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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 2020**

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 2020 (the “**2020 Annual Period**”), together with the comparative figures for the year ended 31 December 2019 (the “**2019 Annual Period**”).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	3	312,040	303,206
Cost of sales		(258,231)	(235,700)
Gross profit		53,809	67,506
Other income	4	61,951	31,356
Selling and marketing expenses		(43,577)	(57,354)
Administrative expenses		(33,075)	(43,601)
Share-based compensation expense	14	—	(1,755)
Research and development expenses		(43,569)	(27,904)
Finance costs	5	(10,289)	(13,049)
Net impairment loss on trade and other receivables and contract assets		(49,095)	(108,338)
Impairment loss on goodwill		—	(17,481)
Share of loss of joint ventures		(387)	(1,143)
Share of profit/(loss) of associates		2,603	(1,719)
Loss before income tax		(61,629)	(173,482)
Income tax (expense)/credit	6	(7,466)	769
Loss for the year	5	(69,095)	(172,713)
Other comprehensive (expense)/income			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on the translation of foreign operation		(11,009)	5,077
Total comprehensive expense for the year		(80,104)	(167,636)
(Loss)/Profit for the year attributable to:			
Equity holders of the Company		(71,060)	(173,340)
Non-controlling interests		1,965	627
		(69,095)	(172,713)
Total comprehensive (expense)/profit for the year attributable to:			
Equity holders of the Company		(82,069)	(168,263)
Non-controlling interests		1,965	627
		(80,104)	(167,636)
Loss per share for loss attributable to equity holders of the Company	7		
(expressed in RMB cents per share)			
Basic		(11.49)	(28.03)
Diluted		(11.49)	(28.03)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	40,590	635
Intangible assets	9	110,996	139,015
Goodwill		—	—
Interests in joint ventures		—	387
Interests in associates		33,968	17,329
Financial assets at fair value through profit or loss		9,191	4,935
Deferred tax assets		—	5,666
		<u>194,745</u>	<u>167,967</u>
Current assets			
Inventories		52,225	60,857
Trade and other receivables	10	364,502	393,928
Contract assets	11.1	58,530	75,192
Restricted bank deposits		372	2,173
Pledged bank deposits		52,199	122,363
Bank balances and cash		125,594	115,229
		<u>653,422</u>	<u>769,742</u>
Current liabilities			
Trade and other payables	12	243,831	254,188
Contract liabilities	11.2	18,509	17,040
Interest-bearing borrowings		196,810	234,942
Income tax liabilities		6,985	5,185
Lease liability		7,429	—
		<u>473,564</u>	<u>511,355</u>
Net current assets		<u>179,858</u>	<u>258,387</u>
Total assets less current liabilities		<u>374,603</u>	<u>426,354</u>
Non-current liabilities			
Lease liability		28,353	—
Net assets		<u>346,250</u>	<u>426,354</u>
EQUITY			
Share capital	13	43	43
Reserves		343,095	425,164
Equity attributable to equity holders of the Company		343,138	425,207
Non-controlling interests		3,112	1,147
Total equity		<u>346,250</u>	<u>426,354</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Equity attributable to equity holders of the Company										
	Share capital	Treasury shares*	Share premium*	Statutory reserve*	Translation reserve*	Share option reserve*	Other reserve*	Accumulated losses*	Sub-total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2019	43	(1)	597,479	28,982	(2,201)	64,116	34,631	(131,334)	591,715	2,015	593,730
Comprehensive (expense)/income for the year											
Loss for the year	—	—	—	—	—	—	—	(173,340)	(173,340)	627	(172,713)
Other comprehensive income for the year	—	—	—	—	5,077	—	—	—	5,077	—	5,077
Total comprehensive expense for the year	—	—	—	—	5,077	—	—	(173,340)	(168,263)	627	(167,636)
Transactions with owners											
Vesting of shares held under the Share Award											
Scheme (note 14(c))	—	—	2,734	—	—	—	(2,734)	—	—	—	—
Share-based compensation (note 14)	—	—	—	—	—	1,590	165	—	1,755	—	1,755
Distribution to a non-controlling shareholder	—	—	—	—	—	—	—	—	—	(1,940)	(1,940)
Capital contribution from a non-controlling shareholder	—	—	—	—	—	—	—	—	—	445	445
Transfer upon forfeiture of share options and share awards	—	—	—	—	—	(17,792)	(784)	18,576	—	—	—
Total transactions with owners	—	—	2,734	—	—	(16,202)	(3,353)	18,576	1,755	(1,495)	260
Balance at 31 December 2019	43	(1)	600,213	28,982	2,876	47,914	31,278	(286,098)	425,207	1,147	426,354

