CHINA DIGITAL VIDEO HOLDINGS LIMITED

中國數字視頻控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock code: 8280

ANNUAL REPORT 2019

ALWAYS BE

FORWARD LOOKING

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

This 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.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. AU Wai Keung
Mr. QIAN Yiyue *(resigned on 24 September 2019)*

AUTHORISED REPRESENTATIVES

Mr. ZHENG Fushuang *(appointed on 24 September 2019)*
Mr. AU Wai Keung
Mr. QIAN Yiyue *(resigned on 24 September 2019)*

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1303, 13/F
Hua Fu Commercial Building
111 Queen's Road West
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

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 ADVISORS

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 2019 (the "**2019 Annual Period**").

OVERVIEW

Business Review

During the 2019 Annual Period, we recorded revenue of approximately RMB303.2 million, which represents a decrease of 11.1% over the revenue of RMB341.0 million for the year ended 31 December 2018 (the "**2018 Annual Period**"). We recorded a loss of RMB172.7 million for the 2019 Annual Period as compared to a loss of RMB168.8 million for the 2018 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 2020, 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

8 May 2020

FINANCIAL HIGHLIGHTS

Our revenue decreased by 11.1% to RMB303.2 million for the 2019 Annual Period from RMB341.0 million for the 2018 Annual Period.

We recorded a loss of RMB172.7 million for the 2019 Annual Period as compared to a loss of RMB168.8 million for the 2018 Annual Period.

Our Directors did not recommend the payment of dividend for the 2019 Annual Period (2018: 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 relationships 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 23 years. We have also served alternative broadcasting platforms, such as cable networks operators, Internet media content providers and IPTV operators. In view of the sustained losses of the Group, while we will continue with our existing principal business, we will conduct a review of our business activities for the purpose of formulating business plans and strategies for our future business development. We may explore other business opportunities and consider whether any asset disposal, asset acquisition, business rationalisation, business divestment, fund raising, restructuring of the existing business and/or business diversification will be appropriate in order to enhance our long-term growth potential.

FINANCIAL REVIEW

We recorded a revenue of RMB303.2 million for the 2019 Annual Period, representing a decrease of 11.1% from RMB341.0 million for the 2018 Annual Period. We recorded a loss of RMB172.7 million in the 2019 Annual Period as compared to a loss of RMB168.8 million in the 2018 Annual Period.

Revenue

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

Our revenue decreased by 11.1% to RMB303.2 million for the 2019 Annual Period from RMB341.0 million for the 2018 Annual Period. The decrease was mainly attributable to (i) the deteriorating performance of the traditional TV broadcasting industry as a result of keen competition from new media and the Internet; and (ii) the delay in the reconstruction and upgrading of the 4K ultra-high definition equipment of certain major customers.

Cost of Sales

Our cost of sales decreased by 9.8% to RMB235.7 million for the 2019 Annual Period from RMB261.3 million for the 2018 Annual Period, as a result of the decrease in revenue.

Gross Profit and Gross Profit Margin

Our gross profit represents revenue less cost of sales. Our gross profit decreased by 15.3% to RMB67.5 million for the 2019 Annual Period from RMB79.7 million for the 2018 Annual Period, primarily due to the decrease in revenue. As a result, our gross profit margin decreased to 22.3% for the 2019 Annual Period from 23.4% for the 2018 Annual Period due to the decrease in revenue.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Other Income

Our other income decreased by 4.9% to RMB31.4 million for the 2019 Annual Period from RMB33.0 million for the 2018 Annual Period, primarily due to (i) the decrease in government subsidies; and (ii) the decrease in interest income.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 13.8% to RMB57.4 million for the 2019 Annual Period as compared to RMB66.6 million for 2018 Annual Period, primarily due to the decrease in the costs relating to sales and marketing staff.

Administrative Expenses

Our administrative expenses remained relatively stable at RMB43.6 million for the 2019 Annual Period as compared to RMB41.5 million for the 2018 Annual Period.

Share-Based Compensation Expense

Our share-based compensation expense decreased by 84.5% to RMB1.8 million for the 2019 Annual Period from RMB11.3 million for the 2018 Annual Period, as the number of options vested in the 2019 Annual Period was significantly lower than that in the 2018 Annual Period.

Research and Development Expenses

Our research and development expenses remained relatively stable at RMB27.9 million for the 2019 Annual Period as compared to RMB28.6 million for the 2018 Annual Period.

Finance Costs

Our finance costs increased by 6.6% to RMB13.0 million for the 2019 Annual Period from RMB12.2 million for the 2018 Annual Period, primarily due to the increase in bank borrowings.

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 RMB108.3 million for the 2019 Annual Period from RMB57.0 million for the 2018 Annual Period. The increase was primarily due to the increase in the expected credit loss on our past due trade and other receivables.

Impairment Loss on Goodwill

We recorded an impairment loss on goodwill of RMB17.5 million for the 2019 Annual Period as compared to RMB56.7 million for the 2018 Annual Period. Such impairment loss was mainly attributable to the underperformance of our digital broadcasting business acquired in 2013.

Loss before Income Tax

As a result of the foregoing factors, we recorded a loss before income tax of RMB173.5 million and RMB160.0 million for the 2019 Annual Period and the 2018 Annual Period, respectively.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Income Tax Expense

We recorded an income tax credit of RMB0.8 million for the 2019 Annual Period as compared to income tax expense of RMB8.8 million for the 2018 Annual Period, primarily due to reversal of temporary differences.

Loss for the Year

As a result of the foregoing factors, we recorded a loss of RMB172.7 million for the 2019 Annual Period as compared to a loss of RMB168.8 million for the 2018 Annual Period.

Other Comprehensive Income

We recorded other comprehensive income of RMB5.1 million for the 2019 Annual Period as compared to RMB10.3 million for the 2018 Annual Period, primarily due to the depreciation of Renminbi.

Loss attributable to Equity Holders

We had loss attributable to equity holders of RMB173.3 million for the 2019 Annual Period as compared to RMB168.7 million for the 2018 Annual Period.

Dividend

The Directors did not recommend the payment of a final dividend for the 2019 Annual Period (2018: nil).

ANALYSIS ON ANNUAL AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Non-current Assets

As at 31 December 2019, our non-current assets amounted to RMB168.0 million (as compared to RMB218.7 million as at 31 December 2018), primarily consisting of intangible assets of RMB139.0 million (as compared to RMB161.8 million as at 31 December 2018) and interests in associates of RMB17.3 million (as compared to RMB16.6 million as at 31 December 2018). Our intangible assets mainly represent all direct costs incurred in the development of software products. Our interests in associates represent our interests in associates, namely, Beijing Yue Ying Technology Co., Ltd (北京悦影科技有限公司), Beijing Meicam Network Technology Co, Ltd (北京美攝網絡科技有限公司), Xin'aote (Fujian) Culture Technology Co., Ltd. (新奧特 (福建) 文化科技有限公司) and Beijing Xin'aote Smart Sport Innovation Development Co., Ltd. (北京新奧特智慧體育創新發展有限公司).

Current Assets

As at 31 December 2019, our current assets amounted to RMB769.7 million (as compared to RMB946.6 million as at 31 December 2018), primarily consisting of trade and other receivables of RMB393.9 million (as compared to RMB566.9 million as at 31 December 2018), bank balances and cash of RMB115.2 million (as compared to RMB137.4 million as at 31 December 2018) and pledged bank deposits of RMB122.4 million (as compared to RMB118.7 million as at 31 December 2018).

MANAGEMENT DISCUSSIONS AND ANALYSIS

Current Liabilities

As at 31 December 2019, our current liabilities amounted to RMB511.4 million (as compared to RMB568.1 million as at 31 December 2018), primarily consisting of trade and other payables of RMB254.2 million (as compared to RMB348.3 million as at 31 December 2018), other interest-bearing borrowings of RMB234.9 million (as compared to RMB203.0 million as at 31 December 2018) and contract liabilities of RMB17.0 million (as compared to RMB12.2 million as at 31 December 2018). Contract liabilities of the Group mainly arose from the advance payments made by customers while the underlying products or services were yet to be provided.

Non-current Liabilities

As at 31 December 2019, we did not have any non-current liabilities (2018: RMB3.5 million).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2019, the current assets of the Group amounted to RMB769.7 million, including RMB393.9 million in trade and other receivables and RMB115.2 million in bank balances and cash. Current liabilities of the Group amounted to RMB511.4 million, of which RMB254.2 million were trade and other payables and RMB234.9 million were interest-bearing bank and other interest-bearing borrowings. As at 31 December 2019, the interest-bearing bank and other borrowings were denominated in Renminbi bearing fixed and floating interest rates. All of our bank borrowings and other borrowings as at 31 December 2019 were repayable within one year.

The gearing ratio of the Group (calculated as total borrowings divided by total equity) was 55.1% as at 31 December 2019 (as compared to 34.2% as at 31 December 2018).

During the 2019 Annual Period, we did not employ any financial instrument for hedging purposes.

COMMITMENTS

As at 31 December 2019, we had operating lease commitments in respect of rented office and various residential properties of approximately RMB6.0 million (2018: RMB9.0 million).

MATERIAL ACQUISITIONS AND DISPOSAL

We had no material acquisitions and disposal of subsidiaries and affiliated companies during the 2019 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.

MANAGEMENT DISCUSSIONS AND ANALYSIS

FOREIGN CURRENCY RISK

Our subsidiaries mainly operate in the PRC and the majority of the transactions are settled in Renminbi except for certain bank balances and bank borrowings which are denominated in U.S. dollars. 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 2019, we did not have significant foreign currency risk from our operations. During the 2019 Annual Period, we did not enter into any arrangements to hedge against any fluctuation in foreign currency.

CHARGE ON ASSETS

As at 31 December 2019, we had restricted and pledged deposit of RMB124.5 million (2018: RMB125.3 million) held in banks for the purpose of contract related deposits or payments, guarantees issued for trade finance facilities and security of bank borrowings.

