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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

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 Main Board. 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 announcement, for which the directors (the "**Directors**") of China Digital Video Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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 announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

In this announcement, "we", "us" or "our" refers to the Company and where the context otherwise requires, the Group (as defined below).

The board of Directors (the "**Board**") of the Company is pleased to announce the consolidated financial results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	**2017**	2016
		RMB'000	RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**3,946**	4,710
Intangible assets	8	**143,998**	75,787
Goodwill		**74,220**	74,220
Interests in joint ventures	9	**16,235**	—
Available-for-sale financial assets		**15,000**	3,697
Deferred tax assets		**18,470**	6,915
		271,869	165,329
Current assets			
Inventories		**32,716**	34,499
Trade and other receivables	10	**582,875**	608,738
Available-for-sale financial assets		**—**	63,000
Structured deposits		**—**	215,000
Restricted bank deposits		**13,507**	8,014
Pledged bank deposits		**111,081**	104,055
Bank balances and cash		**298,344**	96,605
		1,038,523	1,129,911
Current liabilities			
Trade and other payables	11	**330,450**	301,593
Income tax liabilities		**7,825**	11,850
Other interest-bearing borrowings		**216,627**	192,062
		554,902	505,505
Net current assets		**483,621**	624,406
Total assets less current liabilities		**755,490**	789,735
Non-current liabilities			
Deferred tax liabilities		**4,235**	4,982
Net assets		**751,255**	784,753
EQUITY			
Share capital	12	**43**	42
Reserves		**751,212**	794,110
Equity attributable to equity holders of the Company		**751,255**	794,152
Non-controlling interests		**—**	(9,399)
Total equity		**751,255**	784,753

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Equity attributable to equity holders of the Company											
	Share capital – Ordinary shares RMB'000	Share capital – Non-redeemable convertible preferred shares RMB'000	Treasury shares* RMB'000	Share premium* RMB'000	Statutory reserve* RMB'000	Translation reserve* RMB'000	Share option reserve* RMB'000	Other reserve* RMB'000	Accumulated profits* RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	**42**	**–**	**–**	**588,902**	**28,982**	**2,477**	**34,527**	**–**	**139,222**	**794,152**	**(9,399)**	**784,753**
Comprehensive loss for the year												
Loss for the year	–	–	–	–	–	–	–	–	(90,339)	(90,339)	(2,254)	(92,593)
Other comprehensive loss for the year	–	–	–	–	–	(15,008)	–	–	–	(15,008)	–	(15,008)
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(15,008)**	**–**	**–**	**(90,339)**	**(105,347)**	**(2,254)**	**(107,601)**
Transactions with owners												
Issue of shares of share award scheme (note 12(v))	1	–	(1)	–	–	–	–	–	–	–	–	–
Share repurchased and not yet cancelled (note 12(vi))	–	–	–	(399)	–	–	–	–	–	(399)	–	(399)
Deemed disposal of a subsidiary (note 14)	–	–	–	–	–	–	–	–	–	–	11,653	11,653
Share-based compensation (note 13)	–	–	–	–	–	–	21,451	41,398	–	62,849	–	62,849
Transfer upon forfeiture of share options	–	–	–	–	–	–	(136)	–	136	–	–	–
Total transactions with owners	**1**	**–**	**(1)**	**(399)**	**–**	**–**	**21,315**	**41,398**	**136**	**62,450**	**11,653**	**74,103**
Balance at 31 December 2017	**43**	**–**	**(1)**	**588,503**	**28,982**	**(12,531)**	**55,842**	**41,398**	**49,019**	**751,255**	**–**	**751,255**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

1. GENERAL INFORMATION

China Digital Video Holdings Limited (the "Company") was incorporated in the Cayman Islands on 8 January 2007 as an exempted company with limited liability under the Companies Law (as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. The Company's shares were listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27 June 2016 (the "Listing").

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

As at 31 December 2017, the directors regard the immediate and the ultimate holding company of the Company is Wing Success Holdings Limited ("Wing Success"), a company incorporated in the British Virgin Islands and Mr. Zheng Fushuang ("Mr. Zheng") is the ultimate controlling party of the Company.

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

2. BASIS OF PREPARATION

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

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group.

(a) Amended standards adopted by the Group

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

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

(b) New and amended standards and interpretations not yet adopted

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contract[3]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]

Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[2]
IFRIC – Int 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC – Int 23	Uncertainty over Income Tax Treatments[2]

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

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

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

[4] Effective date not yet determined

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.