Equity attributable to equity holders of the Company

	Share capital RMB'000	Treasury shares* RMB'000	Share premium* RMB'000	Statutory reserve* RMB'000	Translation reserve* RMB'000	Share option reserve* RMB'000	Other reserve* RMB'000	Accumulated losses* RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2020	43	(1)	600,213	28,982	2,876	47,914	31,278	(286,098)	425,207	1,147	426,354
Comprehensive (expense)/income for the year											
Loss for the year	—	—	—	—	—	—	—	(71,060)	(71,060)	1,965	(69,095)
Other comprehensive expense for the year	—	—	—	—	(11,009)	—	—	—	(11,009)	—	(11,009)
Total comprehensive expense for the year	—	—	—	—	(11,009)	—	—	(71,060)	(82,069)	1,965	(80,104)
Transactions with owners											
Transfer upon forfeiture of share options and share awards	—	—	—	—	—	(78)	—	78	—	—	—
Appropriation for statutory reserve	—	—	—	682	—	—	—	(682)	—	—	—
Total transactions with owners	—	—	—	682	—	(78)	—	(604)	—	—	—
Balance at 31 December 2020	43	(1)	600,213	29,664	(8,133)	47,836	31,278	(357,762)	343,138	3,112	346,250

* These reserves accounts comprise the Group's reserves of RMB343,095,000 (2019: RMB425,164,000) in the consolidated statement of financial position as at 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

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 2020, 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 International Financial Reporting Standards (“IFRSs”) which include all applicable individual IFRSs, International Accounting Standards (“IASs”), amendments and interpretations issued by the International Accounting Standards Board. The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and include the disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”). The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss (“FVTPL”), which are measured at fair value.

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.

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 financial year beginning on 1 January 2020 and relevant to the Group:

Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IAS 1 and IAS 8	Definition of Material

The adoption of the new and amended IFRSs had no material impact on how the results and financial position of the Group for the current and prior periods have been prepared and presented.

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

At the date of this announcement, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

IFRS 17	Insurance Contracts and related amendments ⁴
Amendments to IFRS 3	Reference to the Conceptual Framework ⁶
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to IFRS 16	Covid-19-Related Rent Concessions ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ⁴
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use ³
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ³
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018-2020 ³

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

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

³ Effective for annual periods beginning on or after 1 January 2022

⁴ Effective for annual periods beginning on or after 1 January 2023

⁵ Effective date not yet determined

⁶ Effective for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2022

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

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:

	2020	2019
	RMB'000	RMB'000
Solutions	213,630	193,040
Services	60,303	70,448
Products	38,107	39,718
	<u>312,040</u>	<u>303,206</u>

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

	2020	2019
	RMB'000	RMB'000
At a point of time	251,737	232,758
Over time	60,303	70,448
	<u>312,040</u>	<u>303,206</u>

Geographical information

The Group primarily operates in the PRC. As of 31 December 2020 and 2019, 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 2020 and 2019.

4. OTHER INCOME

	2020	2019
	RMB'000	RMB'000
Other revenue		
Interest income	13,088	15,528
Value-added tax (“VAT”) refunds (note a)	10,962	11,175
	<u>24,050</u>	<u>26,703</u>
Other net income		
Bad debt recovered	—	4,271
Fair value gain/(loss) on financial assets at FVTPL	4,256	(4,933)
Gain on disposal of intangible assets	—	2,400
Subsidy income from government (note b)	10,561	2,486
Net foreign exchange gain	7,288	—
Gain on deemed disposal of partial interests in an associate (note c)	14,036	—
Reversal of accruals	1,234	—
Sundry income	526	429
	<u>37,901</u>	<u>4,653</u>
	<u>61,951</u>	<u>31,356</u>

Notes:

- (a) Companies which develop their own software products and have the software products registered with the relevant authorities in the PRC are entitled to a refund of VAT equivalent to the excess over 3% of the sales invoice amount paid in the month when output VAT exceeds input VAT.
- (b) Subsidy income mainly relates to cash subsidies in respect of operating and development activities from governments which are either unconditional grants or grants with conditions having been satisfied.
- (c) During the 2020 Annual Period, the Group’s interest in an associate, Beijing Meicam Network Technology Co., Ltd. (北京美攝網絡科技有限公司) (“Beijing Meicam”) was diluted from 33.33% to 29.80% upon the contributions by the new investors and accordingly, a gain on deemed disposal of partial interest in an associate of RMB14,036,000 (2019: nil) was recognised in profit or loss for the year ended 31 December 2020.

5. LOSS FOR THE YEAR

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

	2020 RMB'000	2019 RMB'000
Finance costs		
Interest on bank and other borrowings, wholly repayable within five years	9,182	13,049
Interest on lease liability	1,107	—
	<u>10,289</u>	<u>13,049</u>
Employee benefit expenses		
Salaries, bonus and allowances	89,844	77,601
Retirement benefit scheme contributions (note)	12,712	19,942
Severance payments	1,004	775
Share-based compensation expense	—	1,755
	<u>103,560</u>	<u>100,073</u>
Other items		
Auditors' remuneration	965	965
Cost of software and hardware equipments recognised as an expense, including	164,417	141,711
– Provision for inventory obsolescence	3,736	6,576
Amortisation of intangible assets	34,857	28,239
Depreciation of property, plant and equipment		
– Owned assets	778	2,254
– Right-of-use asset	4,661	—
Lease charges for short-term leases (2019: Lease charges for short-term leases with lease term shorter than 12 months as at initial application of IFRS 16)	7,713	16,379
Write-off of property, plant and equipment	25	2,893
Impairment loss on intangible assets	3,100	24,730
Write-off of intangible assets	—	4,064
Net foreign exchange (gain)/loss	<u>(7,288)</u>	<u>2,802</u>

Note: Due to the impact of COVID-19, a number of policies including the relief of social insurance have been promulgated by the government since February 2020 to expedite resumption of economic activities, which resulted in the relief of certain contributions to retirement benefit scheme contributions during the year ended 31 December 2020.