USE OF PROCEEDS

The net proceeds from the Listing amounted to approximately HK$225.2 million. As at 31 December 2019, the net proceeds from the Listing had been fully utilized in the following manner:

	Application of funds as at 31 December 2019 as a percentage to the total amount of net proceeds
Business expansion and development	38.8%
Potential strategic investment and acquisition	12.7%
Enhancing the R&D capabilities and upgrading the information technology systems	13.4%
Repayment of certain existing bank borrowings	10.0%
Promotion and marketing	4.0%
General working capital	21.1%
Total:	100%

MANAGEMENT DISCUSSIONS AND ANALYSIS

HUMAN RESOURCES

As at 31 December 2019, we had 701 full-time employees and 34 dispatched workers (2018: 801 full-time employees and 47 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the 2019 Annual Period and the 2018 Annual Period, the remuneration expense, including both capitalized and expensed but excluding share-based compensation expense, was approximately RMB132.6 million and RMB165.9 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 our employees' performance and determine their salary, bonus and promotion. We also place a strong emphasis on providing training to our employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards.

CONTINGENT LIABILITIES

As at 31 December 2019, we did not have any material contingent liabilities (2018: nil). We are not currently involved in any material legal proceedings, nor are we aware of any proceedings 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.

MANAGEMENT DISCUSSIONS AND ANALYSIS

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 54, 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 the board 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.

Mr. Liu Baodong (劉保東), aged 56, 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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

He has served as the chief executive officer of China Digital Video (Beijing) Limited, our principal operating PRC subsidiary, since 2008. From 2004 to 2008, Mr. Liu was the general manager of Xin'aote Silicon Valley Video Technology Co., Ltd., 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 56, 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 56, 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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

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 53, 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 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 chief executive officer, chairman and a member of the board of CLEARink Display Corporation (USA), which is principally engaged in developing reflective display technology. 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 56, is an independent non-executive Director of the Company. She was appointed to the Board on 23 May 2016. She is the chairlady of the audit committee and a member of nomination committee.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

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.

SENIOR MANAGEMENT

Mr. Zheng Fushuang (鄭福雙), aged 54, is the founder of the Group. He is the chairman of the Board, 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. Liu Baodong (劉保東), aged 56, is the president 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 51, 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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

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.

COMPANY SECRETARY

Mr. Au Wai Keung (區偉強), aged 48, is the company secretary of the Company. He was appointed as a joint company secretary on 21 August 2015 and as a company secretary on 24 September 2019. 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.

CORPORATE GOVERNANCE REPORT

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 code provision A.2.1 of the Code, the Company has complied with the Code from 1 January 2019 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 reports, which 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 its effectiveness.

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 *(President)*
Mr. XU Da

Independent non-executive Directors

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

CORPORATE GOVERNANCE REPORT

Biographical details of the Directors are set out in the section headed "Biographical Details of the Directors and Senior Management" in 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

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 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 the 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 code provision A.2.1 of the Corporate Governance Code is appropriate in such circumstance. Save 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 2019 up to the date of this annual report.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Mr. XU Da has entered into a service contract with the Company for a period of three years commencing from 14 June 2017, which may be terminated by not less than three months' notice in writing served by either party on the other. The Company has executed an appointment letter with Dr. LI Wanshou for a period of three years commencing from 28 June 2018, and an appointment letter with each of Mr. Frank CHRISTIAENS and Ms. CAO Qian for a period of three years commencing from 22 May 2019. Each of Mr. Zheng and Mr. LIU Baodong has entered into a service contract with the Company for a period of three years commencing from 22 May 2019, which may be terminated by not less than three months' notice in writing served by either party on the other.

In accordance with the Company's articles of association, Mr. LIU Baodong and Ms. CAO Qian shall retire from office by rotation at the 2020 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.

Mr. Frank CHRISTIAENS, one of the independent non-executive Directors, has served as a member of the Board for more than nine years. While this could be relevant to the assessment of independence, the Board is of the view that the independence of Mr. Frank CHRISTIAENS cannot be solely determined by his period of service in the Company. In assessing his independence, the Board has considered his character and judgement with reference to his contribution to the Board. Over the years, Mr. Frank CHRISTIAENS has provided valuable insights to the Board with his experience, expertise and knowledge, and the Company has benefited from his contribution and commitment. The Board is therefore of the view that Mr. Frank CHRISTIAENS meets the independence criteria set out in Rule 5.09 of the GEM Listing Rules and that he is able to continue to fulfil his role as an independent non-executive Director. Save as disclosed hereinabove, none of the independent non-executive Directors has served in the Board for more than nine years.

CORPORATE GOVERNANCE REPORT

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 2019 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 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 2019 Annual Period, all Directors have participated in continuing professional development by attending training courses 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.

CORPORATE GOVERNANCE REPORT

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 provisions 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 appropriate 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 2019 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.

CORPORATE GOVERNANCE REPORT

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 2019 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 2019 Annual Period have been reviewed by the Audit Committee, and the Audit Committee is of the opinion that such results complied with the applicable standards, the GEM Listing Rules and other applicable legal requirements and that adequate disclosures had been made.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORDS OF MEETINGS

In 2019, the Board held 5 meetings at which the operating results of the Company were considered and discussed. In 2019, the Audit Committee, the Remuneration Committee and the Nomination Committee held 4, 1 and 1 meeting(s), respectively.

Members	Meetings attended/meetings held since 1 January 2019				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	2019 Annual General Meeting and Extraordinary General Meeting
Executive Directors					
Mr. ZHENG Fushuang	4/5	—	—	1/1	1/1
Mr. LIU Baodong	5/5	—	1/1	—	1/1
Mr. XU Da	5/5	—	—	—	1/1
Independent non-executive Directors					
Dr. LI Wanshou	5/5	4/4	1/1	1/1	0/1
Mr. Frank CHRISTIAENS	5/5	4/4	1/1	—	0/1
Ms. CAO Qian	4/5	4/4	—	1/1	1/1

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

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT MEMBERS

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

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

CORPORATE GOVERNANCE REPORT

During the 2019 Annual Period, the annual remuneration of the members of the senior management is set out below:

	Number of individuals	
	2019	2018
Nil - HK$1,000,000	2	2
HK$1,000,001 - HK$1,500,000	2	—
HK$1,500,001 - HK$2,000,000	—	1
HK$2,000,001 - HK$2,500,000	—	1

COMPANY SECRETARY

Prior to 24 September 2019, Mr. QIAN Yiyue ("**Mr. Qian**") and Mr. AU Wai Keung ("**Mr. Au**") were the joint company secretary of the Company. Mr. Qian was a member of the Company's senior management, and Mr. Au was engaged by the Company as a company secretary to act jointly with Mr. Qian. Mr. Qian resigned as a joint company secretary of the Company with effect from 24 September 2019, and Mr. Au has become the sole company secretary of the Company. Mr. Au has informed the Company that his training covering corporate governance and accounting matters satisfied the requirements under Rule 5.15 of the GEM Listing Rules during the 2019 Annual Period. The Company considers that the training of Mr. Au is in compliance with the requirements under Rule 5.15 of the GEM Listing Rules during the 2019 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 judgments and estimates 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 2019 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	965,000
Non-audit services	140,000

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 REPORT

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 2019 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 2019 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 in 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 payments and related matters.

CORPORATE GOVERNANCE REPORT

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 Company Secretary, Mr. AU Wai Keung, at the Company's principal place of business in Hong Kong as follows:

The Company Secretary
China Digital Video Holdings Limited
Unit 1303, 13/F
Hua Fu Commercial Building
111 Queen's Road West
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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 necessary 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 2019 to 31 December 2019 (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 Reporting Period.

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.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. HUMAN CAPITAL – *continued*

a. Healthy and Safe Working Environment

The Group places great emphasis on the occupational health and safety conditions of its employees. The Group abides by the relevant occupational health and safety laws and regulations, including the Law on Work Safety of the PRC, and 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 occupational health and safety 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.

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 a 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 systems 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 easy accesses to workplaces 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 assessments for promotion;

12. Providing sufficient first-aid kits at workplaces;

13. Ensuring effective transmission, discussion and consultation of health and safety-related matters; and

14. Supervising the implementation of safety measures.

2. HUMAN CAPITAL – *continued*

b. Equal Employment

The Company strives to provide a harmonious, fair and equitable working environment that is conductive 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. In recruiting its employees, the Company abides by the relevant laws and regulations, including the Labor Law of the PRC, the Labor Contract Law of the PRC and the Implementation Regulations for the Labor Contract Law of the PRC. 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	194	476	31
Part-time	26	30	15

Employment Turnover Rate by Age Group

	Turnover Rate by Age Group (Both Full & Part-Time)		
	Below 30	30 – 50	Over 50
Turnover Rate	19%	18%	1%

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 a lucky draw and entertainment performances.

c. 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	59%
Middle Managers	19%
Senior Managers	22%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. HUMAN CAPITAL – *continued*

d. 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 Law of Protection of Minors of the PRC and the Provisions on Prohibition Against the Use of Child Labor 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.

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 the prohibition of bribery, extortion, fraud, money laundering and corruption, including the Anti-unfair Competition Law of the PRC, the Anti-money Laundering Law of the PRC and the Interim Provisions on Prohibiting Commercial Bribery. During the Reporting Period, there were no legal cases regarding corrupt practices brought against the Company or its employees.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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. The Company has complied with all relevant environmental protection laws and regulations, including the Environmental Protection Law of the PRC, the Water Pollution Control Law of the PRC and the Energy Conservation Law of 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 648,698 kWh during the Reporting Period.

Scope	Details	Tonnes CO2-e
1: Direct Emission	Company-owned car	64.1
2: Energy Indirect Emissions	Electricity consumed	525.5
Total:		589.6

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.

3. ENVIRONMENTAL PROTECTION – *continued*

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 prevent 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 adhering 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 registrations and approvals according to the laws.

4. VALUE CHAIN – *continued*

a. Product Responsibility – *continued*

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 filings and registrations.

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

b. Relationship with Suppliers

The Group has maintained strict control over the quality offered by the suppliers and vendors. The Group evaluates the performance of its major suppliers and 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 have positive impacts on local communities by focusing its efforts on environmental protection and community care.

During the Reporting Period, we had donated funds to certain schools in impoverished regions, and provided financial aid to its students. By helping our beneficiaries, we empower them with better learning and development opportunities so they can contribute to the 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 2019 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" in 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 2019 Annual Period are set out in the consolidated statement of comprehensive income on page 51 of this annual report.

The Board did not recommend the payment of any dividend for the 2019 Annual Period (2018: 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.

