Deposit for guarantee certificate over tender and performance	**9,400**	16,351
	9,400	28,858

* The trade receivables that are expected to be recovered after more than one year were classified as contract assets in the consolidated statement of financial position upon adoption of IFRS 15 (note 18).

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.

17. 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. Ageing analysis based on invoiced date of the trade and bills receivables and net of ECL allowance at the respective reporting dates is as follows:

	2018 RMB'000	2017 RMB'000
Billed:		
0 to 90 days	84,233	30,983
91 to 180 days	32,596	21,972
181 to 365 days	43,634	82,119
1 to 2 years	94,876	89,433
	255,339	224,507
Unbilled#	–	182,349
	255,339	406,856

The unbilled balance was mainly attributable to completed solutions sales which will be billed within the next 24 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. Upon adoption of IFRS 15 and as at 31 December 2018, the unbilled balance is classified as contract assets in the consolidated statement of financial position (note 18).

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of the lifetime ECL provision for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the ageing.

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.

As at 31 December 2018, 1% and 13% (2017: 2% and 9%) of trade receivables are due from the largest and 5 major customers respectively in cooperation with the Group's business.

17. TRADE AND OTHER RECEIVABLES – *continued*

(b) Other receivables

Deposit for guarantee certificate

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

Loan receivables

As at 31 December 2018, the Group has loan receivables of approximately RMB176,119,000 (2017: RMB19,883,000) from independent third parties. Loan receivable of RMB20,459,000 is secured by a property, carrying fixed interest of 6% per annum and wholly repayable within one year. As at 31 December 2018, the market value of the property is approximately RMB20,908,000 (2017: RMB20,479,000).

Loan receivables of approximately RMB107,160,000 (2017: nil) and RMB48,500,000 (2017: nil) are unsecured, carrying fixed interest of 6% per annum and 1.8% per month respectively, and wholly repayable within one year. The loan receivables were fully settled subsequent to the year ended 31 December 2018.

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.

18. CONTRACT ASSETS AND CONTRACT LIABILITIES

18.1 Contract assets

	Note	2018 RMB'000
Contract assets		**84,568**
Less: ECL allowance for contract assets	32(d)	**(6,807)**
		77,761

Notes:

The Group has initially applied IFRS 9 and IFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

Upon the adoption of IFRS 15, the unbilled trade receivables represent the Group's entitlement to the consideration which was conditional on achieving the payment milestones, were reclassified from "trade and other receivables" to "contract assets".

18. CONTRACT ASSETS AND CONTRACT LIABILITIES – *continued*

18.1 Contract assets – *continued*

Typical payment terms which impact on the amount of contract assets recognised are as follows:

The Group's solution sales contracts include payment schedules which generally require contract instalment over the contract period once certain specified milestones are reached. The Group also agrees to a one to three years retention period for 5% to 10% of the solution sales contract value.

This amount is included in contract assets until the end of retention period as the Group's entitlement to this final payment is conditional on the Group's satisfactory work.

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of the lifetime ECL provision for all contract assets. To measure the ECL, contract assets have been grouped with trade receivables based on shared credit risk characteristics and the ageing. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for contract assets are a reasonable approximation of the loss rates for the contract assets.

Except for the following amount of contract assets that are expected to be recovered after more than one year, all contract assets will be recognised as trade receivables within one year:

	2018 **RMB'000**	2017 RMB'000
Contract assets	**12,132**	–
Less: ECL allowance of contract assets	**(977)**	–
	11,155	–

For the year ended 31 December 2018, trade receivables that were included in the opening balance of contract assets were amounted to RMB171,940,000.

18. CONTRACT ASSETS AND CONTRACT LIABILITIES – *continued*

18.2 Contract liabilities

The Group has initially applied IFRS 9 and IFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

Upon the adoption of IFRS 15, amounts previously included as "Advances from customers" under "trade and other payables" were reclassified to "contract liabilities". Contract liabilities of the Group mainly arise from the advance payments made by customers while the underlying products or services are yet to be provided.