6. INCOME TAX EXPENSE/(CREDIT)

	2020	2019
	RMB'000	RMB'000
Current tax - PRC enterprise income tax		
Current year	1,800	618
Under-provision in respect of prior years	—	1
	<u>1,800</u>	<u>619</u>
Deferred tax		
Origination and reversal of temporary differences	<u>5,666</u>	<u>(1,388)</u>
Income tax expense/(credit)	<u><u>7,466</u></u>	<u><u>(769)</u></u>

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:

	2020	2019
	RMB'000	RMB'000
Loss before income tax	<u><u>(61,629)</u></u>	<u><u>(173,482)</u></u>
Tax on loss before income tax, calculated at the statutory rates applicable to profits in the tax jurisdiction concerned	(11,023)	(39,355)
Tax effect on non-deductible expenses	10,437	22,341
Tax effect on preferential income tax rates applicable to certain subsidiaries	5,252	15,733
Tax effect on tax loss and deductible temporary differences not recognised	10,376	3,269
Tax effect on super deduction in research and development activities	(7,576)	(2,752)
Under-provision in respect of prior years	—	1
Others	—	(6)
Income tax expense/(credit)	<u><u>7,466</u></u>	<u><u>(769)</u></u>

Notes:

(a) Cayman Islands income tax

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

(b) Hong Kong profits tax

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

(c) PRC enterprise income tax

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

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's subsidiaries in the PRC obtained the "High and New Technology Enterprise" qualification and enjoyed preferential income tax rate of 15% for the years ended 31 December 2020 and 2019.

According to relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 175% (2019: 175%) of the research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed in ascertaining their assessable profits for years ended 31 December 2020 and 2019.

(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 RMB71,060,000 (2019: RMB173,340,000) and the weighted average number of shares of 618,332,000 shares (2019: 618,332,000 shares) outstanding during the year, excluding the treasury shares held by the Company.

(b) Diluted loss per share

For the years ended 31 December 2020 and 2019, the Company has two categories of potential dilutive ordinary shares: the 2010 Share Option Plan and the 2017 Share Option Scheme. The diluted loss per share for the years ended 31 December 2020 and 2019 was the same as the basic loss per share as all the potential ordinary shares were anti-dilutive.

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Computer equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicle RMB'000	Office premise RMB'000	Total RMB'000
At 1 January 2019						
Cost	11,822	51,591	2,336	2,602	—	68,351
Accumulated depreciation	(11,121)	(49,330)	(2,313)	(1,913)	—	(64,677)
Net book amount	701	2,261	23	689	—	3,674
Year ended 31 December 2019						
Opening net book amount	701	2,261	23	689	—	3,674
Additions	—	2,079	29	—	—	2,108
Write-off	—	(2,891)	(2)	—	—	(2,893)
Depreciation	(676)	(1,331)	(27)	(220)	—	(2,254)
Closing net book amount	25	118	23	469	—	635
At 31 December 2019						
Cost	11,822	40,157	1,760	2,585	—	56,324
Accumulated depreciation	(11,797)	(40,039)	(1,737)	(2,116)	—	(55,689)
Net book amount	25	118	23	469	—	635
Year ended 31 December 2020						
Opening net book amount	25	118	23	469	—	635
Additions	4,751	711	8	—	39,949	45,419
Write-off	(25)	—	—	—	—	(25)
Depreciation	(554)	(80)	(17)	(127)	(4,661)	(5,439)
Closing net book amount	4,197	749	14	342	35,288	40,590
At 31 December 2020						
Cost	5,356	26,407	1,701	2,585	39,949	75,998
Accumulated depreciation	(1,159)	(25,658)	(1,687)	(2,243)	(4,661)	(35,408)
Net book amount	4,197	749	14	342	35,288	40,590

Depreciation charges recognised is analysed as follows:

	2020	2019
	RMB'000	RMB'000
Selling and marketing expenses	2,422	1,140
Administrative expenses	452	231
Research and development expenses	2,565	883
	<u>5,439</u>	<u>2,254</u>

At the reporting date, included in the net carrying amount of property, plant and equipment is right-of-use asset as follows:

	2020	2019
	RMB'000	RMB'000
Office premise	<u>35,288</u>	<u>—</u>

The total addition to right-of-use asset included in property, plant and equipment amounting to RMB39,949,000 (2019: nil) for the year ended 31 December 2020.