REPORT OF THE DIRECTORS

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the 2019 Annual Period.

EVENT AFTER THE REPORTING PERIOD

Detail of significant events occurring after the reporting date are set out in note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company has reserves available for distribution to the shareholders amounted to RMB310,952,000 (2018: RMB354,338,000) 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 2019 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	7.5%
– five largest suppliers in aggregate	31.0%

Sales	
– the largest customer	9.0%
– five largest customers in aggregate	24.4%

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

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

REPORT OF THE DIRECTORS

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 2019, 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) (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, 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]	17,118,669	2.71%
Mr. Xu Da	Beneficial owner [3]	6,200,000	0.98%
Mr. Frank Christiaens	Beneficial owner [3]	300,000	0.05%
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 3,000,000 underlying shares upon fully exercise of such options.

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

Save as disclosed above, as at 31 December 2019, 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.

REPORT OF THE DIRECTORS

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

As at 31 December 2019, 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 2019, 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.

REPORT OF THE DIRECTORS

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. No further options were granted under the Pre-IPO Share Option Scheme during the 2019 Annual Period.

Outstanding Share Options

From 1 January 2019 to 31 December 2019, 63,143,497 share options lapsed and had been cancelled. As at 31 December 2019, there were a total of 13,082,299 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of 2.1% as at 31 December 2019. 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 2019	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 2019	Approximate 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	—	—	—	—
Frank Christiaens	01/01/2011	01/01/2014 - 31/12/2021	1.16	450,596	—	450,596	—	—	—	—
Senior management of the Company										
Sun Jichuan	01/01/2011	01/01/2015 - 31/12/2021	1.16	450,596	—	450,596	—	—	—	—
Other participants	01/01/2011	01/01/2015- 31/12/2021	1.16	52,389,277	—	48,123,636	—	4,265,641	4,265,641	0.68%
	01/10/2015	01/01/2016- 31/12-2021	0.00001	8,816,658	—	—	—	8,816,658	8,816,658	1.40%
Total				76,225,796	—	63,143,497	—	13,082,299	13,082,299	2.1%

REPORT OF THE DIRECTORS

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.

REPORT OF THE DIRECTORS

The following details the options granted (the "**Granted Options**") pursuant to the Share Option Scheme but not yet exercised as at 31 December 2019. Save for the 177,000 options lapsed, no options were cancelled, lapsed or exercised during the year ended 31 December 2019.

Grantee	Date of grant	Number of share options outstanding as at 1 January 2019	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 2019	Number of options exercised during the year ended 31 December 2019	Number of options lapsed during the year ended 31 December 2019	Number of options cancelled during the year ended 31 December 2019	Number of options outstanding as at 31 December 2019	Approximate percentage of shareholding upon exercise of share options
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 participants of the Share Option Scheme	24 May 2017	51,859,700	HK$1.31	HK$1.33	24 May 2017 to 17 May 2027	–	–	177,000	–	51,682,700	8.20%
Total		61,659,700				–	–	177,000	–	61,482,700	9.75%

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 2019, 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 2019 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 2019 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 2019 Annual Period.

REPORT OF THE DIRECTORS

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 2019 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 2019 Annual Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

DONATIONS

During the 2019 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 2019 Annual Period and up to the date of this annual report were:

Executive Directors

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

Independent non-executive Directors

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

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out in the section headed "Biographical Details of the Directors and Senior Management" in 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 2019 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 2019 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 2019.

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 2019 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 2019 Annual Period. No incident of non-compliance was noted by the Company during this period.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

The related party transactions entered into by the Group during the 2019 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 30 November 2018, China Digital Video (Beijing) Limited (新奧特(北京)視頻技術有限公司) ("**CDV WFOE**") (as the tenant), an indirect wholly-owned subsidiary of the Company, and China Digital Video Investment Group Co., Ltd. (新奧特投資集團有限公司) ("**CDV Investment**") (as the landlord) entered into a property lease agreement for a term of three years commencing from 1 January 2019 and ending 31 December 2021 (the "**New Property Lease Agreement**"), pursuant to which CDV WFOE shall lease certain office and warehouse premises from CDV Investment.

During the 2019 Annual Period, the rental expenses incurred under the New Property Lease Agreement amounted to approximately RMB13.5 million (2018: approximately RMB14.8 million).

On 30 November 2018, 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 "**New Supply Framework Agreement**") for a term of three years commencing from 1 January 2019 and ending 31 December 2021, pursuant to which Xin'aote Group shall purchase the solutions, products and services from CDV WFOE on an exclusive basis.

During the 2019 Annual Period, the revenue recognised under the New Supply Framework Agreement amounted to approximately RMB5.9 million (2018: approximately RMB10.0 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.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed the audited annual financial statements for the 2019 Annual Period and is of the opinion that the audited financial statements of the Group for the 2019 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

8 May 2020

INDEPENDENT AUDITOR'S REPORT

Grant Thornton
致同

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 51 to 141, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

INDEPENDENT AUDITOR'S REPORT

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

Impairment assessment of intangible assets

Refer to notes 2.19, 3.1(e) and 11 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2019, the Group has intangible assets of RMB139,015,000. 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 intangible assets as key audit matter because of their significance to the consolidated financial statements and the level of subjectivity associated with the assumptions used in estimating the value-in-use of the CGUs, including cash flows forecast, sales growth rates, operating margins and the rate at which they are discounted.	Our procedures in relation to the impairment assessment included: – Reviewing the cash flows forecasts of the CGUs prepared by the management; – Discussing with the management to understand the management's basis for determining the assumptions of cash flows forecasts; – Evaluating the reasonableness of key assumptions (including operating margins, sales growth rates and discount rates) of the forecasts based on our knowledge of the business and industry and taking into account of the historical financial information; and – Testing the management's sensitivity calculations by applying our own sensitivity analysis to the forecasts and discount rates to ascertain the extent to which reasonable adverse changes would, either individually or in aggregate, require an impairment on the intangible assets.

INDEPENDENT AUDITOR'S REPORT

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 2019, the Group had trade and other receivables and contract assets amounting to RMB314,284,000 and RMB75,192,000, respectively, fall within the scope of expected credit loss model. 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; and – 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 2019 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.

INDEPENDENT AUDITOR'S REPORT

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.

INDEPENDENT AUDITOR'S REPORT

- 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

8 May 2020

Lin Ching Yee Daniel
Practising Certificate No.: P02771

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	4	303,206	341,047
Cost of sales		(235,700)	(261,347)
Gross profit		67,506	79,700
Other income	5	31,356	32,962
Selling and marketing expenses		(57,354)	(66,583)
Administrative expenses		(43,601)	(41,542)
Share-based compensation expense	26	(1,755)	(11,308)
Research and development expenses		(27,904)	(28,646)
Finance costs	6	(13,049)	(12,242)
Net impairment loss on trade and other receivables and contract assets		(108,338)	(57,029)
Impairment loss on goodwill	12	(17,481)	(56,739)
Share of (loss)/profit of joint ventures	14	(1,143)	1,415
Share of loss of associates	15	(1,719)	—
Loss before income tax		(173,482)	(160,012)
Income tax credit/(expense)	7	769	(8,808)
Loss for the year	6	(172,713)	(168,820)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on the translation of foreign operation		5,077	10,330
Total comprehensive loss for the year		(167,636)	(158,490)
(Loss)/Profit for the year attributable to:			
Equity holders of the Company		(173,340)	(168,735)
Non-controlling interests		627	(85)
		(172,713)	(168,820)
Total comprehensive (loss)/income for the year attributable to:			
Equity holders of the Company		(168,263)	(158,405)
Non-controlling interests		627	(85)
		(167,636)	(158,490)
Loss per share for loss attributable to equity holders of the Company			
(expressed in RMB cents per share)	8		
Basic		(28.03)	(27.29)
Diluted		(28.03)	(27.29)

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.1.1(a).

The notes on pages 58 to 141 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	635	3,674
Intangible assets	11	139,015	161,766
Goodwill	12	—	17,481
Interests in joint ventures	14	387	1,530
Interests in associates	15	17,329	16,648
Financial assets at fair value through profit or loss	19	4,935	9,868
Deferred tax assets	23	5,666	7,766
		167,967	218,733
Current assets			
Inventories	16	60,857	39,298
Trade and other receivables	17	393,928	566,871
Contract assets	18	75,192	77,761
Restricted bank deposits	20	2,173	6,518
Pledged bank deposits	20	122,363	118,733
Bank balances and cash	20	115,229	137,403
		769,742	946,584
Current liabilities			
Trade and other payables	21	254,188	348,333
Contract liabilities	18	17,040	12,227
Other interest-bearing borrowings	22	234,942	202,956
Income tax liabilities		5,185	4,583
		511,355	568,099
Net current assets		258,387	378,485
Total assets less current liabilities		426,354	597,218
Non-current liabilities			
Deferred tax liabilities	23	—	3,488
Net assets		426,354	593,730

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
EQUITY			
Share capital	24	43	43
Reserves	25	425,164	591,672
Equity attributable to equity holders of the Company		425,207	591,715
Non-controlling interests		1,147	2,015
Total equity		426,354	593,730

Zheng Fushuang
Director

Liu Baodong
Director

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.1.1(a).

The notes on pages 58 to 141 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	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	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(i))	—	—	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	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 losses* RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2019	43	(1)	597,479	28,982	(2,201)	64,116	34,631	(131,334)	591,715	2,015	593,730
Comprehensive (loss)/income for the year											
Loss for the year	—	—	—	—	—	—	—	(173,340)	(173,340)	627	(172,713)
Other comprehensive income for the year	—	—	—	—	5,077	—	—	—	5,077	—	5,077
Total comprehensive loss for the year	—	—	—	—	5,077	—	—	(173,340)	(168,263)	627	(167,636)
Transactions with owners											
Vesting of shares held under the Share Award Scheme (note 26(c))	—	—	2,734	—	—	—	(2,734)	—	—	—	—
Share-based compensation (note 26)	—	—	—	—	—	1,590	165	—	1,755	—	1,755
Distribution to a non-controlling shareholder (note 13(a))	—	—	—	—	—	—	—	—	—	(1,940)	(1,940)
Capital contribution from a non-controlling shareholder	—	—	—	—	—	—	—	—	—	445	445
Transfer upon forfeiture of share options and share awards	—	—	—	—	—	(17,792)	(784)	18,576	—	—	—
Total transactions with owners	—	—	2,734	—	—	(16,202)	(3,353)	18,576	1,755	(1,495)	260
Balance at 31 December 2019	43	(1)	600,213	28,982	2,876	47,914	31,278	(286,098)	425,207	1,147	426,354

Note: The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.1.1(a).