Movement in contract liabilities

	RMB'000
Balance at 1 January 2018 (upon adoption of IFRS 15)	17,498
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(16,064)
Increase in contract liabilities as a result of billing in advance	10,793
Balance at 31 December 2018	12,227

Unsatisfied performance obligations

The Group has elected the practical expedient for not to disclose the remaining performance obligation because the significant performance obligations as part of the contracts has original expected duration of one year or less.

19. OTHER FINANCIAL ASSETS

	Notes	2018 RMB'000	2017 RMB'000
Available-for-sale financial assets			
Unlisted equity investments, at cost	(ii),(iii)	–	18,697
Less: Provision for impairment	(i)	–	(3,697)
		–	15,000
Financial assets at FVTPL			
Unlisted equity investments, at fair value	(ii)	9,868	–

19. OTHER FINANCIAL ASSETS – *continued*

Notes:

(i) Prior to 1 January 2018, the Group had designated the unlisted equity investments as available-for-sale financial assets under IAS 39. 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.

(ii) Upon adoption of IFRS 9, the available-for-sale financial assets were reclassified to financial assets at FVTPL. See note 2.1.1(a) for the change of accounting policy and reclassification of the equity investments and note 32 (f) for the fair value measurements.

(iii) 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.

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

	2018	2017
	RMB'000	RMB'000
Cash at bank and on hand	**43,921**	75,991
Short-term time deposits	**218,733**	346,941
	262,654	422,932
Restricted bank deposits	**(6,518)**	(13,507)
Pledged bank deposits	**(118,733)**	(111,081)
Bank balances and cash per the consolidated statement of financial position	**137,403**	298,344
Time deposits with banks with original maturities exceeding 3 months	**(100,000)**	(235,000)
Cash and cash equivalents per the consolidated statement of cash flows	**37,403**	63,344

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.

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

As at 31 December 2018, included in bank balances and cash of RMB118,733,000 (2017: RMB111,081,000) are pledged deposits held at bank for security of the Group's bank borrowing (note 22).

As at 31 December 2018, included in bank balances and cash of RMB6,518,000 (2017: RMB13,507,000) are restricted bank deposits for the purpose of contract related deposits or payments and guarantees issued for trade finance facilities.

The Group's major subsidiaries are based in the PRC and majority of their transactions are denominated in RMB. As at 31 December 2018, included in bank balances and cash and pledged bank deposits of the Group is RMB138,837,000 (2017: RMB298,774,000) 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 2018 and 2017, 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:

	2018 **RMB'000**	2017 RMB'000
RMB	**138,837**	298,774
USD	**123,776**	121,055
Others	**41**	3,103
	262,654	422,932

21. TRADE AND OTHER PAYABLES

	Notes	2018 RMB'000	2017 RMB'000
Trade and notes payables			
Trade payables			
– third parties	(a)	**168,883**	191,655
Note payables	(b)	**35,000**	–
		203,883	191,655
Other payables			
Amounts due to customers for contract work		**–**	206
Advances from customers	(c)	**–**	17,498
Other payables and accrued charges		**42,131**	28,632
Other tax liabilities		**77,363**	72,091
Staff costs and welfare accruals		**15,252**	12,532
Amounts due to related parties	31(e)	**8,191**	4,171
Deferred income related to government grants		**1,513**	3,665
		144,450	138,795
		348,333	330,450

All amounts are short-term and hence the carrying values of the Group's trade and other payables as at 31 December 2018 and 2017 were considered to be a reasonable approximation of its fair value.

(a) Trade payables

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

	2018 RMB'000	2017 RMB'000
0 to 90 days	**89,145**	93,244
91 to 180 days	**12,775**	15,716
181 to 365 days	**21,042**	35,565
1 to 2 years	**18,362**	35,738
2 to 3 years	**16,245**	2,171
Over 3 years	**11,314**	9,221
	168,883	191,655

21. TRADE AND OTHER PAYABLES – *continued*

(b) Note payables

All note payables are denominated in RMB and are notes paid and/or payable to third parties for settlement of trade payables. As at 31 December 2018, all notes payables had maturities of less than six months from the reporting date.

As at 31 December 2018, the note payables were guaranteed by Mr. Zheng and Xin'aote Group Co. Ltd. (北京新奧特集團有限公司, "Xin'aote Group").