9. INTANGIBLE ASSETS

	Video-related and broadcasting intellectual properties, patents, trademarks and licenses RMB'000	Development costs RMB'000	Total RMB'000
At 1 January 2019			
Cost	188,019	66,094	254,113
Accumulated amortisation	(92,347)	—	(92,347)
Net book amount	95,672	66,094	161,766
Year ended 31 December 2019			
Opening net book amount	95,672	66,094	161,766
Transfers	86,511	(86,511)	—
Write-off	(4,064)	—	(4,064)
Impairment loss	(24,730)	—	(24,730)
Additions	—	34,282	34,282
Amortisation	(28,239)	—	(28,239)
Closing net book amount	125,150	13,865	139,015
At 31 December 2019			
Cost	268,722	13,865	282,587
Accumulated amortisation	(118,842)	—	(118,842)
Provision for impairment	(24,730)	—	(24,730)
Net book amount	125,150	13,865	139,015
Year ended 31 December 2020			
Opening net book amount	125,150	13,865	139,015
Transfers	14,383	(14,383)	—
Impairment loss	(3,100)	—	(3,100)
Additions	—	9,938	9,938
Amortisation	(34,857)	—	(34,857)
Closing net book amount	101,576	9,420	110,996
At 31 December 2020			
Cost	283,105	9,420	292,525
Accumulated amortisation	(153,699)	—	(153,699)
Provision for impairment	(27,830)	—	(27,830)
Net book amount	101,576	9,420	110,996

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

	2020	2019
	RMB'000	RMB'000
Cost of sales	34,645	28,013
Selling and marketing expenses	37	37
Administrative expenses	35	35
Research and development expenses	140	154
	<u>34,857</u>	<u>28,239</u>

10. TRADE AND OTHER RECEIVABLES

	Notes	2020 RMB'000	2019 RMB'000
Trade receivables	(a)		
– From third parties		221,257	308,096
– From related parties		7,852	12,900
		<u>229,109</u>	<u>320,996</u>
Less: Expected Credit Loss (“ECL”) allowance		<u>(119,197)</u>	<u>(160,495)</u>
		<u>109,912</u>	<u>160,501</u>
Other receivables	(b)		
Deposits, prepayments and other receivables		6,243	9,663
Deposit for guarantee certificate over tendering and performance		22,133	23,472
Loan receivables		163,683	123,527
Interest receivables		5,944	4,187
Advances to suppliers		72,040	69,830
Amounts due from related parties		8,839	8,017
Amounts due from joint ventures		2,116	1,826
Amounts due from associates		3,773	7,607
Loan to an associate		—	400
Advances to employees		9,397	11,573
		<u>294,168</u>	<u>260,102</u>
Less: ECL allowance		<u>(39,578)</u>	<u>(26,675)</u>
		<u>254,590</u>	<u>233,427</u>
		<u><u>364,502</u></u>	<u><u>393,928</u></u>

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

	2020	2019
	RMB'000	RMB'000
Deposit for guarantee certificate over tender and performance	<u>2,949</u>	<u>10,324</u>

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

(a) Trade receivables

Invoices issued to customers are in accordance with the payment terms stipulated in the contracts and payable on issuance. Deposits are normally required upon signing of the contract. For customers with good credit history and selected large television stations in the PRC with sound financial standing, its settlement may be longer than 180 days after issuance of invoices. Ageing analysis based on invoiced date of the trade receivables and net of ECL allowance at the respective reporting dates is as follows:

	2020	2019
	RMB'000	RMB'000
0 to 90 days	25,287	38,757
91 to 180 days	4,390	18,705
181 to 365 days	41,345	40,829
1 to 2 years	31,781	46,355
Over 2 years	<u>7,109</u>	<u>15,855</u>
	<u>109,912</u>	<u>160,501</u>

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 2020, 5% and 18% (2019: 3% and 13%) 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 2020, the Group has loan receivables of approximately RMB163,683,000 (2019: RMB123,527,000) from independent third parties.

As at 31 December 2020, a credit impaired loan receivable of approximately RMB23,845,000 is secured by a property, carrying fixed interest of 6% per annum and should be wholly repayable on 30 May 2020. As at 31 December 2020, the market value of the property is approximately RMB17,925,000 (2019: RMB19,637,000).

As at 31 December 2020, loan receivables of approximately RMB139,838,000 (2019: RMB100,481,000) are unsecured, carrying fixed interest of 6% per annum, and wholly repayable within one year.

Subsequent to the year ended 31 December 2020, the Group has further granted loans to one of the third parties of approximately RMB38,000,000.

Amounts due from joint ventures, associates and related parties

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

Loan to an associate

As at 31 December 2019, loan to an associate of RMB400,000 is unsecured, carried interest at 8.0% per annum and repayable within one year. The loan was fully settled during the year ended 31 December 2020.

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

	2020	2019
	RMB'000	RMB'000
Contract assets	62,580	81,864
Less: ECL allowance for contract assets	(4,050)	(6,672)
	<u>58,530</u>	<u>75,192</u>

The Group's contract assets mainly include retention receivables of solution sales contracts. Typical payment terms which impact on the amount of contract assets recognised are as follows:

The Group's solution sales contracts include payment schedules which generally require contract instalment over the contract period once certain specified milestones are reached. The Group also agrees to a one to two years retention period for 5% to 10% of the solution sales contract value. This amount is included in contract assets until the end of retention period as the Group's entitlement to this final payment is conditional on the Group's satisfactory work.