* These reserves accounts comprise the Group's reserves of RMB425,164,000 (2018: RMB591,672,000) in the consolidated statement of financial position as at 31 December 2019.

The notes on pages 58 to 141 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Loss before income tax		(173,482)	(160,012)
Adjustments for:			
Depreciation of property, plant and equipment		2,254	4,990
Amortisation of intangible assets		28,239	27,565
Interest income		(15,528)	(18,172)
Interest expenses		13,049	12,242
Bad debt recovered		(4,271)	—
Net impairment loss on trade and other receivables and contract assets		108,338	57,029
Provision for inventory obsolescence		6,576	1,183
Impairment loss on goodwill	12	17,481	56,739
Write-off of property, plant and equipment		2,893	209
Loss on deemed disposal of a joint venture		—	1,002
Write-off of intangible assets		4,064	1,854
Impairment loss on intangible assets		24,730	—
Share-based compensation expense	26	1,755	11,308
Share of loss of associates		1,719	—
Share of profit/(loss) of joint ventures		1,143	(1,415)
Gain on disposal of intangible assets		(2,400)	—
Fair value loss on financial assets at fair value through profit or loss		4,933	5,132
Operating profit/(loss) before working capital changes		21,493	(346)
Increase in inventories		(28,135)	(7,765)
Increase in trade and other receivables		(5,571)	(72,965)
Decrease in contract assets		2,704	97,781
(Decrease)/Increase in trade and other payables		(83,866)	41,588
Increase/(Decrease) in contract liabilities		4,813	(5,271)
Cash (used in)/generated from operations		(88,562)	53,022
Income tax paid		(17)	—
Net cash (used in)/from operating activities		(88,579)	53,022

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from investing activities			
Interest received		19,208	8,654
Purchase of property, plant and equipment		(2,108)	(7,046)
Proceeds from disposal of property, plant and equipment		—	2,119
Addition in development costs through internal development		(34,282)	(47,187)
Investment in a joint venture		—	(1,530)
Placement of time deposits with original maturities exceeding three months		(100,000)	—
Release of time deposits with original maturities exceeding three months		100,000	135,000
Decrease in amounts due from joint ventures		5,946	15,151
Increase in amounts due from related parties		(690)	(4,253)
Increase in amounts due from associates		(7,607)	—
Loan to an associate		(400)	—
Decrease/(Increase) in loan receivables		60,736	(156,236)
Decrease in restricted bank deposits		4,345	6,989
Increase in pledged bank deposits		(4,812)	(7,652)
Net cash from/(used) in investing activities		40,336	(55,991)
Cash flows from financing activities			
Interest paid	29	(11,557)	(11,865)
Increase in amounts due to related parties	29	1,298	4,020
Increase in amounts due to associates	29	2,257	—
Increase in amount due to a joint venture	29	1,050	—
Proceeds from bank borrowings	29	225,200	218,000
Repayment of bank borrowings	29	(193,000)	(199,404)
Proceeds of other borrowings	29	7,000	—
Repayment of other borrowings	29	(6,708)	(35,687)
Payment for re-purchase of shares		—	(787)
Capital contribution from non-controlling shareholders		445	2,100
Net cash from/(used) in financing activities		25,985	(23,623)
Net decrease in cash and cash equivalents		(22,258)	(26,592)
Cash and cash equivalents at beginning of year		37,403	63,344
Effect of foreign exchange rate changes on cash and cash equivalents held		84	651
Cash and cash equivalents at end of year	20	15,229	37,403

The notes on pages 58 to 141 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, 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 consolidated financial statements for the year ended 31 December 2019 were approved for issue by the board of directors (the "Board") on 8 May 2020.

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") which includes all applicable individual IFRSs, International Accounting Standards ("IAS"), amendments and interpretations issued by the International Accounting Standards Board ("IASB"). 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 ("FVTPL"). 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 are disclosed in note 3 below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 and relevant to the Group:

IFRS 16	Leases
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle
IFRIC 23	Uncertainty over Income Tax Treatments

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.

<u>IFRS 16 "Leases"</u>

IFRS 16 "Leases" replaces IAS 17 "Leases" along with three Interpretations (IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). IFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16, if any, being recognised in equity as an adjustment to the opening balance of accumulated losses for the current year. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

As a Lessee

In applying IFRS 16, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. Accordingly, the initial application of IFRS 16 does not have material impact to the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 17	Insurance Contract[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[1]
Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IAS 1	Classification of Liabilities As Current or Non-current[5]

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

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

3 Effective date not yet determined

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

5 Effective for annual periods beginning on or after 1 January 2022

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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*

Amendments to IAS 1 and IAS 8 "Definition of Material"

The amendments clarify the definition of material and state that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". Materiality depends on nature or magnitude of information or both.

The amendments also:

– introduce the concept of obscuring information when considering materiality and provide some examples of circumstances that may result in material information being obscured;

– clarify that materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions by replacing the threshold "could influence" with "could reasonably be expected to influence" in the definition of material; and

– clarify that materiality assessment will need to take into account of information provided to primary users of general purpose financial statements (i.e. existing and potential investors, lenders and other creditors that rely on general purpose financial statements for much of the financial information they need).

Amendments to IAS 1 and IAS 8 are effective for annual reporting period beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The directors expect that the amendments have no material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Basis of consolidation

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

Subsidiaries are entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, 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. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of subsidiaries in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income or loss for the year between non-controlling interests and the owners of the Company.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.3 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. 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 associate 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.3 Associates and joint ventures – *continued*

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 associate 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.

2.4 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 and has been identified as the executive directors that make strategic decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

(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 and accumulated in "translation reserve" in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.6 Property, plant and equipment

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

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

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 acquirer's previously held 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.8 Intangible assets (other than goodwill)

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

Separately acquired video-related and broadcasting intellectual properties, patents, trademarks and licenses are initially recorded at cost and include internally generated intangible assets (i.e. capitalised development costs as detailed in note 2.8(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.

The assets' amortisation methods and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Intangible assets are tested for impairment as described in note 2.19.

(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 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 5 years).

All other development costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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 expected credit loss ("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

Subsequent measurement of financial assets

Debt investments

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial instruments – *continued*

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.

Borrowings

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

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

Trade and other payables

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

2.10 Impairment of financial assets and contract assets

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.10 Impairment of financial assets and contract assets – *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 31(d).

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Cash and cash equivalents

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

2.13 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.

2.14 Leases

Definition of a lease and the Group as a lessee

<u>Policy applicable from 1 January 2019</u>

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.14 Leases – *continued*

Definition of a lease and the Group as a lessee – continued

Policy applicable from 1 January 2019 – *continued*

For contracts that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group is a lessee, the Group elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

Policy applicable before 1 January 2019

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.17 Revenue recognition

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

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.

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 equipments, are recognised when or as the Group transfers control of the assets to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.17 Revenue recognition – *continued*

(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.

2.18 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 other payables 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

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 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. Corporate assets are allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.20 Employee benefits

(a) Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(b) 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 expense in profit or loss as employees render services during the year.

(c) 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.

(d) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.20 Employee benefits – *continued*

(d) 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.

(e) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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, associates 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

The Group makes ECL allowances on 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 2019, the carrying amounts of trade and other receivables and contract assets were RMB314,284,000 (2018: RMB482,000,000) (net of ECL allowance of RMB187,170,000 (2018: RMB108,263,000)) and RMB75,192,000 (2018: RMB77,761,000) (net of ECL allowance of RMB6,672,000 (2018: RMB6,807,000)), respectively.

When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade and other receivables and contract assets and ECL allowance in the periods in which such estimate has been changed.

(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 2019, the carrying amount of inventories was RMB60,857,000 (2018: RMB39,298,000). The Group has made provision for inventory obsolescence of RMB6,576,000 (2018: RMB639,000) for the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

3.1 Estimation uncertainties – *continued*

(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 RMB17,481,000 (2018: RMB56,739,000) for the year ended 31 December 2019.

(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 2019, the carrying amount of capitalised development cost was RMB13,865,000 (2018: RMB66,094,000).

(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 2019, the carrying amount of property, plant and equipment and intangible assets was RMB635,000 (2018: RMB3,674,000) and RMB139,015,000 (2018: RMB161,766,000), respectively.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

3.1 Estimation uncertainties – *continued*

(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 2019, the Group had income tax liabilities of RMB5,185,000 (2018: RMB4,583,000). The details of the deferred tax assets and liabilities are set out in note 23.

3.2 Critical judgement in applying the entity's accounting policies

(a) Classification of an unlisted equity investment

As detailed in note 19, the Group held 27.27% (2018: 27.27%) equity interests in a private equity fund as at 31 December 2019. The Group classified the investment as financial assets at FVTPL, 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.