(c) Advance from customers

As a result of the adoption of IFRS 15, the advance from customers are included in contract liabilities and disclosed in note 18.2.

22. OTHER INTEREST-BEARING BORROWINGS

	Notes	2018 RMB'000	2017 RMB'000
Short-term bank borrowings, secured	(a)	103,000	145,404
Short-term bank borrowings, unsecured	(b)	90,000	29,000
Other borrowings, secured	(c)	–	8,190
Other borrowings, unsecured	(d)	9,956	34,033
		202,956	216,627

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 2018, the secured bank borrowings of RMB103,000,000 were secured by pledge of the Group's bank deposits of approximately RMB118,733,000.

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

22. OTHER INTEREST-BEARING BORROWINGS – *continued*

(b) Short-term bank borrowings, unsecured

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

	2018 RMB'000	2017 RMB'000
Cross-guarantee by Mr. Zheng and Xinxin Holding	–	10,000
Cross-guarantee by Xin'aote Group and Beijing Silicon Valley Technology Development Co., Ltd. ("**Beijing Silicon**")	20,000	–
Cross-guarantee by Mr. Zheng and Xin'aote Investment Group Co., Ltd ("**Xin'aote Investment**")	15,000	–
Guarantee by Xinxin Holding	–	15,000
Guarantee by Mr. Zheng	50,000	–
Guarantee by a third party	5,000	4,000
	90,000	29,000

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(e).

(c) Other borrowings, secured

As at 31 December 2017, the other borrowings of RMB8,190,000 were secured by the Group's property, plant and equipment with nil carrying amount and guaranteed by the Company and the Company's subsidiary. The other borrowings are wholly repayable within one year.

(d) Other borrowings, unsecured

As at 31 December 2018 and 2017, the unsecured other borrowings included short-term borrowings entered with independent third parties, which are repayable within one year or on demand.

22. OTHER INTEREST-BEARING BORROWINGS – *continued*

(e) Effective interest rates

	Original currency	2018	2017
Short-term bank borrowings, secured	RMB	4.6%	4.6%
Short-term bank borrowings, unsecure	USD	–	4.6%
Short-term bank borrowings, unsecured	RMB	4.57% - 6.09%	4.8% - 6.0%
Other borrowings, secured	RMB	–	3.7%
Other borrowings, unsecured	RMB	4.39% - 8.62%	4.4% - 8.6%

23. DEFERRED TAXATION

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

	2018 RMB'000	2017 RMB'000
Deferred tax assets	(7,766)	(18,470)
Deferred tax liabilities	3,488	4,235
	(4,278)	(14,235)

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

	2018 RMB'000	2017 RMB'000
At the beginning of the year	(14,235)	(1,933)
Amounts restated through opening accumulated profits (note 2.1.1(a))	(2,093)	–
Adjusted balance at the beginning of the year	(16,328)	(1,933)
Recognised in profit or loss (note 7)	12,050	(9,069)
Effect from changes in tax rates (note 7)	–	(3,233)
At the end of the year	(4,278)	(14,235)

23. DEFERRED TAXATION – *continued*

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 2017	4,982
Recognised in profit or loss	(747)
At 31 December 2017 and 1 January 2018	4,235
Recognised in profit or loss	(747)
At 31 December 2018	**3,488**

23. 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 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
Amounts restated through opening accumulated profits (note 2.1.1(a))	–	2,093	–	–	2,093
At 1 January 2018	4,500	11,460	2,348	2,255	20,563
Recognised in profit or loss	(2,400)	(9,150)	(81)	(1,166)	(12,797)
At 31 December 2018	**2,100**	**2,310**	**2,267**	**1,089**	**7,766**

As at 31 December 2018, the Group had unused tax losses of approximately RMB84,700,000 (2017: RMB30,108,000) to carry forward against future taxable income. Pursuant to the relevant laws and regulations in the PRC, the unrecognised tax losses at the end of the reporting period will expire in the following years:

	2018 RMB'000	2017 RMB'000
2022	**30,108**	30,108
2023	**54,592**	–
	84,700	30,108

As at 31 December 2018, no deferred tax liability had been provided for the PRC withholding tax that would be payable on the unremitted earnings of nil (2017: RMB40,185,000). 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.