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

	2020	2019
	RMB'000	RMB'000
Contract assets	13,379	14,734
Less: ECL allowance for contract assets	<u>(730)</u>	<u>(1,201)</u>
	<u>12,649</u>	<u>13,533</u>

11.2 Contract liabilities

Contract liabilities of the Group mainly arise from the advance payments made by customers while the underlying products or services are yet to be provided.

Contract liabilities outstanding at the beginning of the year amounting to RMB10,508,000 (2019: RMB10,893,000) have been recognised as revenue during the year.

Unsatisfied performance obligations

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

12. TRADE AND OTHER PAYABLES

	Notes	2020 RMB'000	2019 RMB'000
Trade payables	(a)		
– Third parties		120,976	134,362
– A related party		391	—
		<u>121,367</u>	<u>134,362</u>
Other payables	(b)		
Other payables and accrued charges		30,709	39,137
Other tax liabilities		42,100	49,985
Staff costs and welfare accruals		18,338	13,433
Amounts due to related parties		21,305	9,489
Amount due to a joint venture		—	1,050
Amounts due to associates		3,310	2,257
Deferred income related to government grants		6,702	4,475
		<u>122,464</u>	<u>119,826</u>
		<u>243,831</u>	<u>254,188</u>

All amounts are short-term and hence the carrying values of the Group's trade and other payables as at 31 December 2020 and 2019 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 payables based on recognition date is as follows:

	2020	2019
	RMB'000	RMB'000
0 to 90 days	64,378	51,584
91 to 180 days	12,234	9,718
181 to 365 days	9,963	10,443
1 to 2 years	13,569	29,519
2 to 3 years	6,403	12,478
Over 3 years	14,820	20,620
	<u>121,367</u>	<u>134,362</u>

(b) Other payables

Amounts due to a joint venture, associates and related parties

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

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\$
<u>Authorised:</u>		
<i>Ordinary shares of the Company:</i>		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020, at US\$0.00001 each	<u>5,000,000,000</u>	<u>50,000</u>

	Number of shares	Nominal value of shares US\$	Equivalent nominal value of shares RMB'000
<u>Issued and fully paid:</u>			
<i>Ordinary shares of the Company:</i>			
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	<u>630,332,000</u>	<u>6,303</u>	<u>43</u>

	Number of treasury shares	Nominal value of shares US\$	Equivalent nominal value of shares RMB'000
<i>Treasury shares of the Company:</i>			
As at 1 January 2019, 31 December 2019,			
1 January 2020 and 31 December 2020	<u>12,000,000</u>	<u>120</u>	<u>1</u>

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

The Company has adjusted, pursuant to the authority granted to the Board under the 2010 Share Option Plan, the total number of shares subject to options granted under the 2010 Share Option Plan to 77,893,000 as a result of 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:

	2020		2019	
	Average exercise price in US\$ per share option	Number of share options outstanding	Average exercise price in US\$ per share option	Number of share options outstanding
Directors				
At beginning and end of year	—	—	1.16	14,569,265
Forfeited during the year	—	—	1.16	(14,569,265)
At end of year	—	—	—	—
Employees				
At beginning of year	0.40	13,082,299	1.00	61,656,531
Forfeited during the year	1.16	(690,914)	1.16	(48,574,232)
At end of year	0.33	12,391,385	0.40	13,082,299
Total				
At beginning of year	0.40	13,082,299	1.03	76,225,796
Forfeited during the year	1.16	(690,914)	1.16	(63,143,497)
At end of year	0.33	12,391,385	0.40	13,082,299
Excisable at the end of year	0.33	12,391,385	0.40	13,082,299

As at 31 December 2020, the Group had 12,391,385 (2019: 13,082,299) share options outstanding under the 2010 Share Option Plan, which represented approximately 1.96% (2019: 2.08%) of the issued ordinary shares of the Company as at 31 December 2020. The exercise in full of the outstanding share options would, under the present capital structure of the Group, result in the issue of 12,391,385 (2019: 13,082,299) additional ordinary shares of the Company and additional share capital and share premium of approximately RMB1,000 (2019: RMB1,000) and RMB28,456,000 (2019: RMB34,234,000) (before issue expenses), respectively.

None of the above share options were exercised during the years ended 31 December 2020 and 2019. The weighted average remaining contractual life of options outstanding at 31 December 2020 was 1.0 year (2019: 2.0 years).

No expenses were recognised in relation to the 2010 Share Option Plan for the year ended 31 December 2020 (2019: Nil) as the share options had been fully vested.