(b) 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, the Group held 38.25% (2018: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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:

	2019 RMB'000	2018 RMB'000
Solutions	193,040	223,360
Services	70,448	64,824
Products	39,718	52,863
	303,206	341,047

An analysis of the Group's timing of revenue recognition for the year is as follows:

	2019 RMB'000	2018 RMB'000
At a point of time	232,758	276,223
Over time	70,448	64,824
	303,206	341,047

Geographical information

The Group primarily operates in the PRC. As of 31 December 2019 and 2018, 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 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

5. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Other revenue		
Interest income	15,528	18,172
Value-added tax ("VAT") refunds (note a)	11,175	12,041
	26,703	30,213
Other net income/(loss)		
Bad debt recovered	4,271	—
Net fair value loss on financial assets at FVTPL (note 31(f))	(4,933)	(5,132)
Gain on disposal of intangible assets (note 15(b))	2,400	—
Subsidy income from government (note b)	2,486	6,617
Sundry income	429	1,264
	4,653	2,749
	31,356	32,962

Notes:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

6. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2019 RMB'000	2018 RMB'000
Finance costs		
Interest on bank and other borrowings, wholly repayable within five years	13,049	12,242
Employee benefit expenses		
Salaries, bonus and allowances	77,601	91,181
Retirement benefit scheme contributions	19,942	20,866
Severance payments	775	897
Share-based compensation expense	1,755	11,308
	100,073	124,252
Other items		
Auditors' remuneration	965	930
Cost of software and hardware equipments recognised as an expense, including	141,711	168,876
– Provision for inventory obsolescence	6,576	639
Amortisation of intangible assets	28,239	27,565
Depreciation of property, plant and equipment	2,254	4,990
Lease charges:		
– Premises held under operating leases	—	18,431
– Short term leases and leases with lease term shorter than 12 months as at initial application of IFRS 16	16,379	—
Loss on deemed disposal of a joint venture	—	1,002
Write-off of property, plant and equipment	2,893	209
Impairment loss on intangible assets	24,730	—
Write-off of intangible assets	4,064	1,854
Net foreign exchange loss	2,802	2,773

7. INCOME TAX (CREDIT)/EXPENSE

	Note	2019 RMB'000	2018 RMB'000
Current tax - PRC enterprise income tax			
Current year		618	—
Under/(Over)-provision in respect of prior years		1	(3,242)
		619	(3,242)
Deferred tax	23		
Origination and reversal of temporary differences		(1,388)	12,050
Income tax (credit)/expense		(769)	8,808

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:

	2019 RMB'000	2018 RMB'000
Loss before income tax	(173,482)	(160,012)
Tax on loss before income tax, calculated at the statutory rates applicable to profits in the tax jurisdiction concerned	(39,355)	(38,547)
Tax effect on non-deductible expenses	22,341	18,053
Tax effect on preferential income tax rates applicable to certain subsidiaries	15,733	15,376
Tax effect on tax loss and deductible temporary differences not recognised	3,269	20,704
Tax effect on super deduction in research and development activities	(2,752)	(3,835)
Under/(Over)-provision in respect of prior years	1	(3,242)
Others	(6)	299
Income tax (credit)/expense	(769)	8,808

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

7. INCOME TAX EXPENSE – *continued*

Notes:

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

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

(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 2019 and 2018.

According to relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 175% (2018: 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 2019 and 2018.

(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 RMB173,340,000 (2018: RMB168,735,000) and the weighted average number of shares of 618,332,000 shares (2018: 618,400,000 shares) outstanding during the year, excluding the ordinary shares purchased by the Company and held as treasury shares (note 24).

(b) Diluted loss per share

For the years ended 31 December 2019 and 2018, the Company has two categories of potential dilutive ordinary shares: the 2010 Share Option Plan and the 2017 Share Option Scheme. The diluted loss per share for the years ended 31 December 2019 and 2018 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 2019						
Executive directors:						
Mr. Liu Baodong	(i)	886	—	55	89	1,030
Mr. Zheng Fushuang	(ii)	740	—	—	—	740
Mr. Xu Da		—	—	—	185	185
Independent non-executive directors:						
Mr. Frank Christiaens		208	—	—	—	208
Ms. Cao Qian		208	—	—	—	208
Dr. Li Wanshou	(iii)	208	—	—	—	208
		2,250	—	55	274	2,579
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	(iv)	360	303	—	387	1,050
Mr. Xu Da		—	—	—	800	800
Independent non-executive directors:						
Mr. Frank Christiaens		202	--	—	—	202
Mr. Zhang Yaqin	(iv)	100	--	—	—	100
Ms. Cao Qian		202	--	—	—	202
Dr. Li Wanshou	(iii)	100	--	—	—	100
		2,644	1,514	79	1,574	5,811

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 28 June 2018.

(iv) 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 2019 and 2018.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2018: four) director(s) whose emoluments are reflected in the analysis presented above. The emoluments paid/payable to the remaining four (2018: one) individual(s) during the year are as follows:

	2019 RMB'000	2018 RMB'000
Basic salaries and allowances	2,792	1,086
Bonus	62	420
Retirement benefit scheme contributions	362	119
Share-based compensation expense	256	800
	3,472	2,425

The emoluments fell within the following bands:

	2019 Number of individuals	2018
Emolument bands		
Less than HK$1,000,000	3	—
HK$1,000,001 - HK$2,000,000	1	—
HK$2,000,001 - HK$3,000,000	—	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 2019 and 2018.

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 2018					
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
Year ended 31 December 2019					
Opening net book amount	701	2,261	23	689	3,674
Additions	—	2,079	29	—	2,108
Write-off	—	(2,891)	(2)	—	(2,893)
Depreciation	(676)	(1,331)	(27)	(220)	(2,254)
Closing net book amount	25	118	23	469	635
At 31 December 2019					
Cost	11,822	40,157	1,760	2,585	56,324
Accumulated depreciation	(11,797)	(40,039)	(1,737)	(2,116)	(55,689)
Net book amount	25	118	23	469	635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

10. PROPERTY, PLANT AND EQUIPMENT – *continued*

Depreciation charges recognised is analysed as follows:

	2019 RMB'000	2018 RMB'000
Selling and marketing expenses	1,140	2,681
Administrative expenses	231	701
Research and development expenses	883	1,608
	2,254	4,990

11. INTANGIBLE ASSETS

	Video-related and broadcasting intellectual properties, patents, trademarks and licenses RMB'000	Development costs RMB'000	Total RMB'000
At 1 January 2018			
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
Year ended 31 December 2019			
Opening net book amount	95,672	66,094	161,766
Transfers	86,511	(86,511)	—
Write-off	(4,064)	—	(4,064)
Impairment loss	(24,730)	—	(24,730)
Additions	—	34,282	34,282
Amortisation	(28,239)	—	(28,239)
Closing net book amount	125,150	13,865	139,015
At 31 December 2019			
Cost	268,722	13,865	282,587
Accumulated amortisation	(118,842)	—	(118,842)
Provision for impairment	(24,730)	—	(24,730)
Net book amount	125,150	13,865	139,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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:

	2019 RMB'000	2018 RMB'000
Cost of sales	28,013	27,301
Selling and marketing expenses	37	36
Administrative expenses	35	58
Research and development expenses	154	170
	28,239	27,565

For the purpose of impairment assessment, certain intangible assets in respect of video-related and broadcasting intellectual properties, patents, trademarks and licenses have been allocated to cash-generating unit of broadcasting business, which was acquired in 2013. As at 31 December 2019, the directors conducted a review of the recoverable amount of the cash-generating unit containing the intangible assets, and determined that an impairment loss of RMB18,264,000 (2018: RMBnil) is recorded in profit or loss for the year ended 31 December 2019. Further details on impairment assessment of the cash-generating unit of broadcasting business are set out in note 12.

In addition to the impairment loss of the intangible assets allocated to the cash-generating unit of broadcasting business, due to the increased market competition resulting in the decrease in revenue, the Group has made RMB6,466,000 impairment loss on other video-related and broadcasting intellectual properties, patents, trademarks and licenses during the year ended 31 December 2019. The recoverable amounts of these intangible assets of RMB11,960,000 were determined based on value-in-use calculations, using cash flows projections covering the useful life of the intangible assets, with a discount factor of 22% for the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

12. GOODWILL

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

	2019 RMB'000	2018 RMB'000
Net carrying amount:		
As at 1 January	17,481	74,220
Impairment loss for the year	(17,481)	(56,739)
As at 31 December	—	17,481

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 RMB14,731,000 (2018: RMB46,950,000) 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% (2018: 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% (2018: 21.9%) for the year ended 31 December 2019 was applied in the value in use model.

During the year ended 31 December 2019, due to the fierce market competition, the revenue of Beijing Zhengqi was adversely affected and it cannot achieve the revenue target previously projected. This had an adverse impact on the estimated value in use of the cash generating unit and an impairment loss on goodwill of RMB17,481,000 (2018: RMB56,739,000) and intangible asset of RMB18,264,000 (2018: RMBnil) were recognised in profit or loss for the year ended 31 December 2019.

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)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

13. SUBSIDIARIES

Particulars of the subsidiaries, each of which is a limited liability company, as at 31 December 2019 and 2018, 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 [1] ("CDV WFOE")	PRC/21 June 2007	US$50,000,000 (2018: US$50,000,000)	100% (2018: 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 [2]	PRC/23 October 2012	RMB20,000,000 (2018: RMB20,000,000)	100% (2018: 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 [2] (廣東新奧特視頻技術有限公司, "Guangdong Xin'aote")	PRC/29 October 2018	RMB10,000,000 (2018: RMB10,000,000)	80%* (2018: 80%)	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. [2] (北京正奇網訊科技有限公司, "Zhengqi Network")	PRC/13 September 2018	RMB8,000,000 (2018: RMB10,000,000)	100% (note a) (2018: 80%)	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 [2] (北京天美環球科技有限公司, "Tianmei Technology")	PRC/16 August 2012	RMB1,000,000 (2018: RMB1,000,000)	100%# (2018: 100%#)	Investments holding
Xin'aote Totem Technology Co., Ltd. [2] (新奧特圖騰科技有限公司, "Totem Technology")	PRC/15 April 2019	RMB1,000,000	60%*	Research, development and sales of video-related and broadcasting equipment and software and provision of related technical service, in PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

13. SUBSIDIARIES – *continued*

1 Registered as a wholly foreign-owned enterprise under the PRC law

2 Registered as a limited liability company under the PRC law

* The directors of the Company consider that the non-controlling interests in these subsidiaries during the years ended 31 December 2019 and 2018 were not material to the Group and thus no separate financial information of these non-wholly owned subsidiaries are presented.

Obtained control through contractual arrangements (note b).

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.

Notes:

a) On 16 October 2019, Zhengqi Network completed the industrial and commercial registration for the change of registered capital from RMB10,000,000 to RMB8,000,000 after the death of the non-controlling shareholder. Accordingly, the balance of the non-controlling interests of approximately RMB1,940,000 was distributed to the spouse of the non-controlling shareholder during the year ended 31 December 2019.

b) 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 Group's 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

14. INTERESTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
At 1 January	1,530	16,235
Addition	—	1,530
Share of (loss)/profit	(1,143)	1,415
Loss on deemed disposal of a joint venture	—	(1,002)
Reclassification to interests in associates	—	(16,648)
At 31 December	387	1,530
Share of net assets	190	1,333
Goodwill	197	197
	387	1,530

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 2019	 2018	Principal activities and place of operation
CDV (Beijing) Yun Duan Technology Co., Ltd 新奧特(北京)雲端科技有限公司 ("Xin'aote Cloud") (note d)	PRC	RMB25,000,000 (2018: RMB25,000,000)	40%	40%	Mobile application development and operation, in PRC
Beijing Jingqi (note a)	PRC	RMB4,000,000 (2018: RMB4,000,000)	38.25%	38.25%	Research, development and sales of video-related and broadcasting equipment and software and provision of related technical service, in PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

14. INTERESTS IN JOINT VENTURES – *continued*

Notes:

(a) In 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 from the Group and the second largest investor of Beijing Jingqi who sharing control. The share of loss of Beijing Jingqi for the year ended 31 December 2019 was amounted to RMB1,143,000 (2018: RMBnil).

