



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

Third Quarterly Report 2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

Save as stated otherwise in this quarterly report, the defined terms herein shall have the same meaning as in prospectus of the Company dated 15 June 2016 (the “**Prospectus**”).

FINANCIAL HIGHLIGHTS

Our revenue increased by 13.4% to RMB473.6 million for the nine months ended 30 September 2016 from RMB417.8 million for the nine months ended 30 September 2015.

Our profit for the nine months ended 30 September 2016 amounted to RMB318.1 million as compared to the profit of RMB42.1 million for the nine months ended 30 September 2015.

Our adjusted net profit (as defined in the section headed “Management Discussion and Analysis - Non-IFRS Financial Measure” below) amounted to RMB63.6 million for the nine months ended 30 September 2016 from RMB41.7 million for the nine months ended 30 September 2015.

Our Directors do not recommend the payment of dividend for the nine months ended 30 September 2016 (nine months ended 30 September 2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

We have established business relationship with most of the central- and provincial-level TV stations in China and with some of the provincial-level TV broadcasters in China for over 20 years. We have also served alternative broadcasting platforms, such as cable networks operators, Internet media content providers and IPTV operators. During the nine months ended 30 September 2016, 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.

We have been paying close attention to the development trends and technology changes of augmented reality (“AR”) and AR business, so as to create synergy with our existing businesses in the field of AR and virtual reality (“VR”) business, which further facilitates the development of our product diversity. In August 2016, we set up a strategic committee for the strategic planning and development of AR and VR products with an aim to build product lines relating to the AR/VR technologies. It was realized by the global culture industry that, to maintain a dominant market position in fierce competition, the only way is to seize the dividend yield arising from new technologic achievements when put into practice.

FINANCIAL REVIEW

We recorded a total revenue of RMB473.6 million for the nine months ended 30 September 2016, representing an increase of 13.4% from RMB417.8 million for the nine months ended 30 September 2015. Profit for the nine months ended 30 September 2016 increased significantly by 655.6% from RMB42.1 million in the nine months ended 30 September 2015 million to RMB318.1 million in the nine months ended 30 September 2016. Such increase was primarily attributable to the RMB276.1 million fair value gain on redeemable convertible preferred shares as a result of the completion of the QIPO in the nine months ended 30 September 2016 as compared to the RMB15.0 million fair value gain on redeemable convertible preferred shares in the nine months ended 30 September 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Our adjusted net profit increased by 52.5% to RMB63.6 million for the nine months ended 30 September 2016 from RMB41.7 million for the nine months ended 30 September 2015. Such increase was mainly attributable to (a) the increase in gross profit and the improvement of gross profit margin; and (b) the decrease in the income tax expenses due to the recognition of preferential income tax rate of a subsidiary of the Company in the nine months ended 30 September 2016.

ANALYSIS ON CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

We derived revenue primarily from (i) sale of solutions, (ii) provision of services and (iii) sale of products. The following table sets out a breakdown of our revenue derive from each business line, as an absolute amount and as a percentage of revenue for the periods indicated.

	Nine months ended 30 September			
	2016		2015	
	(Unaudited) Amount	% of total	(Unaudited) Amount	% of total
	(RMB in thousands, except percentages)			
Solutions	323,052	68.2	296,077	70.9
Services	75,109	15.9	56,882	13.6
Products	75,422	15.9	64,806	15.5
Total	473,583	100.0	417,765	100.0

Our revenue increased by 13.4% to RMB473.6 million for the nine months ended 30 September 2016 from RMB417.8 million in the nine months ended 30 September 2015. Our revenue from sale of solutions increased by 9.1% from RMB296.1 million for the nine months ended 30 September 2015 to RMB323.1 million for the nine months ended 30 September 2016, primarily attributable to the growth in the digital broadcast automation solution business. Our revenue from provision of services increased substantially by 32.0% from RMB56.9 million for the nine months ended 30 September 2015 to RMB75.1 million for the nine months ended 30 September 2016 mainly attributable to revenue recognized for services under a software design service contract with a key customer. Our revenue from sale of products increased by 16.4% from RMB64.8 million for the nine months ended 30 September 2015 to RMB75.4 million for the nine months ended 30 September 2016 mainly attributable to continuing demand from our existing traditional broadcaster customers as well as the local system integration providers.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

Our cost of sales increased by 12.4% to RMB297.2 million for the nine months ended 30 September 2016 from RMB264.3 million for the nine months ended 30 September 2015, primarily due to increases in our cost of software and hardware equipment as a result of our increase of revenue.