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

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

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

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

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

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

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

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

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

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

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

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

	2020		2019	
	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 and end of year	<u>1.33</u>	<u>9,800,000</u>	<u>1.33</u>	<u>9,800,000</u>
Employees				
At beginning of year	1.33	51,682,700	1.33	51,859,700
Forfeited during the year	<u>—</u>	<u>—</u>	<u>1.33</u>	<u>(177,000)</u>
At end of year	<u>1.33</u>	<u>51,682,700</u>	<u>1.33</u>	<u>51,682,700</u>
Total				
At beginning of year	1.33	61,482,700	1.33	61,659,700
Forfeited during the year	<u>—</u>	<u>—</u>	<u>1.33</u>	<u>(177,000)</u>
At end of year	<u>1.33</u>	<u>61,482,700</u>	<u>1.33</u>	<u>61,482,700</u>
Exercisable at the end of year	<u>1.33</u>	<u>61,482,700</u>	<u>1.33</u>	<u>61,482,700</u>

As at 31 December 2020, the Group had 61,482,700 (2019: 61,482,700) share options outstanding under the 2017 Share Option Scheme, which represented approximately 9.75% (2019: 9.75%) of the issued ordinary shares of the Company as at 31 December 2020. The exercise in full of the outstanding share options would, under the present capital structure of the Group, result in the issue of 61,482,700 (2019: 61,482,700) additional ordinary shares of the Company and additional share capital and share premium of approximately RMB4,000 (2019: RMB4,000) and RMB68,819,000 (2019: RMB73,350,000) (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 2020 was 6.4 years (2019: 7.4 years).

The Group recognised an expense of nil (2019: RMB1,590,000) for the year ended 31 December 2020 in relation to the 2017 Share Option Scheme.

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

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

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

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

In 2017, the Company has issued 12,000,000 new shares to the Trustee for the 2017 Share Award Scheme and classified them as treasury shares of the Company. The Group had 10,607,207 (2019: 10,675,997) share awards outstanding under the 2017 Share Award Scheme, which represented approximately 1.68% (2019: 1.69%) of the issued ordinary shares of the Company as at 31 December 2020. No shares were purchased or granted by the Company under the 2017 Share Award Scheme during the years ended 31 December 2020 and 2019.

During the year ended 31 December 2020, no awarded shares (2019: 2,275,997 awarded shares) were vested under the 2017 Share Award Scheme.

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

	Number of share awards
Employees	
At 1 January 2019	11,085,448
Forfeited during the year	(409,451)
At 31 December 2019 and 1 January 2020	10,675,997
Forfeited during the year	(68,790)
At 31 December 2020	<u><u>10,607,207</u></u>

The Group recognised an expense of nil (2019: RMB165,000) for the year ended 31 December 2020 in relation to the 2017 Share Award Scheme.

- (d) The Group recognised a total expense of nil (2019: RMB1,755,000) for the year ended 31 December 2020 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. COMMITMENTS

15.1 Lease commitments

At the reporting date, the lease commitments for short-term leases are as follows:

	2020	2019
	RMB'000	RMB'000
Premises		
Within one year	<u>408</u>	<u>5,950</u>

15.2 Capital commitments

	2020	2019
	RMB'000	RMB'000
Contracted but not provided for		
– Investment in an associate	<u>4,900</u>	<u>4,900</u>

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

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

We have established business relationships with most of the central- and provincial-level TV stations in China and with some of the provincial-level TV broadcasters in China for over 24 years. We have also served alternative broadcasting platforms, such as cable networks operators, Internet media content providers and IPTV operators. In view of the sustained losses of the Group, while we will continue with our existing principal business, we will conduct a review of our business activities for the purpose of formulating business plans and strategies for our future business development. We may explore other business opportunities and consider whether any asset disposal, asset acquisition, business rationalisation, business divestment, fund raising, restructuring of the existing business and/or business diversification will be appropriate in order to enhance our long-term growth potential.

FINANCIAL REVIEW

We recorded a revenue of RMB312.0 million for the 2020 Annual Period, representing an increase of 2.9% from RMB303.2 million for the 2019 Annual Period. We recorded a loss of RMB69.1 million in the 2020 Annual Period as compared to a loss of RMB172.7 million in the 2019 Annual Period.

Revenue

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

Our revenue increased by 2.9% to RMB312.0 million for the 2020 Annual Period from RMB303.2 million for the 2019 Annual Period. The increase was mainly attributable to the carry on of (i) the upgrading projects in relation to 4K ultra-high definition equipment and (ii) outfield network production and broadcasting systems of certain major customers in the 2020 Annual Period.

Cost of Sales

Our cost of sales increased by 9.6% to RMB258.2 million for the 2020 Annual Period from RMB235.7 million for the 2019 Annual Period, as a result of the increase in costs arising from procurement and amortisation charges of our intangible assets.

Gross Profit and Gross Profit Margin

Our gross profit represents revenue less cost of sales. Our gross profit decreased by 20.3% to RMB53.8 million for the 2020 Annual Period from RMB67.5 million for the 2019 Annual Period, primarily due to the increase in cost of sales. As a result, our gross profit margin decreased to 17.2% for the 2020 Annual Period from 22.3% for the 2019 Annual Period due to the increase in cost of sales.