(b) During the year ended 31 December 2018, the Group's interest in Beijing Yue Ying Technology Co., Ltd (北京悦影科技有限公司, "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 RMBnil on the date of reclassification (note 15(a)).

(c) During the year ended 31 December 2018, the Group's interest in Beijing Meicam Network Technology Co., Ltd (北京美攝網絡科技有限公司, "Beijing Meicam") was diluted from 40% to 33.33% 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 for the year ended 31 December 2018.

(d) 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 venture, both for the year and cumulatively, are as follows:

	2019 RMB'000	2018 RMB'000
Unrecognised share of loss of joint venture for the year*	—#	256
Accumulated unrecognised share of loss of joint ventures*	1,832	4,222

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

\# The share of loss represents amount less than RMB1,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

15. INTERESTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
At 1 January	16,648	—
Addition	2,400	—
Share of loss	(1,719)	—
Reclassification from interests in joint venture	—	16,648
At 31 December	17,329	16,648
Share of net assets	8,061	4,774
Goodwill	9,268	11,874
	17,329	16,648

As at 31 December 2019 and 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 2019	Equity interest held by the Group 2018	Principal activities and place of operation
Beijing Yueying (note a & d)	PRC	RMB11,363,636	29.92%	29.92%	Development and provision of video related application, in PRC
Beijing Meicam (note a)	PRC	RMB30,000,000	33.33%	33.33%	Mobile application development and operation, in PRC
Beijing Xin'aote Smart Sport Innovation Development Co., Ltd. 北京新奧特智慧體育創新發展有限公司 ("Smart Sport") (note b)	PRC	RMB12,000,000	33.33%	N/A	Research, development and sales of video-related and broadcasting equipment and software and provision of related technical service, in PRC
Xin'aote (Fujian) Culture Technology Co., Ltd. 新奧特 (福建) 文化科技有限公司 ("Xin'aote Fujian Culture") (note c)	PRC	RMB10,000,000	49.00%	N/A	Development of software and provision of information system integration services, in PRC

15. INTERESTS IN ASSOCIATES – *continued*

Notes:

(a) During the year ended 31 December 2018, Beijing Yueying and Beijing Meicam were reclassified from the Group's joint ventures to associates (notes 14(b) & (c)).

(b) During the year ended 31 December 2019, the Group has invested in Smart Sport by contributing the Group's intangible assets with RMBnil carrying amount at date of transfer. A gain on disposal of intangible assets of RMB2,400,000 was recognised in profit or loss of the Group, after eliminating the unrealised profit to extent of the Group's interest in the associate (note 5).

(c) During the year ended 31 December 2019, the Group has established Xin'aote Fujian Culture with other investors and obtained 49.00% equity interest in Xin'aote Fujian Culture. As at 31 December 2019, the Group has not paid up the share capital of RMB4,900,000 to Xin'aote Fujian Culture (note 28.2). The share of loss of Fujian Culture for the period from its establishment to 31 December 2019 is considered to be immaterial.

(d) 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 RMB1,995,000 (2018: RMB454,000) and RMB3,449,000 (2018: RMB1,454,000), respectively.

Aggregate financial information of associates that are not individual material:

	2019 RMB'000	2018 RMB'000
Aggregate amounts of the Group's share of loss for the year	(1,719)	—
Aggregate amounts of the Group's other comprehensive loss for the year	–	—
Aggregate carrying amount of the Group's interests in these associates	17,329	16,648

16. INVENTORIES

	2019 RMB'000	2018 RMB'000
Equipments and parts	42,931	25,350
Work-in-progress	17,926	13,948
	60,857	39,298

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

17. TRADE AND OTHER RECEIVABLES

	Notes	2019 RMB'000	2018 RMB'000
Trade receivables	(a)		
From third parties		308,096	328,622
From related parties	30(d)	12,900	19,603
		320,996	348,225
Less: ECL allowance	31(d)	(160,495)	(92,886)
		160,501	255,339
Other receivables	(b)		
Deposits, prepayments and other receivables		9,663	8,441
Deposit for guarantee certificate over tendering and performance		23,472	32,225
Loan receivables		123,527	176,119
Interest receivables		4,187	10,309
Advances to suppliers		69,830	67,800
Amounts due from related parties	30(d)	8,017	7,327
Amounts due from joint ventures		1,826	7,772
Amounts due from associates		7,607	—
Loan to an associate		400	—
VAT receivables		—	1,610
Advances to employees		11,573	15,306
		260,102	326,909
Less: ECL allowance	31(d)	(26,675)	(15,377)
		233,427	311,532
		393,928	566,871

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.

17. TRADE AND OTHER RECEIVABLES – *continued*

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

	2019 RMB'000	2018 RMB'000
Deposit for guarantee certificate over tender and performance	10,324	9,400

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

(a) Trade 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 receivables and net of ECL allowance at the respective reporting dates is as follows:

	2019 RMB'000	2018 RMB'000
0 to 90 days	38,757	84,233
91 to 180 days	18,705	32,596
181 to 365 days	40,829	43,634
1 to 2 years	62,210	94,876
	160,501	255,339

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.

During the year ended 31 December 2019, the Group entered an agreement with an independent third party to repurchase certain trade receivables of RMB40,878,000 of which were factored by the Group in the prior years, for a cash consideration of RMB31,480,000. Up to the date of this report, the Group had collected approximately RMB31,426,000 of these receivables.

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 2019, 3% and 13% (2018: 1% and 13%) of trade receivables are due from the largest and 5 major customers respectively in cooperation with the Group's business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, the Group has loan receivables of approximately RMB123,527,000 (2018: RMB176,119,000) from independent third parties. Loan receivable with net carrying amount of RMB9,328,000 (net of ECL allowance of RMB13,718,000) (2018: RMB20,459,000 (net of ECL allowance of RMBnil)) is secured by a property, carrying fixed interest of 6% per annum and wholly repayable within one year. As at 31 December 2019, the market value of the property is approximately RMB19,637,000 (2018: RMB20,908,000).

Loan receivables of approximately RMB100,481,000 (2018: RMB107,160,000) and RMBnil (2018: RMB48,500,000) are unsecured, carrying fixed interest of 6% per annum and 1.8% per month respectively, and wholly repayable within one year. Loan receivables of RMB100,481,000 were fully settled subsequent to the year ended 31 December 2019.

Amounts due from joint ventures, associates and related parties

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

Loan to an associate

Loan to an associate of RMB400,000 is unsecured, carried interest at 8.0% per annum and repayable within one year.

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

	2019 RMB'000	2018 RMB'000
Contract assets - retention receivables	81,864	84,568
Less: ECL allowance for contract assets	(6,672)	(6,807)
	75,192	77,761

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 two 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:

	2019 RMB'000	2018 RMB'000
Contract assets	14,734	12,132
Less: ECL allowance for contract assets	(1,201)	(977)
	13,533	11,155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

18. CONTRACT ASSETS AND CONTRACT LIABILITIES – *continued*

18.2 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.

Contract liabilities outstanding at the beginning of the year amounting to RMB10,893,000 (2018: RMB16,064,000) have been recognised as revenue during the year.

Unsatisfied performance obligations

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

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Unlisted equity investments, at fair value	4,935	9,868

The Group has injected RMB15,000,000 and held 27.27% equity interests in the private equity fund. The fair value of the Group's investments in unlisted securities has been measured as described in note 31(f).

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

	2019 RMB'000	2018 RMB'000
Cash at bank and on hand	17,402	43,921
Short-term time deposits	222,363	218,733
	239,765	262,654
Restricted bank deposits	(2,173)	(6,518)
Pledged bank deposits	(122,363)	(118,733)
Bank balances and cash per the consolidated statement of financial position	115,229	137,403
Time deposits with banks with original maturities exceeding 3 months	(100,000)	(100,000)
Cash and cash equivalents per the consolidated statement of cash flows	15,229	37,403

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

As at 31 December 2019, included in bank balances and cash of RMB122,363,000 (2018: RMB118,733,000) are pledged deposits held at bank for security of the Group's bank borrowing (note 22).

As at 31 December 2019, included in bank balances and cash of RMB2,173,000 (2018: RMB6,518,000) 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 2019, included in bank balances and cash and pledged bank deposits of the Group is RMB117,324,000 (2018: RMB138,837,000) 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 2019 and 2018, other than the restriction from exchange control regulations, there is no significant restriction on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

	2019 RMB'000	2018 RMB'000
RMB	117,324	138,837
USD	122,396	123,776
Others	45	41
	239,765	262,654

21. TRADE AND OTHER PAYABLES

	Notes	2019 RMB'000	2018 RMB'000
Trade and notes payables			
Trade payables			
– third parties	(a)	134,362	168,883
Note payables	(b)	—	35,000
		134,362	203,883
Other payables	(c)		
Other payables and accrued charges		39,137	42,131
Other tax liabilities		49,985	77,363
Staff costs and welfare accruals		13,433	15,252
Amounts due to related parties	30(e)	9,489	8,191
Amount due to a joint venture		1,050	—
Amounts due to associates		2,257	—
Deferred income related to government grants		4,475	1,513
		119,826	144,450
		254,188	348,333

All amounts are short-term and hence the carrying values of the Group's trade and other payables as at 31 December 2019 and 2018 were considered to be a reasonable approximation of its fair value.