Gross Profit and Gross Profit Margin

Our gross profit represents revenue less cost of sales. Our gross profit increased by 14.9% to RMB176.4 million for the nine months ended 30 September 2016 from RMB153.5 million for the nine months ended 30 September 2015, and our gross profit margin increased to 37.3% for the nine months ended 30 September 2016 from 36.7% for the nine months ended 30 September 2015. Specifically:

Gross profit for our solution business decreased by 2.2% to RMB80.6 million for the nine months ended 30 September 2016 from RMB82.4 million for the nine months ended 30 September 2015. Gross profit margin for our solution business for the nine months ended 30 September 2016 decreased to 24.9% from 27.8% for the nine months ended 30 September 2015 because our certain solution projects had relatively lower gross profit margin.

Gross profit for our service business increased by 61.3% to RMB42.2 million during the nine months ended 30 September 2016 from RMB26.2 million for nine months ended 30 September 2015. Gross profit margin for our service business increased to 56.2% for the nine months ended 30 September 2016 from 46.0% for the nine months ended 30 September 2015, primarily due to the recognition of revenue for a software design service contract with a key customer.

Gross profit for our product business increased by 19.4% to RMB53.6 million for the nine months ended 30 September 2016 from RMB45.0 million for the nine months ended 30 September 2015. Gross profit margin for our product business remained relatively stable at 69.4% for the nine months ended 30 September 2016 as compared to 71.1% for the nine months ended 30 September 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

Other income decreased by 49.5% to RMB25.4 million for the nine months ended 30 September 2016 from RMB50.3 million for the nine months ended 30 September 2015, primarily due to (i) the absence of certain income in the nine months ended 30 September 2016 which was available in the nine months ended 30 September 2015, namely, (a) the gain of RMB10.8 million on the disposal of intangible assets and (b) gain of RMB7.9 million on disposal of our equity investment; and (ii) a decrease of RMB6.2 million in subsidy income from government in the nine months ended 30 September 2016 as compared to the nine months ended 30 September 2015.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 16.0% to RMB51.6 million for the nine months ended 30 September 2016 from RMB44.5 million for nine months ended 30 September 2015. Such increase was in line with the increase in our revenue.

Administrative Expenses

Our administrative expenses increased by 8.8% to RMB38.0 million for the nine months ended 30 September 2016 from RMB34.9 million for the nine months ended 30 September 2015. Such increase was in line with the increase in our revenue.

Share-Based Compensation Expense

During the nine months ended 30 September 2016, we recognized share-based compensation expense of RMB11.4 million in connection with our Pre-IPO Share Option Scheme. We did not recognize any share-based compensation expense during the nine months ended 30 September 2015.

Research and Development Expenses

Our research and development expenses decreased by 23.6% to RMB34.6 million for the nine months ended 30 September 2016 from RMB45.3 million for the nine months ended 30 September 2015, primarily due to a decrease in employee compensation for our R&D personnel, reflecting the effect of our measure to optimize our R&D team and improve the efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

Our finance costs remained stable at RMB5.0 million for the nine months ended 30 September 2016 compare to the corresponding period in 2015.

Fair Value Gain on Redeemable Convertible Preferred Shares

As a result of the completion of the QIPO, we recorded fair value gain of RMB276.1 million on our redeemable convertible preferred shares for the nine months ended 30 September 2016. We recorded a fair value gain of RMB15.0 million for the 2015.

Share of Losses of Joint Ventures

Our share of losses of joint ventures was RMB3.6 million for the nine months ended 30 September 2016 and RMB4.7 million for the nine months ended 30 September 2015. Our share of losses of joint ventures for the nine months ended 30 September 2016 was due to loss from Beijing Hermit, Beijing Yueying and Xin'aote Cloud, all of which were at early stages of development of their business.

Profit before Income Tax

As a result of the foregoing factors, our profit before income tax amounted to RMB323.6 million for the nine months ended 30 September 2016 as compared to profit before income tax of RMB51.2 million for the nine months ended 30 September 2015.

Income Tax Expense

We recorded an income tax expense of RMB5.4 million for the nine months ended 30 September 2016 as compared to an income tax expense of RMB9.1 million for the nine months ended 30 September 2015, representing a decrease of 40.7%. The decrease was primarily due to a tax benefit we recognized in 2016, which resulted in the decrease of the income tax rate enjoyed by CDV WFOE. CDV WFOE, a subsidiary of the Company, was accredited as a “Key Software Enterprise under the National Plan (國家規劃局內重點軟體企業)” in 2016. As a result, it was granted a preferential income tax rate of 10%, which was 5% lower than that of 2015. In addition, the preferential income tax rate applied to CDV WFOE was effective retrospectively from 2015, resulted an over-provision of PRC enterprise income tax in 2015 and such over-provision is deducted from income tax expense for the nine months ended 30 September 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the Period

As a result of the foregoing factors, our profit for the nine months ended 30 September 2016 amounted to RMB318.1 million as compared to the profit of RMB42.1 million for the nine months ended 30 September 2015.

