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 2018

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

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

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

This 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 2018 (the "**2018 Annual Period**"), together with the comparative figures for the year ended 31 December 2017 (the "**2017 Annual Period**").

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** **RMB'000**	2017 RMB'000
Revenue	3	**341,047**	398,307
Cost of sales		**(261,347)**	(341,095)
Gross profit		**79,700**	57,212
Other income	4	**32,962**	83,363
Selling and marketing expenses		**(66,583)**	(70,304)
Administrative expenses		**(41,542)**	(43,072)
Share-based compensation expense	14	**(11,308)**	(62,849)
Research and development expenses		**(28,646)**	(30,960)
Finance costs	5	**(12,242)**	(9,436)
Net impairment loss on trade and other receivables and contract assets		**(57,029)**	(29,084)
Impairment loss on goodwill	9	**(56,739)**	—
Share of profit of joint ventures		**1,415**	235
Loss before income tax		**(160,012)**	(104,895)
Income tax (expense)/credit	6	**(8,808)**	12,302
Loss for the year	5	**(168,820)**	(92,593)
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on the translation of foreign operation		**10,330**	(15,008)
Total comprehensive loss for the year		**(158,490)**	(107,601)
Loss for the year attributable to:			
Equity holders of the Company		**(168,735)**	(90,339)
Non-controlling interests		**(85)**	(2,254)
		(168,820)	(92,593)
Total comprehensive loss for the year attributable to:			
Equity holders of the Company		**(158,405)**	(105,347)
Non-controlling interests		**(85)**	(2,254)
		(158,490)	(107,601)
Loss per share for loss attributable to equity holders of the Company			
(expressed in RMB cents per share)	7		
Basic		**(27.29)**	(14.57)
Diluted		**(27.29)**	(14.57)

Note: The Group has initially applied IERS 15 and IFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 2.1(a).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	**2018 RMB'000**	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**3,674**	3,946
Intangible assets	8	**161,766**	143,998
Goodwill	9	**17,481**	74,220
Interests in joint ventures		**1,530**	16,235
Interests in associates		**16,648**	—
Other financial assets		**9,868**	15,000
Deferred tax assets		**7,766**	18,470
		218,733	271,869
Current assets			
Inventories		**39,298**	32,716
Trade and other receivables	10	**566,871**	582,875
Contract assets	11	**77,761**	—
Restricted bank deposits		**6,518**	13,507
Pledged bank deposits		**118,733**	111,081
Bank balances and cash		**137,403**	298,344
		946,584	1,038,523
Current liabilities			
Trade and other payables	12	**348,333**	330,450
Contract liabilities	11	**12,227**	—
Other interest-bearing borrowings		**202,956**	216,627
Income tax liabilities		**4,583**	7,825
		568,099	554,902
Net current assets		**378,485**	483,621
Total assets less current liabilities		**597,218**	755,490
Non-current liabilities			
Deferred tax liabilities		**3,488**	4,235
Net assets		**593,730**	751,255
EQUITY			
Share capital	13	**43**	43
Reserves		**591,672**	751,212
Equity attributable to equity holders of the Company		**591,715**	751,255
Non-controlling interests		**2,015**	—
Total equity		**593,730**	751,255

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 2.1(a).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Equity attributable to equity holders of the Company										
	Share capital RMB'000	Treasury shares* RMB'000	Share premium* RMB'000	Statutory reserve* RMB'000	Translation reserve* RMB'000	Share option reserve* RMB'000	Other reserve* RMB'000	Accumulated profits* RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	42	–	588,902	28,982	2,477	34,527	–	139,222	794,152	(9,399)	784,753
Comprehensive loss for the year											
Loss for the year	–	–	–	–	–	–	–	(90,339)	(90,339)	(2,254)	(92,593)
Other comprehensive loss for the year	–	–	–	–	(15,008)	–	–	–	(15,008)	–	(15,008)
Total comprehensive loss for the year	–	–	–	–	(15,008)	–	–	(90,339)	(105,347)	(2,254)	(107,601)
Transactions with owners											
Issue of shares of share award scheme (note 13(i))	1	(1)	–	–	–	–	–	–	–	–	–
Share repurchased and not yet cancelled (note 13(ii))	–	–	(399)	–	–	–	–	–	(399)	–	(399)
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	11,653	11,653
Share-based compensation (note 14)	–	–	–	–	–	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