21. TRADE AND OTHER PAYABLES – *continued*

(a) Trade payables

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

	2019 RMB'000	2018 RMB'000
0 to 90 days	51,584	89,145
91 to 180 days	9,718	12,775
181 to 365 days	10,443	21,042
1 to 2 years	29,519	18,362
2 to 3 years	12,478	16,245
Over 3 years	20,620	11,314
	134,362	168,883

(b) Note payables

All note payables are denominated in RMB and are paid and/or payable to third parties for settlement of trade payables. As at 31 December 2018, the note payables of RMB35,000,000 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"). The note payables were subsequently settled in 2019.

(c) Other payables

Amounts due to a joint venture, associates and related parties

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

22. OTHER INTEREST-BEARING BORROWINGS

	Notes	2019 RMB'000	2018 RMB'000
Short-term bank borrowings, secured	(a)	105,200	103,000
Short-term bank borrowings, unsecured	(b)	120,000	90,000
Other borrowings, unsecured	(c)	9,742	9,956
		234,942	202,956

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

22. OTHER INTEREST-BEARING BORROWINGS – *continued*

(a) Short-term bank borrowings, secured

As at 31 December 2019, the secured bank borrowings of RMB105,200,000 (2018: RMB103,000,000) were secured by pledge of the Group's bank deposits of approximately RMB122,363,000 (2018: RMB118,733,000).

(b) Short-term bank borrowings, unsecured

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

	2019 RMB'000	2018 RMB'000
Cross-guarantee by Mr. Zheng and Xinxin Holding Co., Limited ("**Xinxin Holding**")	25,000	—
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**")	60,000	15,000
Cross-guarantee by Mr. Zheng and CDV WFOE	10,000	—
Guarantee by Mr. Zheng	—	50,000
Guarantee by a third party	25,000	5,000
	120,000	90,000

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 31(e).

(c) Other borrowings, unsecured

As at 31 December 2019 and 2018, 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*

(d) Effective interest rates

	Original currency	2019	2018
Short-term bank borrowings, secured	RMB	4.57%	4.6%
Short-term bank borrowings, unsecured	RMB	3.90%-6.09%	4.57%-6.09%
Other borrowings, unsecured	RMB	4.39%-24.00%	4.39%-8.62%

23. DEFERRED TAXATION

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

	2019 RMB'000	2018 RMB'000
Deferred tax assets	(5,666)	(7,766)
Deferred tax liabilities	—	3,488
	(5,666)	(4,278)

The net movement of deferred tax assets are as follows:

	2019 RMB'000	2018 RMB'000
Balance at the beginning of the year	(4,278)	(16,328)
(Credited to)/Recognised in profit or loss (note 7)	(1,388)	12,050
At the end of the year	(5,666)	(4,278)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2018	4,235
Credited to profit or loss	(747)
At 31 December 2018 and 1 January 2019	3,488
Credited to profit or loss	(3,488)
At 31 December 2019	—

Deferred tax assets

	Tax losses RMB'000	Provision for impairment loss on trade and other receivables and contract assets RMB'000	Provision for Inventories obsolescence RMB'000	Others RMB'000	Total RMB'000
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
Recognised in profit or loss	(2,100)	—	—	—	(2,100)
At 31 December 2019	—	2,310	2,267	1,089	5,666

23. DEFERRED TAXATION – *continued*

Deferred tax assets – *continued*

As at 31 December 2019, the Group had unused tax losses of approximately RMB75,339,000 (2018: RMB84,700,000) 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:

	2019 RMB'000	2018 RMB'000
2022	29,769	30,108
2023	42,088	54,592
2024	3,482	—
	75,339	84,700

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 2018, 1 January 2019 and 31 December 2019, at US$0.00001 each	5,000,000,000	50,000

	Note	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 2018		632,000,000	6,320	43
Repurchased shares cancelled	(i)	(1,668,000)	(17)	—*
As at 31 December 2018 and 2019		630,332,000	6,303	43

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

24. SHARE CAPITAL – *continued*

	Note	Number of treasury shares	Nominal value of shares US$	Equivalent nominal value of shares RMB'000
Treasury shares of the Company:				
At 1 January 2018		12,532,000	125	1
Share repurchased	(i)	1,136,000	12	—*
Repurchased shares cancelled	(i)	(1,668,000)	(17)	—*
As at 31 December 2018 and 2019		12,000,000	120	1

* The balance represents amount less than RMB1,000.

Note:

(i) Repurchase of shares

During the year ended 31 December 2018, 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
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. The translation reserve is non-distributable.

(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. The share option reserve is non-distributable.

(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 (note 26(c)). The other reserve is non-distributable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

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

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

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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

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

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

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

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 were vested 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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:

	2019		2018	
	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	14,569,265	1.16	30,940,914
Re-designated to employee	—	—	1.16	(16,371,649)
Forfeited during the year	1.16	(14,569,265)	—	—
At end of year	—	—	1.16	14,569,265
Employees				
At beginning of year	1.00	61,656,531	0.94	45,465,119
Re-designated from director	—	—	1.16	16,371,649
Forfeited during the year	1.16	(48,574,232)	1.16	(180,237)
At end of year	0.40	13,082,299	1.00	61,656,531
Total				
At beginning of year	1.03	76,225,796	1.03	76,406,033
Forfeited during the year	1.16	(63,143,497)	1.16	(180,237)
At end of year	0.4	13,082,299	1.03	76,225,796
Excisable at the end of year	0.4	13,082,299	1.03	76,225,796

As at 31 December 2019, the Group had 13,082,299 (2018: 76,225,796) share options outstanding under the 2010 Share Option Plan, which represented approximately 2.08 % (2018: 12.09%) of the issued ordinary shares of the Company as at 31 December 2019. The exercise in full of the outstanding share options would, under the present capital structure of the Group, result in the issue of 13,082,299 (2018: 76,225,796) additional ordinary shares of the Company and additional share capital and share premium of approximately RMB1,000 (2018: RMB5,000) and RMB34,234,000 (2018: RMB538,133,000) (before issue expenses), respectively.

None of the above share options were exercised during the years ended 31 December 2019 and 2018. The weighted average remaining contractual life of options outstanding at 31 December 2019 was 2.0 years (2018: 3.0 years).

The Group recognised an expense of RMBnil (2018: RMB770,000) for the year ended 31 December 2019 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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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.

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.

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

	2019		2018	
	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	9,800,000	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	9,800,000
Employees				
At beginning of year	1.33	51,859,700	1.33	48,870,000
Re-designated from directors	—	—	1.33	3,300,000
Forfeited during the year	1.33	(177,000)	1.33	(310,300)
At end of year	1.33	51,682,700	1.33	51,859,700
Total				
At beginning of year	1.33	61,659,700	1.33	61,970,000
Forfeited during the year	1.33	(177,000)	1.33	(310,300)
At end of year	1.33	61,482,700	1.33	61,659,700
Exercisable at the end of year	1.33	61,482,700	1.33	43,183,500

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

As at 31 December 2019, the Group had 61,482,700 (2018: 61,659,700) share options outstanding under the 2017 Share Option Scheme, which represented approximately 9.75% (2018: 9.78%) of the issued ordinary shares of the Company as at 31 December 2019. The exercise in full of the outstanding share options would, under the present capital structure of the Group, result in the issue of 61,482,700 (2018: 61,659,700) additional ordinary shares of the Company and additional share capital and share premium of approximately RMB4,000 (2018: RMB4,000) and RMB73,350,000 (2018: RMB71,998,000) (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 2019 was 7.4 years (2018: 8.4 years).

The Group recognised an expense of RMB1,590,000 (2018: RMB7,542,000) for the year ended 31 December 2019 in relation to the 2017 Share Option Scheme.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

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 after the relevant dates of the fulfilment of the performance targets (if any) specified by the Board and on the vesting date a participant until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the Trustee, unless otherwise determined by the Board.

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

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

In 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. The Group had 10,675,997 (2018: 11,085,448) share awards outstanding under the Share Award Scheme, which represented approximately 1.69% (2018: 1.76%) of the issued ordinary shares of the Company as at 31 December 2019. No shares were purchased or granted by the Company under the Share Award Scheme during the years ended 31 December 2019 and 2018.

26. SHARE-BASED COMPENSATION TRANSACTIONS – *continued*

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

During the year ended 31 December 2019, 2,275,997 awarded shares (2018: 8,400,000 awarded shares) were vested under the Share Award Scheme.

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

	Number of share awards
Employees	
At 1 January 2018	12,000,000
Forfeited during the year	(914,552)
At 31 December 2018 and 1 January 2019	11,085,448
Forfeited during the year	(409,451)
At 31 December 2019	10,675,997

The Group recognised an expense of RMB165,000 (2018: RMB2,996,000) for the year ended 31 December 2019 in relation to the 2017 Share Award Scheme.

(d) The Group recognised a total expense of RMB1,755,000 (2018: RMB11,308,000) for the year ended 31 December 2019 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 RMB'000	2018 RMB'000
Non-current assets		
Interests in subsidiaries	240,056	282,665
Current assets		
Other receivables	13,546	25,505
Amount due from a subsidiary	47,856	47,081
Pledged bank deposits	122,363	118,733
Bank balances	70	5,075
	183,835	196,394
Current liabilities		
Other payables	4,862	4,390
Net current assets	178,973	192,004
Net assets	419,029	474,669
EQUITY		
Share capital	43	43
Reserves (note)	418,986	474,626
Total equity	419,029	474,669

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 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(i))	—	(787)	—	—	—	—	(787)
As at 31 December 2018 and 1 January 2019	(1)	597,479	23,342	62,316	34,631	(243,141)	474,626
Loss for the year	—	—	—	—	—	(64,696)	(64,696)
Currency translation differences	—	—	7,301	—	—	—	7,301
Vesting of shares held by the share award scheme (note 26(c))	—	2,734	—	—	(2,734)	—	—
Share-based compensation (note 26)	—	—	—	1,590	165	—	1,755
Transfer upon forfeiture of share options and share awards	—	—	—	(17,792)	(784)	18,576	—
As at 31 December 2019	(1)	600,213	30,643	46,114	31,278	(289,261)	418,986

As at 31 December 2019, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB310,952,000 (2018: RMB354,338,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

28. COMMITMENTS

28.1 Lease commitments

At the reporting date, the lease commitments for short-term leases (2018: total future minimum lease payments payable by the Group under non-cancellable operating leases) are as follows:

	2019 RMB'000	2018 RMB'000
Premises		
Within one year	5,950	8,895
In the second to fifth year inclusive	—	116
	5,950	9,011

As at 31 December 2019, leases for office premises and staff quarter are negotiated for an average term of one year (2018: one year) and the rentals are fixed over the terms of the leases.