Other Comprehensive Loss

We recorded other comprehensive loss of RMB10.3 million for the nine months ended 30 September 2016 as compared to other comprehensive loss of RMB24.5 million for the nine months ended 30 September 2015, primarily due to exchange rate differences arising on the translation of foreign operation as a result of Renminbi's depreciation against U.S. dollars during 2016 as compared to the same period in 2015.

Total Comprehensive Income for the Period

We recorded a total comprehensive income of RMB307.9 million for the nine months ended 30 September 2016 as compared to RMB17.6 million for the nine months ended 30 September 2015. Such increase was primarily attributable to the fair value gain of on redeemable convertible preferred shares as a result of the completion of the QIPO in the nine months ended 30 September 2016.

Loss Attributable to Non-controlling Interests

Loss attributable to non-controlling interests totaled RMB3.7 million for the nine months ended 30 September 2016 and RMB5.2 million for the nine months ended 30 September 2015. Non-controlling interests in the nine months ended 30 September 2016 primarily represented the minority interests in Beijing Meicam.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save as disclosed in the Prospectus, we had no material acquisitions and disposal of subsidiaries, associates and joint ventures during the nine months ended 30 September 2016.

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

Save as disclosed in the Prospectus, we do not have plans for material investments or acquisition of capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

NON-IFRS FINANCIAL MEASURES

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

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

	Nine months ended 30 September	
	2016 RMB' 000	2015 RMB' 000
Profit for the period	318,137	42,145
Add:		
Share-based compensation expense	11,410	—
Fair value gain on redeemable convertible preferred shares	(276,108)	(15,044)
Loss on extinguishment of redeemable convertible preferred shares	—	21,780
Listing expenses	10,148	11,490
Gain on disposal of intangible assets	—	(10,800)
Gain on disposal of a subsidiary	—	(7,872)
Adjusted net profit (unaudited)	63,587	41,699

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 30 September 2016, we had 1,001 full-time employees and 60 dispatched workers (30 September 2015: 841 full-time employees and 148 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the nine months ended 30 September 2016 and 30 September 2015, the remuneration expense, excluding share-based compensation expense, were approximately RMB96.9 million and RMB107.9 million, respectively. In general, employees' salaries are determined based on individual performance, qualification, position and seniority. We place strong emphasis on recruiting skilled personnel. We typically recruit talents from universities and technical schools and conduct annual reviews to assess 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.

We have adopted the Pre-IPO Share Option Scheme. The purpose of the Pre-IPO Share Option Scheme is to attract, retain and motivate the directors, senior management and employees of the Group and other participants. For further details, please see "Pre-IPO Share Option Scheme" in this report.

OUTLOOK

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

Gain market share by offering solutions based on latest industry trends and expanding customer base

We expect that the next phase of system expansions and upgrades in the post-production market will be driven by (i) transition to a cloud computing platform for digital video content delivery; (ii) omnimedia convergence; (iii) continuing upgrades to high definition standard; and (iv) upgrades to a 4K ultra-high definition standard. We plan to capture the opportunities presented by these industry trends through:

- adding new functions to our customized solutions to meet the diverse and growing business requirements and technological sophistication of our customer base;

MANAGEMENT DISCUSSION AND ANALYSIS

- assisting our existing customers in system expansions and upgrades to capture a larger portion of their incremental technological capital expenditures as new projects emerge; and
- leveraging existing customer relationships and cross-selling to departments within existing customers who do not currently use our products.

In addition, leveraging our core strengths in high-end post-production technology, we will seek to penetrate the mid-tier market of professional users by developing products that meet their demands. For example, we have developed a new cloud-based video editing system under the brand “Aquila.” Aquila utilizes cloud technology to create a collaborative workflow platform that allows multiple users to simultaneously conduct both sophisticated and basic video editing from any location with network connectivity. We intend to market “Aquila” to both professional and casual users who demand both mobility and collaboration with their work.

Create recurring and high margin revenue streams by further strengthening and developing our service business

We plan to increase revenue streams generated from our service business, which represents recurring revenue, by focusing on high margin areas. To that end, we plan to transition our CreaStudio multi-camera recording and editing service from primarily recording and editing video footages for entertainment TV shows to jointly producing and operating entertainment media contents together with media rights holders using the footage captured by our CreaStudio systems, which we believe can generate consistent and high margin revenue. As part of the joint production, we plan to enter into agreements with the relevant media rights holders regarding the use of their media contents. We also strive to further enhance the quality and capabilities of our other services and to further develop new services that generate recurring and high profit margin.