	Equity attributable to equity holders of the Company										
	Share capital RMB'000	Treasury shares* RMB'000	Share premium* RMB'000	Statutory reserve* RMB'000	Translation reserve* RMB'000	Share option reserve* RMB'000	Other reserve* RMB'000	Accumulated Profits/ (losses)* RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018	43	(1)	588,503	28,982	(12,531)	55,842	41,398	49,019	751,255	–	751,255
Adjustment from the adoption of IFRS 9 and IFRS 15 (note 2.1(a))	–	–	–	–	–	–	–	(11,656)	(11,656)	–	(11,656)
Adjusted balance at 1 January 2018	43	(1)	588,503	28,982	(12,531)	55,842	41,398	37,363	739,599	–	739,599
Comprehensive (loss)/income for the year											
Loss for the year	–	–	–	–	–	–	–	(168,735)	(168,735)	(85)	(168,820)
Other comprehensive income for the year	–	–	–	–	10,330	–	–	–	10,330	–	10,330
Total comprehensive loss for the year	–	–	–	–	10,330	–	–	(168,735)	(158,405)	(85)	(158,490)
Transactions with owners											
Share repurchased and cancelled (note 13(ii))	–	–	(787)	–	–	–	–	–	(787)	–	(787)
Share-based compensation (note 14)	–	–	–	–	–	8,312	2,996	–	11,308	–	11,308
Vesting of shares held under the Share Award Scheme (note 14(c))	–	–	9,763	–	–	–	(9,763)	–	–	–	–
Capital contribution from a non-controlling shareholder	–	–	–	–	–	–	–	–	–	2,100	2,100
Transfer upon forfeiture of share options	–	–	–	–	–	(38)	–	38	–	–	–
Total transactions with owners	–	–	8,976	–	–	8,274	(6,767)	38	10,521	2,100	12,621
Balance at 31 December 2018	43	(1)	597,479	28,982	(2,201)	64,116	34,631	(131,334)	591,715	2,015	593,730

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 2.1(a).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. GENERAL INFORMATION

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

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

As at 31 December 2018, the directors regard the immediate and the ultimate holding company of the Company is Wing Success Holdings Limited ("Wing Success"), a company incorporated in the British Virgin Islands and Mr. Zheng Fushuang ("Mr. Zheng") is the ultimate controlling party of the Company.

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

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

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

2.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

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

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

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

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

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

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

The adoption of IFRS 9 has impacted the following areas:

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

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

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

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

  – contract assets as defined in IFRS 15.

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

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

ECL

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

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

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

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

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

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

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

i) Timing of revenue recognition

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

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

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

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

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

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

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

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

ii) Significant financing component

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

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

iii) Presentation of contract assets and liabilities

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

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

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

iv) Accounting for warranties

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

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

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

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

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

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

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

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

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

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

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contract[3]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRS 3	Definition of a Business[5]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle[1]
IFRIC – Int 23	Uncertainty over Income Tax Treatments[1]

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

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

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

[4] Effective date not yet determined

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

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

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

IFRS 16 "Leases" replaced 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 lease liability and a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases of offices and residential properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application (if any) as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply IFRS 16 only to new contracts. Furthermore, the Group plans to use the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease. As disclosed in note 15, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounting to RMB9,011,000 for offices and residential properties, all of which are payable within one year or of low-value assets. Therefore, the Group plans to use the practical expedients of short-term lease to recognise the rental expense over the lease term and the directors expect that the adoption of IFRS 16 does not have material impact to the Group's consolidated financial statements.

2.2 *Dividend distribution*

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

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:

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

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

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

Geographical information

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

Information about major customers

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

4. OTHER INCOME

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

Notes:

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

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

5. LOSS FOR THE YEAR

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

	2018	2017
	RMB'000	RMB'000
Finance costs		
Interest on bank and other borrowings, wholly repayable within five years	**12,242**	9,436
Employee benefit expenses		
Salaries, bonus and allowances	**91,181**	100,100
Retirement benefit scheme contributions	**20,866**	23,855
Severance payments	**897**	753
Share-based compensation expense	**11,308**	62,849
	124,252	187,557

	2018	2017
	RMB'000	RMB'000
Other items		
Auditors' remuneration	**1,456**	1,467
Operating lease charges on premises	**18,431**	14,906
Cost of software and hardware equipment recognised as an expense, including	**168,876**	238,199
– Provision for inventory obsolescence	**639**	2,918
Depreciation of property, plant and equipment	**4,990**	6,027
Amortisation of intangible assets	**27,565**	17,983
Provision for impairment loss on available-for-sale financial assets	**—**	3,697
Loss on deemed disposal of a joint venture	**1,002**	—
Loss on disposal of property, plant and equipment	**209**	186
Write-off of intangible assets	**1,854**	2,266
Net foreign exchange loss/(gain)	**2,773**	(3,761)

6. INCOME TAX EXPENSE/(CREDIT)

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

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

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

Notes:

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

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

(c) PRC enterprise income tax

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

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's subsidiaries in the PRC obtained the "High and New Technology Enterprise" qualification and enjoyed preferential income tax rate of 15% for the years ended 31 December 2017 and 2018.