28.2 Capital commitments

	2019 RMB'000	2018 RMB'000
Contracted but not provided for		
– Investment in an associate (note 15(c))	4,900	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities

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

	Bank borrowings RMB'000	Other borrowings RMB'000	Interest payables RMB'000	Amounts due to related parties RMB'000	Amount due to a joint venture RMB'000	Amounts due to associates RMB'000	Total RMB'000
At 1 January 2018	174,404	42,223	—	4,171	—	—	220,798
Changes from financing cash flows:							
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 and 1 January 2019	193,000	9,956	377	8,191	—	—	211,524
Financing cash inflow	225,200	7,000	—	2,040	3,162	2,746	240,148
Financing cash outflow	(193,000)	(6,708)	—	(742)	(2,112)	(489)	(203,051)
Interest accrued	—	—	13,049	—	—	—	13,049
Interest paid	—	—	(11,557)	—	—	—	(11,557)
Other non-cash changes	—	(506)	—	—	—	—	(506)
At 31 December 2019	225,200	9,742	1,869	9,489	1,050	2,257	249,607

(b) Significant non-cash transactions

i) As detailed in note 15(c), the Group has invested in an associate by contributing the Group's intangible assets with RMBnil carrying amount at date of transfer during the year ended 31 December 2019.

ii) During the year ended 31 December 2019, the distribution to a non-controlling shareholder of Zhengqi Network of RMB1,940,000 (note 13(a)) was offset against the amount due from a non-controlling shareholder included in other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

30. 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
Beijing Sunshine Cloud Technology Co., Ltd. (Previously known as China Digital Video Cloud (Beijing) Technology Co., Ltd., "Beijing 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
Xin'aote (Nanjing) Video Technology Co., Ltd. ("Xin'aote Nanjing")	Company in which Mr. Zheng has joint control
Beijing Xinaote Technology Group Co., Ltd. ("Xin'aote Technology")	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

30. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

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

		2019 RMB'000	2018 RMB'000
Xin'aote Digital Media	Rental expenses and property management fee*	—	14,838
Xin'aote Investment	Rental expenses and property management fee*	13,525	916
Xin'aote Group	Sales of goods and provision of service*	5,933	10,439
Xin'aote Yunchuang	Sales of goods and provision of service	132	918

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

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

(c) Guarantee provided by related parties

As at 31 December 2019, Mr. Zheng and Xin'aote Group have provided cross-guarantee in respect of the notes payables of RMBnil (2018: RMB35,000,000).

As at 31 December 2019, Mr. Zheng has provided personal guarantee in respect of the bank borrowings of RMBnil (2018: RMB50,000,000) granted to the Group.

As at 31 December 2019, Xin'aote Group and Beijing Silicon have provided cross-guarantee in respect of the bank borrowings of RMBnil (2018: RMB20,000,000) granted to the Group.

As at 31 December 2019, Mr. Zheng and Xinxin Holding have provided cross-guarantee in respect of the bank borrowings of RMB25,000,000 (2018: RMBnil) granted to the Group.

As at 31 December 2019, Mr. Zheng and Xin'aote Investment have provided cross-guarantee in respect of the bank borrowings of RMB60,000,000 (2018: RMB15,000,000) granted to the group.

As at 31 December 2019, MR. Zheng and CDV WFOE have provided cross-guarantee in respect of a bank borrowing of RMB10,000,000 (2018: RMBnil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

30. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(d) Trade and other receivables from related parties

	2019 RMB'000	2018 RMB'000
Trade receivables		
Xin'aote Group	11,377	17,671
Beijing Cloud	1,372	1,316
Xin'aote Yunchuang	151	616
	12,900	19,603
Other receivables		
Xinxin Holding*	2,572	2,572
Xin'aote Digital Media*	—	4,755
Xin'aote Investment*	5,355	—
Xin'aote Nanjing*	90	—
	8,017	7,327
	20,917	26,930

* 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:

	2019 RMB'000	2018 RMB'000
Xinxin Holding	2,572	3,074
Xin'aote Group	17,671	17,671
Xin'aote Digital Media	4,755	4,755
Xin'aote Yunchuang	616	616
Beijing Cloud	1,372	1,316
Xin'aote Investment	5,355	—
Xin'aote Nanjing	90	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(e) Other payables to related parties

	2019 RMB'000	2018 RMB'000
Xin'aote Group	7,148	7,341
Xin'aote Digital Media	679	—
Xin'aote Investment	477	504
Beijing Cloud	905	346
Xin'aote Technology	280	—
	9,489	8,191

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:

	2019 RMB'000	2018 RMB'000
Fee, salaries and allowances	5,697	4,865
Discretionary bonus	62	—
Retirement benefit scheme contributions	437	251
Share-based compensation expense	578	1,709
	6,774	6,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

31. 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.

(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.

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at amortised cost		
Trade and other receivables	314,284	482,000
Restricted bank deposits	2,173	6,518
Pledged bank deposits	122,363	118,733
Bank balances and cash	115,229	137,403
Financial assets at FVTPL	4,935	9,868
	558,984	754,522
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	199,728	269,457
Other interest-bearing borrowings	234,942	202,956
	434,670	472,413

31. 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. Accordingly, the Group did not have significant foreign currency risk from its operations.

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 fixed-rate loan receivables, 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 2019, 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 RMB743,000 (2018: RMB880,000) and RMB743,000 (2018: RMB880,000), respectively.

(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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

(d) Credit risk – *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 team. 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.

As set out in note 2.10, the Group assesses ECL 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. In addition, the Group also carried out individual assessment for significant receivables to determine if additional ECL are required.

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 2019 and 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.

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

(d) Credit risk – *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 2019 and 2018 was determined as follows:

	Weighted -average expected loss rate	Gross carrying amount Contract assets RMB'000	Gross carrying amount Trade receivables RMB'000	Total loss allowance provision RMB'000
As at 31 December 2019				
Current to 1 year past due	7.7%	81,864	106,103	14,484
1 to 2 years past due	57.5%	—	109,152	62,797
More than 2 years past due	85.0%	—	105,741	89,886
		81,864	320,996	167,167
As at 31 December 2018				
Current to 1 year past due	8.0%	84,568	174,455	20,800
1 to 2 years past due	26.8%	—	85,607	22,923
More than 2 years past due	63.5%	—	88,163	55,970
		84,568	348,225	99,693

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

	2019 RMB'000	2018 RMB'000
Balance at the beginning of the year	99,693	69,714
Provision for impairment	92,983	44,760
Written off as uncollectible	(25,509)	(14,781)
Balance at the end of the year	167,167	99,693

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

(d) Credit risk – *continued*

Impairment assessment under ECL model – 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, advances 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. As at 31 December 2019, lifetime ECL allowance of RMB26,675,000 (2018: RMB15,377,000) was made against the gross amount of other receivables (note 17), taking into account of the debtors' creditworthiness, financial strength, past collection records and the quality of related collaterals, etc. No 12-month ECL was provided on other receivables (2018: RMBnil).

The movement in the ECL allowance of other receivables is as follows:

	2019 RMB'000	2018 RMB'000
Balance at the beginning of the year	15,377	6,688
Provision for impairment	15,355	12,269
Written off as uncollectible	(4,168)	(3,580)
Translation difference	111	—
Balance at the end of the year	26,675	15,377

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.

(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.

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

(e) Liquidity risk – *continued*

Analysed below is the Group's remaining contractual maturities for its non-derivative financial liabilities as at 31 December 2019. 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 2019			
Trade and other payables	199,728	199,728	199,728
Other interest-bearing borrowings	241,441	241,441	234,942
	441,169	441,169	434,670
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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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

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

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	
	2019 RMB'000	2018 RMB'000
Financial assets at FVTPL		
– Unlisted equity investments	4,935	9,868

For the years ended 31 December 2019 and 2018, there were no transfers amongst level 1, level 2 and level 3 in the fair value hierarchy.

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

	Valuation technique	Unobservable input	Range (median)	
			2019	2018
– Unlisted equity investments (note)	Market approach and net assets approach	Discount of lack of marketability	15.8%	15.8%

Note:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Note: – *continued*

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

	2019 RMB'000	2018 RMB'000
Unlisted equity investments		
Fair value at 1 January	9,868	15,000
Fair value loss recognised in profit or loss	(4,933)	(5,132)
Fair value at 31 December	4,935	9,868

Fair value change on unlisted equity investments 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 2019 (2018: RMBnil).

32. 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.

33. EVENTS AFTER THE REPORTING PERIOD

Following the outbreak of Coronavirus Disease 2019 (the "COVID-19 outbreak") in early 2020 in the PRC, a series of additional precautionary and control measures have been implemented by the Group, including extension of the Chinese New Year holiday of the Group's employees, certain restriction and control measures over the travelling of people and traffic arrangements, etc. The COVID-19 outbreak has a certain impact on the TV broadcasting industry in the PRC. It might affect the TV broadcasters' schedule on upgrading their broadcasting equipment and delay in public bidding progress of the projects. The Group is not yet able to quantify the aforesaid influence due to the COVID-19 outbreak. However, the Group will pay close attention to the development of the COVID-19 outbreak and its impact and will continue to perform relevant assessments and take proactive measures as appropriate.

FIVE-YEAR FINANCIAL SUMMARY

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

RMB'000	For the year ended 31 December				
	2019	2018	2017	2016	2015
Revenue	303,206	341,047	398,307	651,976	605,983
(Loss)/Profit for the year	(173,482)	(160,012)	(92,593)	333,262	114,114
Total comprehensive income for the year	(167,636)	(158,490)	(107,601)	332,874	79,282
(Loss)/Profit for the year attributable to:					
Equity holders of the Company	(173,340)	(168,735)	(90,339)	338,706	120,219
Non-controlling interests	627	(85)	(2,254)	(5,444)	(6,105)

RMB'000	As at 31 December				
	2019	2018	2017	2016	2015
Total assets	937,709	1,165,317	1,310,392	1,295,240	804,709
Total liabilities	511,355	571,587	554,902	510,487	928,593
Net assets/(liabilities)	426,354	593,730	755,490	784,753	(123,884)