24. SHARE CAPITAL

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

	Number of shares	Nominal value of shares US$
Authorised:		
Ordinary shares of the Company:		
As at 31 December 2017, 1 January 2018 and 31 December 2018, at US$0.00001 each	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 2017		620,000,000	6,200	42
Issuance of shares for share award scheme	(i)	12,000,000	120	1
As at 31 December 2017 and 1 January 2018		632,000,000	6,320	43
Repurchased shares cancelled	(ii)	(1,668,000)	(17)	—
As at 31 December 2018		**630,332,000**	**6,303**	**43**

24. SHARE CAPITAL – *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 2017		–	–	–
Issuance of shares for share award scheme	(i)	12,000,000	120	1
Shares repurchased and not yet cancelled	(ii)	532,000	5	–
As at 31 December 2017 and 1 January 2018		**12,532,000**	**125**	**1**
Share repurchased	(ii)	**1,136,000**	**12**	**–**
Repurchased shares cancelled	(ii)	**(1,668,000)**	**(17)**	**–**
As at 31 December 2018		**12,000,000**	**120**	**1**

Notes:

(i) Issuance of new shares for share award scheme

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

(ii) Repurchase of shares

During the years ended 31 December 2018 and 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
January 2018	806,000	0.90	0.83	696	577
February 2018	330,000	0.82	0.72	258	210
	1,136,000			954	787

The 1,136,000 and 532,000 shares repurchased in 2018 and 2017 were cancelled during the year ended 31 December 2018.

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.

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.

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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

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

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

The Company has adjusted, pursuant to the authority granted to the board of director under the 2010 Share Option Plan, the total number of shares subject to options granted under the 2010 Share Option Plan to 77,893,000 as a result the capitalisation issue which was completed on 27 June 2016. Upon completion of such grant and adjustment, no further options will be granted under the 2010 Share Option Plan.

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:

	2018		2017	
	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
Re-designated to employees	**1.16**	**(16,371,649)**	—	—
At end of year	**1.16**	**14,569,265**	1.16	30,940,914
Employees				
At beginning of year	**0.94**	**45,465,119**	0.94	46,080,933
Re-designated from directors	**1.16**	**16,371,649**	—	—
Forfeited during the year	**1.16**	**(180,237)**	1.16	(615,814)
At end of year	**1.00**	**61,656,531**	0.94	45,465,119
Total				
At beginning of year	**1.03**	**76,406,033**	1.03	77,021,847
Forfeited during the year	**1.16**	**(180,237)**	1.16	(615,814)
At end of year	**1.03**	**76,225,796**	1.03	76,406,033
Excisable at the end of year	**1.03**	**76,225,796**	1.04	75,054,246

As at 31 December 2018, the Group had 76,225,796 (2017: 76,406,033) share options outstanding under the 2010 Share Option Plan, which represented approximately 12.09% (2017: 12.09%) of the issued ordinary shares of the Company as at 31 December 2018. The exercise in full of the outstanding share options would, under the present capital structure of the Group, result in the issue of 76,225,796 (2017: 76,406,033) additional ordinary shares of the Company and additional share capital and share premium of approximately RMB5,000 (2017: RMB5,000) and RMB538,133,000 (2017: RMB513,180,000) (before issue expenses), respectively.

None of the above share options were exercised during the years ended 31 December 2018 and 2017. The weighted average remaining contractual life of options outstanding at 31 December 2018 was 3.0 years (2017: 4.0 years).

The Group recognised an expense of RMB770,000 (2017: RMB2,191,000) for the year ended 31 December 2018 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:

	2018		2017	
	Average exercise price in HK$ per share option	Number of share options	Average exercise price in HK$ per share option	Number of share options
Directors				
At beginning of year	**1.33**	**13,100,000**	–	–
Granted during the year	**–**	**–**	1.33	13,100,000
Re-designated to employees	**1.33**	**(3,300,000)**	–	–
At end of year	**1.33**	**9,800,000**	1.33	13,100,000
Employees				
At beginning of year	**1.33**	**48,870,000**	–	–
Granted during the year	**–**	**–**	1.33	48,900,000
Re-designated from directors	**1.33**	**3,300,000**		
Forfeited during the year	**1.33**	**(310,300)**	1.33	(30,000)
At end of year	**1.33**	**51,859,700**	1.33	48,870,000
Total				
At beginning of year	**1.33**	**61,970,000**	–	–
Granted during the year	**–**	**–**	1.33	62,000,000
Forfeited during the year	**1.33**	**(310,300)**	1.33	(30,000)
At end of year	**1.33**	**61,659,700**	1.33	61,970,000
Exercisable at the end of year	**1.33**	**43,183,500**	1.33	25,310,000