Further develop and invest in innovative products and businesses

We plan to continue to develop and invest in innovative products and businesses by leveraging our core digital video technology. Our mobile application business targeted at the mass-market audience, Meicam, is currently at a preliminary stage where it is gaining user base and activity level.

Our next objectives for Beijing Meicam include:

- diversifying and refining revenue models;
- increasing user base and activity level by offering various kinds of online and offline marketing and promotional activities;

MANAGEMENT DISCUSSION AND ANALYSIS

- improving technology and user experience by analyzing user activities, conducting market research, collecting data on user habits and reviewing user feedbacks;
- strengthening brand recognition by increasing marketing activities; and
- expanding user base through partnerships with branded mobile handset manufacturers.

Selectively pursue strategic investments and acquisitions

We believe that the TV broadcasting post-production industry in China today is fragmented and ripe for consolidation. We intend to continue to actively explore strategic investment and acquisition opportunities to increase the depth and breadth of our portfolio of solutions, services and products in order to maintain our market leadership. The suitable opportunities we intend to pursue include:

- cutting-edge digital video technologies in international markets to further enhance our core technology, as well as technologies that will help us capture key industry trends, such as big data, cloud computing and 4K ultra-high definition standard;
- smaller domestic competitors with attractive niche customer base to further expand our customer reach; and
- investment opportunities in which we have a significant stake and are able to leverage our core technology.

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of dividend for the nine months ended 30 September 2016 (nine months ended 30 September 2015: Nil).

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

Save for the listing of shares the Company on 27 June 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 30 September 2016.

EVENT AFTER THE REPORTING PERIOD

There is no significant event since 30 September 2016 and up to the date of this quarterly report.

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 September 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, were as follows:

Long position in the shares, underlying shares and debentures of the Company

Name of Director	Capacity	Number of shares or underlying shares	Approximate percentage of interest in the Company
Mr. Zheng Fushuang	Founder of a discretionary trust ¹	240,318,000	38.76%
Mr. Guo Langhua	Beneficial owner ²	15,921,053	2.57%
Mr. Liu Baodong	Beneficial owner ²	14,118,669	2.28%
Mr. Zhang Yaqin	Beneficial owner ²	450,596	0.07%
Mr. Frank Christiaens	Beneficial owner ²	450,596	0.07%

Notes:

1. Mr. Zheng Fushuang is the settlor and a beneficiary of Future Success Trust. Future Success Trust holds the entire issued share capital of ZFS Holdings, which in turn holds the entire issued share capital of Wing Success Holdings Limited, the controlling shareholder of the Company. Therefore, Mr. Zheng Fushuang is deemed to be interested in the Shares held by Wing Success Holdings Limited.
2. Interests in options granted pursuant to the Pre-IPO Share Option Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, as at 30 September 2016, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange.

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

As at 30 September 2016, so far as was known to the Directors, the following persons (other than the Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the shares of the Company

Name of shareholder	Capacity	Number of shares held	Approximate percentage of interest in the Company
Mr. Zheng Fushuang	Founder of a discretionary trust ¹	240,318,000	38.76%
HSBC International Trustee Limited	Trust and interest of controlled corporation ²	240,318,000	38.76%
ZFS Holdings	Interest of controlled corporation ²	240,318,000	38.76%
Wing Success Holdings Limited	Legal owner and beneficial owner ²	240,318,000	38.76%
Carvillo Success Limited	Legal owner and beneficial owner	98,098,000	15.82%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

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

Save as disclosed above, as at 30 September 2016, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the number of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 20 December 2010 and the principal terms and conditions of the Pre-IPO share option scheme are set out in the section headed “D. Pre-IPO Share Option Scheme” in appendix IV of the Prospectus. No further options will be granted under the Pre-IPO Share Option Scheme after the Listing.