According to relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 150% of the research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group have made its best estimate for the Super Deduction to be claimed in ascertaining their assessable profits for years ended 31 December 2018 and 2017.

(d) PRC withholding tax

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

7. LOSS PER SHARE

(a) Loss per share

Basic loss per share is calculated based on the loss attributable to equity holders of the Company of RMB168,735,000 (2017: RMB90,339,000) and the weighted average number of shares of 618,400,000 shares (2017: 619,985,000 shares) outstanding during the year, excluding the ordinary shares purchased by the Company and held as treasury shares (note 13(ii)).

(b) Diluted loss per share

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

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 2017				
Cost	98,429	21,891	2,266	122,586
Accumulated amortisation	(46,799)	—	—	(46,799)
Net book amount	51,630	21,891	2,266	75,787
Year ended 31 December 2017				
Opening net book amount	51,630	21,891	2,266	75,787
Transfers	9,727	(9,727)	—	—
Write-off	—	—	(2,266)	(2,266)
Additions	34,532	53,928	—	88,460
Amortisation	(17,983)	—	—	(17,983)
Closing net book amount	77,906	66,092	—	143,998
At 31 December 2017				
Cost	142,688	66,092	—	208,780
Accumulated amortisation	(64,782)	—	—	(64,782)
Net book amount	77,906	66,092	—	143,998
Year ended 31 December 2018				
Opening net book amount	**77,906**	**66,092**	**—**	**143,998**
Transfers	**45,331**	**(45,331)**	**—**	**—**
Write-off	**—**	**(1,854)**	**—**	**(1,854)**
Additions	**—**	**47,187**	**—**	**47,187**
Amortisation	**(27,565)**	**—**	**—**	**(27,565)**
Closing net book amount	**95,672**	**66,094**	**—**	**161,766**
At 31 December 2018				
Cost	**188,019**	**66,094**	**—**	**254,113**
Accumulated amortisation	**(92,347)**	**—**	**—**	**(92,347)**
Net book amount	**95,672**	**66,094**	**—**	**161,766**

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

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

9. GOODWILL

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

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

The carrying amount of the cash generating unit of which the goodwill is allocated, being the research and sales of video-related and broadcasting equipment and software and provision of related technical services business conducted by a subsidiary, ZhengQi (Beijing) Video Technology Co., Ltd. (北京正奇聯訊有限公司, "Beijing Zhengqi"), which was acquired by the Group in 2013. The recoverable amount of goodwill was determined based on value-in-use calculations, using an annual cash flow budget plan covering a 5-year period with estimated long-term growth rate of 3.0% (2017: 3.0%) per annum (for cash flows beyond the five-year period) for the operation, which does not exceed the long-term growth rate for the industry in the PRC. A discount factor of 21.9% (2017: 20.0%) for the year ended 31 December 2018 was applied in the value in use model.

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

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

* The trade receivables that are expected to be recovered after more than one year were classified as contract assets in the consolidated statement of financial position upon adoption of IFRS 15 (note 11).

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

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

\# The unbilled balance was mainly attributable to completed solutions sales which will be billed within the next 24 months from the end of the reporting dates in accordance with the payment terms stipulated in the relevant solutions sales contracts entered into between the Group and the contract customers. Upon adoption of IFRS 15 and as at 31 December 2018, the unbilled balance is classified as contract assets in the consolidated statement of financial position (note 11).

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

The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables, whether determined on an individual or collective basis.

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

(b) Other receivables

Deposit for guarantee certificate

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

Loan receivables

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

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

Amounts due from joint ventures

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

Advances to employees

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

11. CONTRACT ASSETS AND CONTRACT LIABILITIES

11.1 Contract assets

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

Notes:

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

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

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

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

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

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

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

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

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

11.2 Contract liabilities

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

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

Movement in contract liabilities

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

Unsatisfied performance obligations

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

12. TRADE AND OTHER PAYABLES

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

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

(a) Trade payables

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

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

(b) Note payables

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

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

(c) Advance from customers

As a result of the adoption of IFRS 15, the advance from customers are included in contract liabilities and disclosed in note 11.2.