As at 31 December 2018, the Group had 61,659,700 (2017: 61,970,000) share options outstanding under the 2017 Share Option Scheme, which represented approximately 9.78% (2017: 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 61,659,700 (2017: 61,970,000) additional ordinary shares of the Company and additional share capital and share premium of approximately RMB5,000 (2017: RMB5,000) and RMB71,998,000 (2017: RMB68,645,000) (before issue expenses), respectively.

None of the above share options were exercised during the year. The weighted average remaining contractual life of options outstanding at 31 December 2018 was 8.4 years (2017: 9.4 years).

The Group recognised an expense of RMB7,542,000 (2017: RMB19,260,000) for the year ended 31 December 2018 in relation to the 2017 Share Option Scheme.

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.

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).

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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 24(i)). The Group had 11,085,448 (2017: 12,000,000) share awards outstanding under the Share Award Scheme, which represented approximately 1.76% (2017: 1.90%) of the issued ordinary shares of the Company as at 31 December 2018. No shares were purchased or granted by the Company under the Share Award Scheme during the year ended 31 December 2018.

During the year ended 31 December 2018, 8,400,000 awarded shares (2017: nil) were vested and transferred to the participants of the Share Award Scheme.

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

	Number of share awards
Employees	
At 1 January 2017	–
Granted during the year	12,000,000
At 31 December 2017 and 1 January 2018	12,000,000
Forfeited during the year	(914,552)
Awarded during the year	(8,400,000)
At 31 December 2018	2,685,448

The Group recognised an expense of RMB2,996,000 (2017: RMB10,163,000) for the year ended 31 December 2018 in relation to the 2017 Share Award Scheme.

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

(e) The Group recognised a total expense of RMB11,308,000 (2017: RMB62,849,000) for the year ended 31 December 2018 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

	2018 RMB'000	2017 RMB'000
Non-current assets		
Interests in subsidiaries	**282,665**	493,285
Current assets		
Other receivables	**25,505**	23,906
Amount due from a subsidiary	**47,081**	43,775
Pledged bank deposits	**118,733**	111,081
Bank balances	**5,075**	12,926
	196,394	191,688
Current liabilities		
Other payables	**4,390**	3,209
Net current assets	**192,004**	188,479
Net assets	**474,669**	681,764
EQUITY		
Share capital	**43**	43
Reserves (note)	**474,626**	681,721
Total equity	**474,669**	681,764

Zheng Fushang
Director

Liu Baodong
Director

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

Note:

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

	Treasury shares RMB'000	Share premium RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Other reserve RMB'000	Accumulated profits/(losses) RMB'000	Total reserves RMB'000
As at 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 24(ii))	–	(399)	–	–	–	–	(399)
Issue of shares of share award scheme (note 24(i))	(1)	–	–	–	–	–	(1)
As at 31 December 2017 and 1 January 2018	(1)	588,503	(5,304)	54,042	41,398	3,083	681,721
Loss for the year	–	–	–	–	–	(246,262)	(246,262)
Currency translation differences	–	–	28,646	–	–	–	28,646
Vesting of shares held by the Share Award Scheme (note 26(c))	–	9,763	–	–	(9,763)	–	–
Share-based compensation (note 26)	–	–	–	8,312	2,996	–	11,308
Transfer upon forfeiture of share options	–	–	–	(38)	–	38	–
Share repurchased and cancelled (note 24(ii))	–	(787)	–	–	–	–	(787)
As at 31 December 2018	**(1)**	**597,479**	**23,342**	**62,316**	**34,631**	**(243,141)**	**474,626**

As at 31 December 2018, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB354,338,000 (2017: RMB591,586,000).