IFRS 9 "Financial instruments"

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

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

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

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

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

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

(a) Timing of revenue recognition

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

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

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

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

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

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

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

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

(b) Contracts with multiple performance obligations

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

- the customer benefits from the items either on its own or together with other readily available resources; and

- it is "separately identifiable" (i.e. the Group does not provide a significant service integrating, modifying or customizing it).

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

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

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

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

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

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

where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

Geographical information

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

Information about major customers

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

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

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

4. OTHER INCOME

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

Notes:

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

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

5. (LOSS)/PROFIT FOR THE YEAR

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

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

6. INCOME TAX EXPENSE

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

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

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

Notes:

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

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

(c) PRC enterprise income tax

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

Pursuant to the relevant laws and regulations in the PRC, China Digital Video (Beijing) Limited ("CDV WFOE"), a subsidiary of the Company, obtained the "High and New Technology Enterprise" qualification ("HNTE") in 2012 and renewed its qualification in 2015. In 2016, CDV WFOE was also accredited as a "Key Software Enterprise under the National Plan" (國家規劃佈局內重點軟體企業) and accordingly entitled to a preferential income tax rate of 10% for the year ended 31 December 2016. In 2017, CDV WFOE enjoyed preferential income tax rate of 15% and continues to enjoy the preferential income tax of 15% until year 2018.

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

According to relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 150% of the research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). CDV WFOE and Beijing Zhengqi have made its best estimate for the Super Deduction to be claimed in ascertaining their assessable profits for years ended 31 December 2017 and 2016.

(d) PRC withholding tax

According to the relevant laws and regulations in the PRC, the Group is also liable to a 10% 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%.

7. (LOSS)/EARNINGS PER SHARE

For the purpose of computing basic and diluted (loss)/earnings per share, the number of ordinary shares during each year have also been adjusted retrospectively for the proportional change in the number of shares outstanding as a result of the capitalisation issue as detailed in note 12(iii), in the computation of both basic and diluted (loss)/earnings per share for the years ended 31 December 2017 and 2016.

(a) Basic (loss)/earnings per share

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

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

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

(b) Diluted (loss)/earnings per share

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

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

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

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

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

8. INTANGIBLE ASSETS

	Video-related and broadcasting intellectual properties, patents, trademarks and licenses RMB'000	Development costs RMB'000	Club membership RMB'000	Total RMB'000
At 1 January 2016				
Cost	86,178	12,168	2,266	100,612
Accumulated amortisation	(32,634)	—	—	(32,634)
Net book amount	53,544	12,168	2,266	67,978
Year ended 31 December 2016				
Opening net book amount	53,544	12,168	2,266	67,978
Transfers	8,562	(8,562)	—	—
Additions	3,689	18,285	—	21,974
Amortisation	(14,165)	—	—	(14,165)
Closing net book amount	51,630	21,891	2,266	75,787
At 31 December 2016				
Cost	98,429	21,891	2,266	122,586
Accumulated amortisation	(46,799)	—	—	(46,799)
Net book amount	51,630	21,891	2,266	75,787
Year ended 31 December 2017				
Opening net book amount	51,630	21,891	2,266	75,787
Transfers	9,727	(9,727)	—	—
Additions	34,532	53,928	—	88,460
Write-off	—	—	(2,266)	(2,266)
Amortisation	(17,983)	—	—	(17,983)
Closing net book amount	**77,906**	**66,092**	**—**	**143,998**
At 31 December 2017				
Cost	142,688	66,092	—	208,780
Accumulated amortisation	(64,782)	—	—	(64,782)
Net book amount	**77,906**	**66,092**	**—**	**143,998**

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

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

9. INTERESTS IN JOINT VENTURES

As the reporting dates, the Group had interests in the following joint ventures, all of which are considered not individually material to the Group:

Name of company	**Country/ Place of establishment**	**Paid in capital**	**Equity interest held by the Group**		**Principal activities and place of operation**
			2017	2016	
Beijing Hermit Culture & Media Co., Ltd 北京海米文化傳媒有限公司 ("Beijing Hermit") (note a and b)	PRC	RMB10,000,000	**–**	40%	Provision of virtual advertising service, in PRC
Beijing Yue Ying Technology Co., Ltd 北京悅影科技有限公司 ("Beijing Yueying") (note b)	PRC	RMB11,363,636	**35.2%**	35.2%	Development and provision of video related application, in PRC
CDV (Beijing) Yun Duan Technology Co., Ltd 新奥特(北京)雲端科技有限公司 ("Xin'aote Cloud") (note b)	PRC	RMB25,000,000	**40%**	40%	Mobile application development and operation, in PRC
Beijing Meicam Network Technology Co., Ltd 北京美攝網絡科技有限公司 ("Beijing Meicam") (note c)	PRC	RMB25,000,000	**40%**	40%	Mobile application development and operation, in PRC

Notes:

(a) In October 2017, the Group has disposed its entire interests in Beijing Hermit to an independent third party for a cash consideration of RMB20,000,000. Accordingly, a gain on disposal of a joint venture of RMB20,000,000 was recognised in profit or loss during the year ended 31 December 2017 (note 4).

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

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

(c) During the year ended 31 December 2017, the Group has terminated the act in concert agreement with another investor of Beijing Meicam in which the investor no longer be required to vote in the same way as the Group, resulting in a loss in control over Beijing Meicam. Accordingly, the retained interest in Beijing Meicam of RMB16,000,000 was reclassified as interest in a joint venture (note 14). The share of profit from Beijing Meicam by the Group was amounted to RMB235,000 for the year ended 31 December 2017.

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

(a) Trade and bills receivables

Invoices issued to customers are in accordance with the payment terms stipulated in the contracts and payable on issuance. Deposits are normally required upon signing of the contract. For customers with good credit history and selected large television stations in the PRC with sound financial standing, its settlement may be longer than 180 days after issuance of invoices. As at 31 December 2017, trade and bills receivables contained retention money receivables (net of provisions) of RMB56,984,000 (2016: RMB42,672,000). Retention money receivables are normally collected within three years after the completion of the relevant solution sales. Ageing analysis based on invoiced date of the trade and bills receivables and net of provisions at the respective reporting dates is as follows:

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

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

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

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

At each reporting date, the Group reviews for evidence of impairment on both an individual and collective basis. As at 31 December 2017, the Group has determined trade receivables of RMB35,157,000 (2016: RMB16,100,000) as individually impaired. Based on this assessment, provision for impairment loss of RMB35,157,000 (2016: RMB16,100,000) has been recognised has been made during the year ended 31 December 2017. Provision for impairment loss have been included in "administrative expenses" in the consolidated statement of comprehensive income. The impaired trade receivables are due from customers experiencing financial difficulties that were in default or delinquency of payments. The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables, whether determined on an individual or collective basis.

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

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

Trade receivables that were past due but not impaired were RMB182,349,000 (2016: RMB169,128,000). These related to a number of customers that had a good track record of credit with the Group. Based on past credit history, management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group does not hold any collateral in respect of trade receivables past due but not impaired.

As at 31 December 2016, certain of the Group's trade and bills receivables of RMB20,355,000 that were transferred to a non-banking financial institution by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as an unsecured borrowing. The Group has fully settled the unsecured borrowing during the year ended 31 December 2017.

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

(b) Other receivables

Deposit for guarantee certificate

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

Loan receivable

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

Amounts due from joint ventures

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

Advances to employees

Advances to employees mainly represent advances for various expenses and deposits to be incurred in the ordinary course of business. These advances are unsecured, interest-free and repayable on demand.

Provision for impairment of other receivables

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

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

11. TRADE AND OTHER PAYABLES

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

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

(a) Trade and bills payables

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

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

(b) Amounts due to customers for contract work

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

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

12. SHARE CAPITAL AND TREASURY SHARES

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

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

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

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

Notes:

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

Immediately prior to the Listing, all the redeemable and non-redeemable convertible preferred shares were converted into ordinary shares, giving rise to 74,795,203 ordinary shares (before capitalisation issue adjustment). As a result, all the preferred shares were derecognised and transferred to the share capital and share premium for approximately RMB5,000 and RMB368,469,000, respectively.

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

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

(iii) Capitalisation issue

Pursuant to a written resolution of the shareholders of the Company passed on 23 May 2016 and conditional on the share premium account of the Company being credited as a result of the offer shares pursuant to the proposed share offering described in the Company's prospectus dated 15 June 2016 (the "Capitalisation Issue"), the Company capitalised an amount approximately of US$3,102, standing to the credit of its share premium account and to appropriate such amount as capital to pay up 310,204,797 shares in full at par. The Capitalisation Issue was completed on 27 June 2016.