Outstanding Share Options

From the date of Listing to 30 September 2016, 871,153 share options were canceled. As at 30 September 2016, there were a total of 77,021,847 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of our Shareholders of 11.1% as at 30 September 2016. Save as set out above, no other share options have been or would be granted by us after the Listing pursuant to the Pre-IPO Share Option Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Grantees	Date of grant	Exercise Period	Exercise price (US\$)	Number of Shares represented by options			Number of unvested options	Number of vested options	Number of Shares represented by options at 30 September 2016	Approximate Percentage of issued share capital of the Company
				at the Listing Date	Exercised during the period	Cancelled during the period				
Directors of the Company										
Guo Langhua	01/01/2011	01/01/2015-31/12/2021	1.16	15,921,053	-	-	-	15,921,053	15,921,053	2.57%
Liu Baodong	01/01/2011	01/01/2015-31/12/2021	1.16	14,118,669	-	-	-	14,118,669	14,118,669	2.28%
Zhang Yaqin	01/01/2011	01/01/2014-31/12/2021	1.16	450,596	-	-	-	450,596	450,596	0.07%
Frank Christiaens	01/01/2011	01/01/2014-31/12/2021	1.16	450,596	-	-	-	450,596	450,596	0.07%
Senior management of the Company										
Sun Jichuan	01/01/2011	01/01/2015-31/12/2021	1.16	450,596	-	-	-	450,596	450,596	0.07%
Qian Yiyue	01/01/2011	01/01/2015-31/12/2021	1.16	450,596	-	-	-	450,596	450,596	0.07%
Qian Yiyue	1/10/2015	01/10/2016-31/12/2021	0.00001	4,310,700	-	-	-	4,310,700	4,310,700	0.70%
David Cui	1/10/2015	01/10/2016-31/12/2021	0.00001	4,505,958	-	-	2,703,575 ¹	1,802,383	4,505,958	0.73%
Directors of a subsidiary of the Company not mentioned above										
Zheng Pengcheng	01/01/2011	01/01/2015-31/12/2021	1.16	150,199	-	-	-	150,199	150,199	0.02%
Other employees of the Company	01/01/2011	01/01/2015-31/12/2021	1.16	37,084,037	-	871,153	-	36,212,884	36,212,884	5.84%
Total	-	-	-	<u>77,893,000</u>	<u>-</u>	<u>871,153</u>	<u>2,703,575¹</u>	<u>75,189,425</u>	<u>77,021,847</u>	<u>12.42%</u>

Note:

- Among the 2,703,575 options, 50% of which will be vested on 1 October 2017 and 50% of which will be vested on 1 October 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPETING BUSINESSES

For the nine months ended 30 September 2016, none of the Directors or controlling shareholders of the Company and their respective associates (as defined under the GEM listing Rules) had any interest in a business competes or may compete with the business of the Group, or had any other conflict of interest with the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with all the code provisions set out in the Corporate Governance Code from the Listing Date up to the date of this quarterly report.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiries to all the Directors who have confirmed their compliance with the required standard of dealings and the code of conduct regarding Directors’ securities transactions from the Listing Date to the date of this quarterly report. No incident of non-compliance was noted by the Company during this period.

INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by the Company’s compliance adviser, Reorient Financial Markets Limited (“**Reorient**”), save as the compliance adviser agreement entered into between the Company and Reorient dated 18 August 2015, none of Reorient or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in any securities of the Company or any member of the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

AUDIT COMMITTEE AND REVIEW OF QUARTERLY RESULTS

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules on 23 May 2016. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group, and oversee the audit process and the audits of the financial statements of the Group.

The audit committee comprises three independent non-executive Directors, namely, Ms. Cao Qian, Mr. Zhang Yaqin and Mr. Frank Christiaens and is chaired by Ms. Cao Qian.

The audit committee has reviewed the unaudited financial statements for the nine months ended 30 September 2016 and is of the opinion that (i) the unaudited financial statements of the Group for the nine months ended 30 September 2016 comply with the applicable accounting standards and the GEM Listing Rules; and (ii) adequate disclosures been made in such unaudited financial statements.

COMPOSITION OF THE BOARD AND BOARD COMMITTEES

The composition of the Board, the audit committee, the nomination committee and the remuneration committee of the Company remain the same as set out in the Prospectus.

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

Hong Kong, 10 November 2016

QUARTERLY CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS)/INCOME

FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2016 RMB' 000	2015 RMB' 000	2016 RMB' 000	2015 RMB' 000
Revenue	3	161,738	137,795	473,583	417,765
Cost of sales		(99,137)	(83,219)	(297,175)	(264,281)
Gross profit		62,601	54,576	176,408	153,484
Other income	4	9,953	10,595	25,371	50,303
Selling and marketing expenses		(15,997)	(14,115)	(51,584)	(44,504)
Administrative expenses		(15,429)	(20,334)	(48,109)	(46,396)
Share-based compensation expense		(3,824)	-	(11,410)	-
Research and development expenses		(11,636)	(13,756)	(34,589)	(45,292)
Finance costs	5	(1,906)	(1,387)	(4,975)	(4,953)
Fair value gain on redeemable convertible preferred shares		-	25,626	276,108	15,044
Loss on extinguishment of redeemable convertible preferred shares		-	(21,780)	-	(21,780)
Share of losses of joint ventures		-	(1,704)	(3,647)	(4,670)
Profit before income tax	5	23,762	17,721	323,573	51,236
Income tax expense	6	(3,663)	(2,620)	(5,436)	(9,091)
Profit for the period		20,099	15,101	318,137	42,145
Other comprehensive income/(loss)					
Items that may be subsequently reclassified to profit or loss:					
Exchange difference arising on the translation of foreign operation		667	(25,033)	(10,261)	(24,512)
Total comprehensive income/(loss) for the period		20,766	(9,932)	307,876	17,633