28. DEEMED DISPOSAL OF A SUBSIDIARY

In November 2017, the Group has terminated the act in concert agreement with another investor of Beijing Meicam 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 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 in 2017 (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 (note 14)	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:

	2018 **RMB'000**	2017 RMB'000
Within one year	**8,895**	7,601
In the second to fifth year inclusive	**116**	—
	9,011	7,601

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

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

	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 and 1 January 2018	174,404	42,223	—	4,171	220,798
Financing cash inflow	218,000	—	—	4,932	222,932
Financing cash outflow	(199,404)	(35,687)	—	(912)	(236,003)
Interest accrued	—	—	12,242	—	12,242
Interest paid	—	—	(11,865)	—	(11,865)
Other non-cash changes	—	3,420	—	—	3,420
At 31 December 2018	193,000	9,956	377	8,191	211,524

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group's accounting policies on related parties are disclosed in note 2.23. 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	Company in which Mr. Zheng can exercise significant influence
Xin'aote Group	Controlled by Mr. Zheng
Xin'aote Digital Media Technology Business Incubator Co., Ltd. ("Xin'aote Digital Media")	Controlled by Mr. Zheng
Xin'aote Investment	Controlled by Mr. Zheng
Beijing Xin'aote Yun Chuang Technology Co., Ltd. ("Xin'aote Yunchuang")	Controlled by Mr. Zheng
Beijing Silicon	Controlled by Mr. Zheng

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

		2018 RMB'000	2017 RMB'000
Xinxin Holding	Rental expenses and property management fee*	–	12,553
Xin'aote Digital Media	Rental expenses and property management fee*	14,838	–
Xin'aote Investment	Rental expenses and property management fee*	916	–
Xin'aote Group	Sales of goods and provision of service*	9,975	3,137
Xin'aote Yunchuang	Sales of goods and provision of service	918	–
CDV Cloud	Sales of goods and provision of service	–	821
CDV Cloud	Purchase of intangible assets	–	1,338

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

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

31. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(c) Guarantee provided by related parties

As at 31 December 2018, Mr. Zheng and Xin'aote Group have provided cross-guarantee in respect of the notes payables of RMB35,000,000 (2017: nil).

As at 31 December 2018, Mr. Zheng has provided guarantee in respect of the bank borrowings of RMB50,000,000 (2017: nil) granted to the Group.

As at 31 December 2018, Xin'aote Group and Beijing Silicon have provided cross-guarantee in respect of bank borrowings of RMB20,000,000 (2017: nil) granted to the Group.

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

(d) Trade and other receivables from related parties

	2018 RMB'000	2017 RMB'000
Trade receivables		
Xin'aote Group	**17,671**	7,214
CDV Cloud	**1,316**	1,316
Xin'aote Yunchuang	**616**	–
	19,603	8,530
Other receivables		
Xinxin Holding*	**2,572**	3,074
Xin'aote Digital Media*	**4,755**	–
	7,327	3,074
	26,930	11,604

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

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

	2018 RMB'000	2017 RMB'000
Xinxin Holding	**3,074**	3,893
Xin'aote Group	**17,671**	10,180
Xin'aote Digital Media	**4,755**	–
Xin'aote Yunchuang	**616**	–
CDV Cloud	**1,316**	3,441

31. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(e) Other payables to related parties

	2018 RMB'000	2017 RMB'000
Xin'aote Group	**7,341**	4,053
Xin'aote Investment	**504**	–
CDV Cloud	**346**	118
	8,191	4,171

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:

	2018 RMB'000	2017 RMB'000
Basic salaries and allowances	**4,865**	5,336
Discretionary bonus	**–**	89
Retirement benefit scheme contributions	**251**	372
Share-based compensation expense	**1,849**	4,826
	6,965	10,623

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 and interest rate 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.