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

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

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

(v) Issuance of new shares for share award scheme

During the year ended 31 December 2017, 12,000,000 ordinary shares of US$0.00001 each were issued under the specific mandate granted by the shareholders of the Company at the annual general meeting on 20 March 2017 for the Company's share award scheme. The shares were issued to the trustee of the share award scheme and have been classified as treasury shares of the Company. Details of which were set out in note 13(c) to the consolidated financial statements.

(vi) Repurchase of shares

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

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

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

13. SHARE-BASED COMPENSATION TRANSACTIONS

(a) The 2010 Share Option Plan

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

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

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

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

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

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

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

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

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

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

The Company has adjusted, pursuant to the authority granted to the Board under the 2010 Share Option Plan, the total number of shares subject to options granted under the 2010 Share Option Plan to 77,893,000 as a result the Capitalisation Issue (as detailed in note 12(iii)). Upon completion of such grant and adjustment, no further options will be granted under the 2010 Share Option Plan. The number of share option outstanding disclosed below has been adjusted to reflect the Capitalisation Issue which was completed on 27 June 2016.

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

	2017		**2016**	
	Average exercise price in US$ per share option	**Number of share options outstanding**	**Average exercise price in US$ per share option**	**Number of share options outstanding**
Directors				
At beginning and end of year	**1.16**	**30,940,914**	1.16	30,940,914
Employees				
At beginning of year	**0.94**	**46,080,933**	0.94	47,102,284
Forfeited during the year	**1.16**	**(615,814)**	1.16	(1,021,351)
At end of year	**0.94**	**45,465,119**	0.94	46,080,933
Total				
At beginning of year	**1.03**	**77,021,847**	1.03	78,043,198
Forfeited during the year	**1.16**	**(615,814)**	1.16	(1,021,351)
At end of year	**1.03**	**76,406,033**	1.03	77,021,847
Excisable at the end of year	**1.04**	**75,054,246**	1.06	74,318,272

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at 31 December 2017, the Group had 61,970,000 share options outstanding under the 2017 Share Option Scheme, which represented approximately 9.81% of the issued ordinary shares of the Company as at 31 December 2017. The exercise in full of the outstanding share options would, under the present capital structure of the

Group, result in the issue of 61,970,000 additional ordinary shares of the Company and additional share capital and share premium of approximately RMB5,000 and RMB68,645,000 (before issue expenses), respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. DEEMED DISPOSAL OF A SUBSIDIARY

In November 2017, the Group has terminated the act in concert agreement with another investor of Beijing Meicam of which the investor no longer be required to vote in the same way as the Group, resulting in a loss in control over Beijing Meicam. Accordingly, the fair value of the retained interest in Beijing Meicam, which was determined by discounted cash flow approach, was reclassified as interest in a joint venture (note 9).

	RMB'000
Fair value of retained interest	16,000

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

15. OPERATING LEASE COMMITMENTS

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

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

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

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

We have established business relationship with most of the central- and provincial-level TV stations in China and with some of the provincial-level TV broadcasters in China for over 21 years. We have also served alternative broadcasting platforms, such as cable networks operators, Internet media content providers and IPTV operators. During the year ended 31 December 2017 (the "**2017 Annual Period**"), we continued to serve a large number of central-, provincial- and municipal-level TV broadcasters and operators in China, including CCTV, the largest broadcaster in China, and Shanghai Media Group Co, Ltd. (上海文化廣播影視集團有限公司).

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

FINANCIAL REVIEW

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

ANALYSIS ON ANNUAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME ITEMS

Revenue

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

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

Other Income

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Share-Based Compensation Expense

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

Research and Development Expenses

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

Finance Costs

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

Fair Value Gain on Redeemable Convertible Preferred Shares

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

Share of Profit of Joint Ventures

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

Loss/Profit before Income Tax

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

Income Tax Credit/Expense

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

Loss/Profit for the Year

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

Other Comprehensive Loss

We recorded other comprehensive loss of RMB15.0 million for the 2017 Annual Period as compared to other comprehensive loss of RMB0.4 million for the 2016 Annual Period, primarily due to exchange rate differences arising on the translation of foreign operation as a result of Renminbi's depreciation against U.S. dollars during 2017 as compared to 2016.