QUARTERLY CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS)/INCOME

FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

	Note	(Unaudited)		(Unaudited)	
		Three months ended		Nine months ended	
		2016	2015	2016	2015
		RMB' 000	RMB' 000	RMB' 000	RMB' 000
Profit for the period attributable to:					
Equity holders of the Company		21,484	16,442	321,815	47,304
Non-controlling interests		(1,385)	(1,341)	(3,678)	(5,159)
		<u>20,099</u>	<u>15,101</u>	<u>318,137</u>	<u>42,145</u>
Total comprehensive income/(loss)					
for the period attributable to:					
Equity holders of the Company		22,151	(8,590)	311,554	22,792
Non-controlling interests		(1,385)	(1,341)	(3,678)	(5,159)
		<u>20,766</u>	<u>(9,931)</u>	<u>307,876</u>	<u>17,633</u>
Earnings per share for profit					
attributable to ordinary equity					
holders of the Company					
(expressed in RMB cents per share)					
Basic	8	<u>3.47</u>	<u>5.78</u>	<u>84.80</u>	<u>16.35</u>
Diluted		<u>3.47</u>	<u>0.51</u>	<u>8.65</u>	<u>9.18</u>

The notes on pages 22 to 30 are an integral part of this Result.

CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

	Equity attributable to equity holders of the Company									
	Share capital – Ordinary Shares	Share capital – convertible preferred shares	Share premium	Statutory reserve	Translation reserve	Share option reserve	(Accumulated losses)/ Retained earnings	Sub-total	Non-controlling interests	(Capital deficiency)/ Total equity
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
Balance at 1 January 2016	6	26,235	–	19,731	2,865	21,723	(190,469)	(119,929)	(3,955)	(123,884)
Comprehensive income for the period										
Profit for the period	–	–	–	–	–	–	321,815	321,815	(3,677)	318,138
Other comprehensive loss for the period	–	–	–	–	(10,260)	–	–	(10,260)	–	(10,260)
Total comprehensive income for the period	–	–	–	–	(10,260)	–	321,815	311,555	(3,677)	307,878
Transactions with owners										
Conversion of convertible preferred shares	5	(26,235)	368,469	–	–	–	–	342,239	–	342,239
Capitalization issue	21	–	(21)	–	–	–	–	–	–	–
Issuance of new shares in connection with the listing of the Company's shares	10	–	251,921	–	–	–	–	251,931	–	251,931
Share issuance expenses	–	–	(31,467)	–	–	–	–	(31,467)	–	(31,467)
Share-based compensation	–	–	–	–	–	11,442	–	11,442	–	11,442
Transfer upon forfeiture of share options	–	–	–	–	–	(31)	31	–	–	–
Appropriation to statutory reserve	–	–	–	7,833	–	–	(7,833)	–	–	–
Total transactions with owners	36	(26,235)	588,902	7,833	–	11,411	(7,802)	574,145	–	574,145
Balance at 30 September 2016	42	–	588,902	27,564	(7,395)	33,134	123,524	765,771	(7,632)	758,139

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016

Equity attributable to equity holders of the Company

	Share capital – Non-redeemable		Share premium	Statutory reserve	Translation reserve	Share options		Sub-total	Non-controlling interests	(Capital deficiency)/ Total equity
	Ordinary Shares	preferred shares				Reserve	losses/ Retained earnings			
	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
Balance at 1 January 2015	6	26,235	–	9,791	37,697	18,154	(301,034)	(209,151)	(2,818)	(211,969)
Comprehensive income for the period										
Profit for the period	–	–	–	–	–	–	47,304	47,304	(5,159)	42,145
Other comprehensive loss for the period	–	–	–	–	(24,512)	–	–	(24,512)	–	(24,512)
Total comprehensive income for the period	–	–	–	–	(24,512)	–	47,304	22,792	(5,159)	17,633
Transactions with owners										
Conversion of convertible preferred shares	–	–	–	–	–	–	–	–	–	–
Capitalization issue	–	–	–	–	–	–	–	–	–	–
Issuance of new shares in connection with the listing of the Company's shares	–	–	–	–	–	–	–	–	–	–
Share issuance expenses	–	–	–	–	–	–	–	–	–	–
Share-based compensation	–	–	–	–	–	–	–	–	–	–
Transfer upon forfeiture of share options	–	–	–	–	–	(260)	260	–	–	–
Appropriation to statutory reserve	–	–	–	–	–	–	–	–	–	–
Capital contribution from a Non-controlling shareholder	–	–	–	–	–	–	–	–	3,000	3,000
Disposal of a subsidiary	–	–	–	–	–	–	–	–	1,968	1,968
Total transactions with owners	–	–	–	–	–	(260)	260	–	4,968	4,968
Balance at 30 September 2016	6	26,235	–	9,791	13,185	17,894	(253,470)	(186,359)	(3,009)	(189,368)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS)/INCOME

FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

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 Company’s shares were listed on the Growth Enterprise Market (“**GEM**”) of The Stock Exchange of Hong Kong Limited 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**”).