13. SHARE CAPITAL

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

	Number of shares	Nominal value of shares US$
Authorised:		
Ordinary shares of the Company:		
As at 31 December 2017, 1 January 2018 and 31 December 2018, at US$0.00001 each	5,000,000,000	50,000

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

	Notes	Number of treasury shares	Nominal value of shares US$	Equivalent nominal value of shares RMB'000
Treasury shares of the Company:				
At 1 January 2017		—	—	—
Issuance of shares for share award scheme	(i)	12,000,000	120	1
Shares repurchased and not yet cancelled	(ii)	532,000	5	—
As at 31 December 2017 and 1 January 2018		**12,532,000**	**125**	**1**
Share repurchased	(ii)	**1,136,000**	**12**	**—**
Repurchased shares cancelled	(ii)	**(1,668,000)**	**(17)**	**—**
As at 31 December 2018		**12,000,000**	**120**	**1**

Notes:

(i) Issuance of new shares for share award scheme

During the year ended 31 December 2017, 12,000,000 ordinary shares of US$0.00001 each were issued under the specific mandate granted by the shareholders of the Company at the annual general meeting on 20 March 2017 for the Company's share award scheme. The shares were issued to the trustee of the share award scheme and have been classified as treasury shares of the Company. Details of which were set out in note 14(c) to the consolidated financial statements.

(ii) Repurchase of shares

During the years ended 31 December 2018 and 2017, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate consideration paid HK$'000	Equivalent aggregate consideration paid RMB'000
December 2017	532,000	0.87	0.79	452	399
January 2018	806,000	0.90	0.83	696	577
February 2018	330,000	0.82	0.72	258	210
	1,136,000			954	787

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

14. 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 2017, and the remaining 1,500,000 options are subject to a vesting scale in which 40%, 30% and 30% of options granted shall vest on 1 October 2016, 1 October 2017 and 1 October 2018 respectively. The options granted are exercisable from 1 October 2016 to 31 December 2021.

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

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

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

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

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

The Group recognised an expense of RMB770,000 (2017: RMB2,191,000) for the year ended 31 December 2018 in relation to the 2010 Share Option Plan.

(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:

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

As at 31 December 2018, the Group had 61,659,700 (2017: 61,970,000) share options outstanding under the 2017 Share Option Scheme, which represented approximately 9.78% (2017: 9.81%) of the issued ordinary shares of the Company as at 31 December 2017. The exercise in full of the outstanding share options would, under the present capital structure of the Group, result in the issue of 61,659,700 (2017: 61,970,000) additional ordinary shares of the Company and additional share capital and share premium of approximately RMB5,000 (2017: RMB5,000) and RMB71,998,000 (2017: RMB68,645,000) (before issue expenses), respectively.

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

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

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

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

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

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

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

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

(e) The Group recognised a total expense of RMB11,308,000 (2017: RMB62,849,000) for the year ended 31 December 2018 in relation to the above share options and share awards. The share-based compensation expense was shown as a separate item on the face of the consolidated statement of comprehensive income.

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:

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

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

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

We have established business relationship with most of the central- and provincial-level TV stations in China and with some of the provincial-level TV broadcasters in China for over 22 years. We have also served alternative broadcasting platforms, such as cable networks operators, Internet media content providers and IPTV operators. During the 2018 Annual Period, we continued to serve a large number of central-, provincial- and municipal-level TV broadcasters and operators in China, including CCTV, the largest broadcaster in China, and Shanghai Media Group Co., Ltd. (上海文化廣播影視集團有限公司).

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

FINANCIAL REVIEW

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

The increase in loss we recorded for the 2018 Annual Period as compared to the 2017 Annual Period was mainly due to (i) the significant increase in net impairment loss on trade and other receivables and contract assets of RMB57.0 million for the 2018 Annual Period than that of the 2017 Annual Period and (ii) the provision of impairment on goodwill of RMB56.7 million for the 2018 Annual Period in relation to our acquisition of digital broadcasting business in 2013 as compared to nil for the 2017 Annual Period. The impairment loss on goodwill was not applicable for the 2017 Annual Period and was mainly due to the underperformance of our digital broadcasting business.

ANALYSIS ON ANNUAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME ITEMS

Revenue

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

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

Cost of Sales

Our cost of sales decreased by 23.4% to RMB261.3 million for the 2018 Annual Period from RMB341.1 million for the 2017 Annual Period, as a result of the decrease of revenue.