Total Comprehensive Loss/Income for the Year

We recorded a total comprehensive loss of RMB107.6 million for the 2017 Annual Period as compared to RMB332.9 million for the 2016 Annual Period. Such increase was primarily attributable to the fair value gain on redeemable convertible preferred shares as a result of the completion of the QIPO in the 2016 Annual Period.

Loss Attributable to Non-controlling Interests

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

Dividend

The Directors do not recommend the payment of a final dividend for the 2017 Annual Period (2016: Nil).

ANALYSIS ON ANNUAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Non-current Assets

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

Current Assets

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

Current Liabilities

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

Non-current Liabilities

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, the current assets of the Group amounted to RMB1,038.5 million, including RMB582.9 million in trade and other receivables and RMB298.3 million in bank balances and cash. Current liabilities of the Group amounted to RMB554.9 million, of which RMB338.3 million were other current liabilities and RMB216.6 million in other interest bearing borrowings. As at 31 December 2017, the Group had interest-bearing bank and other borrowings of 216.6 million (as compared to RMB192.1 million as at 31 December 2016), which were denominated in Renminbi and U.S. dollars bearing fixed and floating interest rates. All of our bank borrowings and other borrowings as at 31 December 2017 are repayable within one year.

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

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

COMMITMENTS

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

MATERIAL ACQUISITIONS AND DISPOSAL

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

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

We do not have plans for material investments or acquisition of capital assets.

FOREIGN CURRENCY RISK

Our subsidiaries mainly operate in the PRC and majority of the transactions are settled in Renminbi except for certain bank balances and bank borrowings which are denominated in the U.S. dollar. Foreign currency risk arises when commercial transactions and recognized assets and liabilities are denominated in a currency that is not either our Company's or our subsidiaries' functional currency. As at 31 December 2017, we did not have significant foreign currency risk from our operations. During the 2017 Annual Period, we did not enter into any arrangements to hedge against any fluctuation in foreign currency.

CHARGE ON ASSETS

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

NON-IFRS FINANCIAL MEASURES

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

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

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

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

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

Business Objectives	Actual Progress
• conduct market research and due diligence on potential investment and acquisition targets in China	We have invested into a private equity fund, details of which are set out in the announcement of the Company dated 28 April 2017. We are also in the process of identifying other suitable investment and acquisition targets.
• increase spending to promote cloud-based solutions	We recorded a moderate increase in the spending to promote cloud-based solutions.
• expand in-house sales team	We have implemented certain measures to optimize sales teams productivity.
• commercialize two to three cloud service products	We have commercialize two cloud service products.
• transition the existing digitization and cataloguing of media asset service into a platform for trading digitized and catalogued media assets	We are in the process of upgrading the existing media asset service into a platform for trading digitized and catalogue media assets.
• commercialize Meicam to generate revenue streams through business-to-business transactions	The SDK business developed by Meicam was able to generate revenue in 2017 Annual Report Period.
• complete one to two investments or acquisitions in China	We have invested into a private equity fund, details of which are set out in the announcement of the Company dated 28 April 2017.

USE OF PROCEEDS

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

As of 31 December 2017, the net proceeds were applied as follows:

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

HUMAN RESOURCES

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

CONTINGENT LIABILITIES

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

OUTLOOK

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

CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board, the Company has complied with the Code from 1 January 2017 up to the date of this announcement.

DIRECTORS' SECURITIES TRANSACTION

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

Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standards of dealings from 1 January 2017 up to the date of this announcement.

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

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

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

* *Excluding brokerage and cancellation fees*

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

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

AUDIT COMMITTEE

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

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

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

The Group's consolidated financial statements for the 2017 Annual Period have been reviewed by the Audit Committee.

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

SCOPE OF WORK OF GRANT THORNTON

The financial information in respect of the announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditors, Grant Thornton Hong Kong Limited ("**Grant Thornton**"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Grant Thornton in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Grant Thornton on the results announcement.

ANNUAL GENERAL MEETING

The 2018 annual general meeting will be held on or before 30 June 2018. A notice convening the 2018 annual general meeting will be published on the website of the Stock Exchange and the Company and dispatched to the Shareholders in due course.

EVENT AFTER THE REPORTING PERIOD

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.cdv.com. The annual report of the Company for the 2017 Annual Period containing all the information required by the GEM Listing Rules will be dispatched to Shareholders and published on the above websites in due course.

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

Hong Kong, 23 March 2018

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

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

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and be posted on the website of the Company at www.cdv.com.