2. BASIS OF PREPARATION

This unaudited condensed consolidated quarterly results for the nine months ended 30 September 2016 (the “**Results**”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of Stock Exchange. The Results was authorised for issue by the Board on 10 November 2016.

The accounting policies and methods of computation used in the preparation of the Results are consistent with those used in the preparation of the accountant’s report for the year ended 31 December 2015 included in the prospectus dated 15 June 2016 except for the adoption of a number of amendments to International Financial Reporting Standards (“**IFRSs**”) that effective for accounting period beginning on 1 January 2016 and are relevant to the Group.

The Group has applied all the amendments to standards, which are mandatory for the financial year beginning 1 January 2016. The adoption had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

The Group has not early adopted any other standard or amendment that has been issued but is not yet effective.

The Results does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the accountant’s report for the year ended 31 December 2015 included in the prospectus dated 15 June 2016.

The Results is presented in Renminbi (“**RMB**”), unless otherwise stated.

The Results is unaudited.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS)/INCOME

FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

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 sales 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:

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Solutions	101,901	93,181	323,052	296,076
Services	29,934	26,050	75,109	56,882
Products	29,903	18,563	75,422	64,806
	<u>161,738</u>	<u>137,794</u>	<u>473,583</u>	<u>417,764</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS)/INCOME

FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

4. OTHER INCOME

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2016 RMB' 000	2015 RMB' 000	2016 RMB' 000	2015 RMB' 000
Other revenue				
Interest income	1,589	385	2,451	1,131
Reversal of provision for doubtful debt	788	594	1,760	667
Value-added tax ("VAT") refunds (note a)	7,062	4,748	16,543	17,652
	<u>9,439</u>	<u>5,727</u>	<u>20,754</u>	<u>19,450</u>
Other net income/gain				
Gain on disposal of intangible assets	—	—	—	10,800
Gain on disposal of a subsidiary	—	653	—	8,525
Subsidy income from government (note b)	514	4,215	4,579	10,777
Sundry income	—	—	38	751
	<u>514</u>	<u>4,868</u>	<u>4,617</u>	<u>30,853</u>
	<u><u>9,953</u></u>	<u><u>10,595</u></u>	<u><u>25,371</u></u>	<u><u>50,303</u></u>

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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS)/INCOME

FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

5. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

	(Unaudited)		(Unaudited)	
	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Finance costs				
Interest on bank and other borrowings, wholly repayable within five years	3,730	1,542	4,895	4,953
Employee benefit expenses				
Salaries, bonus and allowances	27,126	24,857	77,745	81,787
Retirement benefit scheme contributions	7,212	5,904	19,110	18,189
Severance payments	44	71	62	568
Share-based compensation expense	3,824	—	11,410	—
	<u>38,206</u>	<u>30,832</u>	<u>108,327</u>	<u>100,544</u>
Other items				
Listing-related expenses	210	8,827	10,148	11,490
Cost of software and hardware equipments recognised as an expense, including – Provision for inventory obsolescence	81,555	60,739	233,442	196,832
			858	2,052
Depreciation of property, plant and equipment	1,541	2,291	6,049	8,631
Amortisation of intangible assets	3,288	3,728	10,042	9,867
Provision for doubtful trade and other receivables	4,274	2,557	10,112	8,981

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS)/INCOME

FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

6. INCOME TAX EXPENSE

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2016 RMB' 000	2015 RMB' 000	2016 RMB' 000	2015 RMB' 000
Current tax - PRC enterprise income tax				
Current period	4,253	3,409	9,076	14,612
Over-provision in respect of prior year	—	—	(5,802)	—
	<u>4,253</u>	<u>3,409</u>	<u>3,274</u>	<u>14,612</u>
Deferred tax				
Origination and reversal of temporary differences	(590)	(789)	(613)	(3,059)
Effect on deferred tax balances resulting from changes in tax rates	—	—	2,775	(2,462)
	<u>(590)</u>	<u>(789)</u>	<u>2,162</u>	<u>(5,521)</u>
Income tax expense	<u><u>3,663</u></u>	<u><u>2,620</u></u>	<u><u>5,436</u></u>	<u><u>9,091</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 the period.