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost		
Trade and other receivables	482,000	–
Restricted bank deposits	6,518	–
Pledged bank deposits	118,733	–
Bank balances and cash	137,403	–
Financial assets at FVTPL	9,868	–
Loans and receivables		
Trade and other receivables	–	513,569
Restricted bank deposits	–	13,507
Pledged bank deposits	–	111,081
Bank balances and cash	–	298,344
Available-for-sale financial assets	–	15,000
	754,522	951,501
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	269,457	236,990
Other interest-bearing borrowings	202,956	216,627
	472,413	453,617

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 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 accumulated profits would have been RMB1,615,000 higher/lower and RMB1,615,000 lower/higher respectively for the year ended 31 December 2017. As at 31 December 2018, the Group has bank balances denominated in USD of RMB56,000, the exposure to foreign exchange risk is considered to be immaterial.

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 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 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's loss after income tax and decreased/increased the accumulated losses by approximately RMB880,000 respectively. 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/increased the Group's loss after income tax and increased/decreased the Group's accumulated profits by approximately RMB2,635,000 respectively.

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

(d) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group is exposed to credit risk in relation to its cash and bank deposits, trade and other receivables and contract assets.

To manage the credit risk arising from bank balances and cash, the Group only transacts with state-owned financial institutions and reputable commercial banks which are all high-credit-quality financial institutions. The Group does not expect that there will be any significant losses from non-performance by these counterparties.

Effective on 1 January 2018

Impairment assessment under ECL model

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

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

(d) Credit risk – *continued*

Effective on 1 January 2018 – *continued*

Impairment assessment under ECL model – *continued*

Trade receivables and contract assets

The Group's policy is to deal only with credit worthy counterparties. Credit terms are granted to new customers after a credit worthiness assessment by the credit control department. When considered appropriate, customers may be requested to provide proof as to their financial position. Where available at reasonable cost, external credit ratings and/or reports on customers are obtained and used. Customers who are not considered creditworthy are required to pay in advance or on delivery of goods. Payment record of customers is closely monitored. It is not the Group's policy to request collateral from its customers.

In addition, as set out in note 2.10, the Group assesses ECL under IFRS 9 on trade receivables and contract assets based on provision matrix, the expected loss rates are based on the payment profile of the sales in the past 36 months as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed.

Trade receivables and contract assets are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make contractual payments greater than 3 years past due from the invoice date and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

Majority of the Group's revenue were generated from the TV broadcasters in the PRC and most of which are state-owned enterprises. As at 31 December 2018, all of the Group's trade receivables and contract assets were from customers located in the PRC. The Group has closely monitored the market trend of TV broadcasting industry and the business performance of these customers to ensure timely collection of the receivables and will consider to diversify its customers base as appropriate.

The Group's has no significant concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

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

(d) Credit risk – *continued*

Effective on 1 January 2018 – *continued*

Impairment assessment under ECL model – *continued*

Trade receivables and contract assets – continued

On the above basis, the ECL for trade receivables and contract assets as at 31 December 2018 and 1 January 2018 was determined as follows:

		Gross carrying amount		
	Expected loss rate	Contract assets RMB'000	Trade receivables RMB'000	Total loss allowance provision RMB'000
As at 31 December 2018				
Current to 1 year past due	**8.0% - 8.1%**	**84,568**	**174,455**	**20,800**
1 to 2 years past due	**11.4% - 29.2%**	**–**	**85,607**	**22,923**
More than 2 years past due	**61.2% - 89.3%**	**–**	**88,163**	**55,970**
		84,568	**348,225**	**99,693**
As at 1 January 2018				
Current to 1 year past due	3.5% - 7.1%	182,349	138,056	20,883
1 to 2 years past due	23.6% - 29.2%	–	117,661	28,506
More than 2 years past due	79.4% - 100%	–	24,549	20,325
		182,349	280,266	69,714

The movement in the ECL allowance/loss allowance of trade receivables and contract assets is as follows:

	2018 RMB'000	2017 RMB'000
Balance at the beginning of the year under IAS 39	**55,759**	32,355
Amounts restated through opening accumulated profits (note 2.1.1(a))	**13,955**	–
Adjusted balance at the beginning of the year under IFRS 9	**69,714**	32,355
Provision for impairment	**65,003**	35,157
Reversal of provision for impairment	**(20,243)**	(8,025)
Written off as uncollectible	**(14,781)**	(3,728)
Balance at the end of the year	**99,693**	55,759

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

(d) Credit risk – *continued*

Effective on 1 January 2018 – *continued*

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, restricted bank deposits, pledged bank deposits and bank balances and cash. In order to minimise the credit risk of other receivables, the management of the Group has designated a team responsible for determination of credit limits and credit approvals. The management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

ECL on other receivables (excluding prepayments, advance to suppliers and employees and VAT receivables) are assessed individually and measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. Note 2.10 details how the Group determines whether there has been a significant increase in credit risk. As at 31 December 2018, ECL allowance of RMB15,377,000 (1 January 2018: RMB6,688,000) was made against the gross amount of other receivables (note 17).