Other Income

Our other income increased by 97.6% to RMB62.0 million for the 2020 Annual Period from RMB31.4 million for the 2019 Annual Period, primarily due to (i) the gain on deemed disposal of partial interests in an associate; (ii) the increase in government subsidies; and (iii) the net gain on foreign exchange.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 24.0% to RMB43.6 million for the 2020 Annual Period as compared to RMB57.4 million for 2019 Annual Period, primarily due to (i) the decrease in staff costs for sales and marketing activities; and (ii) the decrease in business-related travel and entertainment expenses due to the outbreak of COVID-19.

Administrative Expenses

Our administrative expenses decreased by 24.1% to RMB33.1 million for the 2020 Annual Period as compared to RMB43.6 million for the 2019 Annual Period, primarily due to the decrease staff costs in relation to the senior management of the Company.

Share-Based Compensation Expense

We did not have any share-based compensation expense for the 2020 Annual Period (2019: RMB1,755,000).

Research and Development Expenses

Our research and development expenses increased by 56.1% to RMB43.6 million for the 2020 Annual Period as compared to RMB27.9 million for the 2019 Annual Period, primarily due to the decrease in the capitalisation of research and development expenses.

Finance Costs

Our finance costs decreased by 21.2% to RMB10.3 million for the 2020 Annual Period from RMB13.0 million for the 2019 Annual Period, primarily due to the decrease in bank borrowings.

Net Impairment Loss on Trade and Other Receivables and Contract Assets

Our net impairment loss on trade and other receivables and contract assets decreased to RMB49.1 million for the 2020 Annual Period from RMB108.3 million for the 2019 Annual Period. The decrease was primarily due to the decrease in the balances of our trade receivables.

Impairment Loss on Goodwill

We did not have any expense in relation to impairment loss on goodwill for the 2020 Annual Period (2019: RMB17,481,000).

Loss before Income Tax

As a result of the foregoing factors, we recorded a loss before income tax of RMB61.6 million and RMB173.5 million for the 2020 Annual Period and the 2019 Annual Period, respectively.

Income Tax Expense

We recorded an income tax expense of RMB7.5 million for the 2020 Annual Period as compared to an income tax credit of RMB0.8 million for the 2019 Annual Period, primarily due to the reversal of temporary differences.

Loss for the Year

As a result of the foregoing factors, we recorded a loss of RMB69.1 million for the 2020 Annual Period as compared to a loss of RMB172.7 million for the 2019 Annual Period.

Other Comprehensive Expense

We recorded other comprehensive expense of RMB11.0 million for the 2020 Annual Period as compared to an other comprehensive income of RMB5.1 million for the 2019 Annual Period, primarily due to the exchange difference arising on the translation of foreign operation.

Loss attributable to Equity Holders

We had loss attributable to equity holders of RMB71.1 million for the 2020 Annual Period as compared to loss attributable to equity holders of RMB173.3 million for the 2019 Annual Period.

Dividend

The Directors did not recommend the payment of a final dividend for the 2020 Annual Period (2019: nil).

ANALYSIS ON ANNUAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

Non-current Assets

As at 31 December 2020, our non-current assets amounted to RMB194.7 million (as compared to RMB168.0 million as at 31 December 2019), primarily consisting of intangible assets of RMB111.0 million (as compared to RMB139.0 million as at 31 December 2019), property, plant and equipment of RMB40.6 million (as compared to RMB0.6 million as at 31 December 2019) and interests in associates of RMB34.0 million (as compared to RMB17.3 million as at 31 December 2019). Our intangible assets mainly represent our intellectual properties, patents, trademarks and licenses related to our products and all direct costs incurred in the development of software products. Our interests in associates represent our interests in associates, namely, Beijing Yue Ying Technology Co., Ltd. (北京悦影科技有限公司), Beijing Meicam, Xin'aote (Fujian) Culture Technology Co., Ltd. (新奥特(福建)文化科技有限公司) and Beijing Xin'aote Smart Sport Innovation Development Co., Ltd. (北京新奥特智慧體育創新發展有限公司).

Current Assets

As at 31 December 2020, our current assets amounted to RMB653.4 million (as compared to RMB769.7 million as at 31 December 2019), primarily consisting of trade and other receivables of RMB364.5 million (as compared to RMB393.9 million as at 31 December 2019), bank balances and cash of RMB125.6 million (as compared to RMB115.2 million as at 31 December 2019) and contract assets of RMB58.5 million (as compared to RMB75.2 million as at 31 December 2019).

Current Liabilities

As at 31 December 2020, our current liabilities amounted to RMB473.6 million (as compared to RMB511.4 million as at 31 December 2019), primarily consisting of trade and other payables of RMB243.8 million (as compared to RMB254.2 million as at 31 December 2019), interest-bearing bank and other borrowings of RMB196.8 million (as compared to RMB234.9 million as at 31 December 2019) and contract liabilities of RMB18.5 million (as compared to RMB17.0 million as at 31 December 2019). Contract liabilities of the Group mainly arose from the advance payments made by customers while the underlying products or services were yet to be provided.