(c) Singapore profits tax

Singapore profits tax rate is 17%. Singapore profits tax has not been provided as the companies within the Group had no estimated assessable profits in Singapore for the period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS)/INCOME

FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

6. INCOME TAX EXPENSE – *continued*

Notes: – *continued*

(d) 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 period based on the existing legislation, interpretations and practices in respect thereof. The applicable income tax rate for the period is 25%.

Pursuant to the relevant laws and regulations in the PRC, China Digital Video (Beijing) Limited (“CDV WFOE”), a subsidiary of the Company, obtained the “High and New Technology Enterprise” qualification (“HNTE”) in 2012 and renewed its qualification in 2015. In 2016, CDV WFOE was also accredited as a “Key Software Enterprise under the National Plan” (國家規劃佈局內重點軟體企業) and was therefore retrospectively entitled to a preferential income tax rate of 10% from 2015 and continues to enjoy this preferential income tax rate until it no longer meets the requirements of the qualification.

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

According to relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 150% of the research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). CDV WFOE and Beijing Zhengqi have made its best estimate for the Super Deduction to be claimed in ascertaining their assessable profits for the three months and nine months ended 30 September 2015 and 2016.

7. DIVIDENDS

The directors do not recommend the payment of dividend for the nine months ended 30 September 2016 (2015: Nil).

8. EARNINGS PER SHARE

For the purpose of computing basic and diluted earnings per share, the number of ordinary shares during each period have also been adjusted retrospectively for the proportional change in the number of shares outstanding as a result of the capitalisation issue as detailed in the Prospectus, in the computation of both basic and diluted earnings per share for the three months and nine months ended 30 September 2015 and 2016.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS)/INCOME

FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

8. EARNINGS PER SHARE – *continued*

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the adjusted profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

	(Unaudited)		(Unaudited)	
	Three months ended 30 September		Nine months ended 30 September	
	2016 RMB' 000	2015 RMB' 000	2016 RMB' 000	2015 RMB' 000
Earnings				
Profit attributable to equity holders of the Company	21,484	16,442	321,815	47,304
Undeclared dividend of preferred shares	—	(2,547)	(5,208)	(8,006)
Profit used to determine basic earnings per share	<u>21,484</u>	<u>13,895</u>	<u>316,607</u>	<u>39,298</u>
	(Unaudited)		(Unaudited)	
	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Number of shares (in thousands)				
Weighted average number of ordinary shares outstanding for basic earnings per share	<u>620,000</u>	<u>240,318</u>	<u>373,345</u>	<u>240,318</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS)/INCOME

FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

8. EARNINGS PER SHARE – *continued*

(b) Diluted earnings per share

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

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2016 RMB' 000	2015 RMB' 000	2016 RMB' 000	2015 RMB' 000
Earnings				
Profit attributable to ordinary equity holders of the Company used to determine basic earnings per share	21,484	13,895	316,607	39,298
Change in fair value on redeemable convertible preferred shares	—	(14,079)	(276,886)	(10,476)
Undeclared dividend of preferred shares	—	2,062	5,208	6,350
	<hr/>	<hr/>	<hr/>	<hr/>
Profit used to determine diluted earnings per share	<u>21,484</u>	<u>1,878</u>	<u>44,929</u>	<u>35,172</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (LOSS)/INCOME

FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016

8. EARNINGS PER SHARE – *continued*

(b) Diluted earnings per share – *continued*

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2016	2015	2016	2015
Number of shares (in thousands)				
Weighted average number of ordinary shares used to determine basic earnings per share	620,000	240,318	373,345	240,318
Effect of deemed conversion of preferred shares (after capitalization issue adjustment)	—	128,593	145,962	142,674
	<u>620,000</u>	<u>368,911</u>	<u>519,307</u>	<u>382,992</u>

For three months and nine months ended 30 September 2015 and 2016, the Company has the following three categories of dilutive potential ordinary shares: non-redeemable convertible Series A-1 Preferred Shares, redeemable convertible preferred shares (including Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares and Series C Preferred Shares) and the 2010 Share Option Plan of the Company.

For the three months ended 30 September 2015 and 2016 and the nine months ended 30 September 2016, the computation of diluted earnings per share has assumed the conversion of non-redeemable convertible Series A-1 preferred shares, redeemable convertible Series A, Series A-1, Series B and Series C preferred shares. For the nine months ended 30 September 2015, the computation of diluted earnings per share has assumed the conversion of non-redeemable convertible Series A-1 preferred shares, redeemable convertible Series B and Series C preferred shares, but not on the remaining preferred shares since their conversion would result in an increase in earnings per share.

Share options of the Company are considered as anti-dilutive as the estimated market price of the ordinary shares of the Company is less than the exercise price of the share options at the end of each reporting period.