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

	2018	2017
	RMB'000	RMB'000
Balance at the beginning of the year	**6,688**	4,736
Provision for impairment	**13,551**	2,082
Reversal of provision for impairment	**(1,282)**	(130)
Written off as uncollectible	**(3,580)**	—
Balance at the end of the year	**15,377**	6,688

Effective prior to 1 January 2018

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.

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

(d) Credit risk – *continued*

Effective prior to 1 January 2018 – *continued*

Other financial assets at amortised cost – continued

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.

(e) 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 2018. 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	Total contractual undiscounted amount RMB'000	Carrying amount RMB'000
At 31 December 2018			
Trade and other payables	**269,457**	**269,457**	**269,457**
Other interest-bearing borrowings	**208,181**	**208,181**	**202,956**
	477,638	**477,638**	**472,413**
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

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

(f) 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 3	
	2018 RMB'000	2017 RMB'000
Financial assets at FVTPL		
– Unlisted equity investments	**9,868**	–

For the years ended 31 December 2018 and 2017, there were no transfers amongst level 1, level 2 and level 3 in the fair value hierarchy.

(i) Unlisted equity investments

The information about the fair value of unlisted equity investment categorised under Level 3 fair value hierarchy are described below:

	Valuation technique	Unobservable input	Range (weighted average)	
			2018	2017
– Unlisted equity investments (note 1)	Market approach and net assets approach	Discount of lack of marketability	**15.8%**	N/A

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

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

(i) Unlisted equity investments – *continued*

Note:

1) As at 31 December 2018, with the assistance of independent professional valuer, the fair value of unlisted equity investments is determined using the market approach and net assets adjusted for lack of marketability discount. An increase in the discount for lack of marketability would decrease the fair value of the equity investments. As at 31 December 2017, the unlisted equity investments are measured at cost, less impairment under IAS 39.

The reconciliation of the carrying amounts of the Group's financial assets at FVTPL (under IFRS 9) classified within Level 3 of the fair value hierarchy is as follows:

	2018 **RMB'000**	2017 RMB'000
Unlisted equity investments		
Fair value at 1 January	**15,000**	–
Fair value loss recognised in profit or loss	**(5,132)**	–
Fair value at 31 December	**9,868**	–

Fair value change on unlisted equity investment is recognised in the consolidated statement of comprehensive income and included under "Other income".

There have been no transfers into or out of Level 3 during the year ended 31 December 2018 (2017: Nil).

33. CAPITAL MANAGEMENT

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

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

34. COMPARATIVE FIGURES

Certain comparative figures in the consolidated financial statements have been reclassified to conform with the current year's presentation.

FIVE-YEAR FINANCIAL SUMMARY

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

RMB'000	For the year ended 31 December				
	2018	2017	2016	2015	2014
Revenue	**341,047**	398,307	651,976	605,983	406,369
(Loss)/Profit for the year	**(160,012)**	(92,593)	333,262	114,114	(69,400)
Total comprehensive income for the year	**(158,490)**	(107,601)	332,874	79,282	(71,014)
(Loss)/Profit for the year attributable to:					
Equity holders of the Company	**(168,735)**	(90,339)	338,706	120,219	(66,582)
Non-controlling interests	**(58)**	(2,254)	(5,444)	(6,105)	(2,818)

RMB'000	As at 31 December				
	2018	2017	2016	2015	2014
Total assets	**1,165,317**	1,310,392	1,295,240	804,709	713,036
Total liabilities	**571,587**	554,902	510,487	928,593	925,005
Net assets/(liabilities)	**593,730**	755,490	784,753	(123,884)	(211,969)