Non-current Liabilities

As at 31 December 2020, our non-current liabilities, consisting of lease liability only, amounted to RMB28.4 million (As at 31 December 2019: nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020, the current assets of the Group amounted to RMB653.4 million, including RMB364.5 million in trade and other receivables and RMB125.6 million in bank balances and cash. Current liabilities of the Group amounted to RMB473.6 million, of which RMB243.8 million were trade and other payables and RMB196.8 million were interest-bearing bank and other borrowings. As at 31 December 2020, the interest-bearing bank and other borrowings were denominated in Renminbi bearing fixed and floating interest rates. All of our bank borrowings and other borrowings as at 31 December 2020 were repayable within one year.

The gearing ratio of the Group (calculated as total bank and other borrowings divided by total equity) was 56.8% as at 31 December 2020 (as compared to 55.1% as at 31 December 2019).

During the 2020 Annual Period, we did not employ any financial instrument for hedging purposes.

COMMITMENTS

As at 31 December 2020, we had short-term lease commitments in respect of rented office and various residential properties of approximately RMB0.4 million (As at 31 December 2019: RMB6.0 million).

MATERIAL ACQUISITION AND DISPOSAL

We had no material acquisition and disposal of subsidiaries and affiliated companies during the 2020 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 the majority of our transactions are settled in Renminbi except for certain bank balances which are denominated in U.S. dollars. Foreign currency risk arises when commercial transactions and recognized assets and liabilities are denominated in a currency that is not either the Company's or our subsidiaries' functional currency. As at 31 December 2020, we did not have significant foreign currency risk from our operations. During the 2020 Annual Period, we did not enter into any arrangements to hedge against any fluctuation in foreign currency.

CHARGE ON ASSETS

As at 31 December 2020, we had restricted and pledged deposit of RMB52.6 million (2019: RMB124.5 million) held in banks for the purpose of contract related deposits or payments, guarantees issued for trade finance facilities and security of bank borrowings.

USE OF PROCEEDS

The net proceeds from the Listing amounted to approximately HK\$225.2 million. As at 31 December 2020, the net proceeds from the Listing had been fully utilized in the following manner:

	Application of funds as at 31 December 2020 as a percentage to the total amount of net proceeds
Business expansion and development	46%
Potential strategic investment and acquisition	15%
Enhancing the R&D capabilities and upgrading the information technology systems	15%
Repayment of certain existing bank borrowings	10%
Promotion and marketing	4%
General working capital	10%
Total:	100%

HUMAN RESOURCES

As at 31 December 2020, we had 619 full-time employees and 36 dispatched workers (2019: 701 full-time employees and 34 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the 2020 Annual Period and the 2019 Annual Period, the remuneration expense, including both capitalized and expensed but excluding share-based compensation expense, was approximately RMB113.5 million and RMB132.6 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 our employees' performance and determine their salary, bonus and promotion. We also place a strong emphasis on providing training to our employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards.

CONTINGENT LIABILITIES

As at 31 December 2020, we did not have any material contingent liabilities (2019: nil). We are not currently involved in any material legal proceedings, nor are we aware of any proceedings or potential material legal proceedings.

OUTLOOK

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

CORPORATE GOVERNANCE PRACTICE

The Company has applied the principles and code provisions in the Corporate Governance Code (the “**Code**”) as set out in Appendix 15 to the GEM Listing Rules as its corporate governance practices.

Mr. Zheng was appointed as the chief executive officer of the Company (the “**CEO**”) with effect from 3 April 2018 and is currently serving as both the chairman (the “**Chairman**”) and the CEO of the Company. Such practice deviates from code provision A.2.1 of the Corporate Governance Code. The Board believes that vesting the roles of both the Chairman and the CEO in the same person can facilitate the execution of the Group’s business strategies and boost the effectiveness of its operation. The Board is comprised of three executive Directors and three independent non-executive Directors, which is appropriately structured to ensure that there is a balance of power to provide sufficient checks to protect the interests of the Company and the Shareholders. Therefore, the Board considers that the deviation from the code provision A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

In the opinion of the Board, save as disclosed in the above, the Company has complied with the Code from 1 January 2020 and up to the date of this announcement.

DIRECTORS’ SECURITIES TRANSACTIONS

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

Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standards of dealings from 1 January 2020 and up to the date of this announcement.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the 2020 Annual Period.

AUDIT COMMITTEE

The Audit Committee was established on 23 May 2016. The chairlady of the Audit Committee is Ms. CAO Qian, our independent non-executive Director, and other members are 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 2020 Annual Period have been reviewed by the Audit Committee, and the Audit Committee is of the opinion that such results complied with the applicable standards, the GEM Listing Rules and other applicable legal requirements and that adequate disclosures had been made.

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 2020 as set out in this 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 this announcement.

ANNUAL GENERAL MEETING

The 2021 annual general meeting will be held on or before 30 June 2021. A notice convening the 2021 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 was no event after the reporting period and up to the date of this announcement 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 2020 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, 29 March 2021

As at the date of this announcement, the executive Directors are Mr. ZHENG Fushuang, Mr. PANG Gang and Mr. LIU Baodong, 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.