Gross Profit and Gross Profit Margin

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

Other Income

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Share-Based Compensation Expense

Our share-based compensation expense decreased by 82.0% to RMB11.3 million for the 2018 Annual Period from RMB62.8 million for the 2017 Annual Period. The relatively higher share-based compensation expense recorded for the 2017 Annual Period was mainly due to the expenses related to (i) the shares awarded to our then Directors, which is not applicable in 2018 Annual Period, (ii) the share awards granted under the share award scheme of the Company adopted in 2017 and (iii) the share options granted under the share option scheme of the Company adopted in 2017 during the 2017 Annual Period.

Research and Development Expenses

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

Finance Costs

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

Net Impairment Loss on Trade and Other Receivables and Contract Assets

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

Impairment Loss on Goodwill

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

Loss before Income Tax

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

Income Tax Expense/Credit

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

Loss for the Year

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

Other Comprehensive Income/Loss

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

Loss attributable to Equity Holders and Non-controlling Interests

We had loss attributable to equity holders and non-controlling interests of RMB168.8 million for the 2018 Annual Period as compared to RMB92.6 million for the 2017 Annual Period. The non-controlling interests in the 2017 Annual Period primarily represented the minority interests in Beijing Meicam before the deemed disposal.

Dividend

The Directors do not recommend the payment of a final dividend for the 2018 Annual Period (2017: Nil).

ANALYSIS ON ANNUAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Non-current Assets

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

Current Assets

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

Current Liabilities

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

Non-current Liabilities

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

COMMITMENTS

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

MATERIAL ACQUISITIONS AND DISPOSAL

We had no material acquisitions and disposal of subsidiaries and affiliated companies during the 2018 Annual Period.

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

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

FOREIGN CURRENCY RISK

Our subsidiaries mainly operate in the PRC and majority of the transactions are settled in Renminbi except for certain bank balances and bank borrowings which are denominated in the U.S. dollar. Foreign currency risk arises when commercial transactions and recognized assets and liabilities are denominated in a currency that is not either the Company's or our subsidiaries' functional currency. As at 31 December 2018, we did not have significant foreign currency risk from our operations. During the 2018 Annual Period, we did not enter into any arrangements to hedge against any fluctuation in foreign currency.

CHARGE ON ASSETS

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

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

Business Objectives	Actual Progress
• gain market share by offering solutions based on latest industry trends and expanding customer base	The customer base of our solutions services experienced a gradual expansion in 2018.
• create recurring and high margin revenue streams by further strengthening and developing our service business	We continue to explore new performance drivers. No significant high margin revenue stream business has been identified during in 2018.
• further develop and invest in innovative products and businesses	We have launched several new products in 2018.
• selectively pursue strategic investments and acquisitions	We are still observing and have not identified a suitable target yet.
• offer comprehensive cloud-based solutions to a larger customer base including individual consumers	Expansion of the customer base requires modification to the core of our existing business operation model and such modification required longer time than expected.
• transition the existing multi-camera recording and editing service into a one-stop service for the production of live entertainment TV programs	We are in a process of transitioning the existing multi-camera recording and editing service into a one-stop service for the production of live entertainment TV programs.

Business Objectives	Actual Progress
• increase spending to promote the internally developed research and development ("**R&D**") projects and prepare for eventual spinoffs	The schedule has been deferred as we did not identify suitable candidates.
• conduct market research and due diligence on potential investment or acquisition targets overseas	We have been identifying the potential investment targets.

USE OF PROCEEDS

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

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

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

HUMAN RESOURCES

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

CONTINGENT LIABILITIES

As at 31 December 2018, we did not have any material contingent liabilities (2017: nil). We are currently not involved in any material legal proceedings, nor are we aware of any proceeding or potential material legal proceedings.

OUTLOOK

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

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, except for the code provision A.2.1 of the Code, the Company has complied with the Code from 1 January 2018 up to the date of this 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 2018 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 2018 Annual Period, the Company repurchased a total of 1,136,000 ordinary shares of the Company on the Stock Exchange. As at 31 December 2018, all of such repurchased shares were cancelled. The details of the repurchases were disclosed as follows:

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

* *Excluding brokerage and cancellation fees*

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

Saved as disclosed herein, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the 2018 Annual Period.

AUDIT COMMITTEE

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

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

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

The Group's consolidated financial statements for the 2018 Annual Period have been reviewed by the Audit Committee.

The Audit Committee is of the opinion that the consolidated financial statements of the Group for the 2018 Annual Period comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

SCOPE OF WORK OF GRANT THORNTON

The financial information in respect of the Group consolidated statement of financial position, consolidated statement of profit or loss and comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the results announcement 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 2019 annual general meeting will be held on or before 30 June 2019. A notice convening the 2019 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 2018 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, 22 March 2019

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

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 the GEM of The Stock Exchange of Hong Kong Limited 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.