



**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

**ALWAYS BE  
FORWARD  
LOOKING**

**First Quarterly Report 2017**

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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 decreased by 31.0% to RMB105.6 million for the three months ended 31 March 2017 from RMB153.1 million for the three months ended 31 March 2016.

We recorded a loss of RMB39.5 million for the three months ended 31 March 2017 as compared to the profit of RMB65.5 million for the three months ended 31 March 2016.

Our adjusted net loss (as defined in the section headed “Management Discussion and Analysis - Non-IFRS Financial Measure” below) amounted to RMB7.7 million for the three months ended 31 March 2017 as compared to an adjusted net profit of RMB8.7 million for the three months ended 31 March 2016.

Our Directors do not recommend the payment of dividend for the three months ended 31 March 2017 (three months ended 31 March 2016: nil).



## 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 three months ended 31 March 2017, 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.

## FINANCIAL REVIEW

We recorded a total revenue of RMB105.6 million for the three months ended 31 March 2017, representing a decrease of 31.0% from RMB153.1 million for the three months ended 31 March 2016. We recorded a net loss of RMB39.5 million for the three months ended 31 March 2017 as compared to a net profit of RMB 65.5 million recorded by the Group for the three months ended 31 March 2016, mainly attributable to the following factors:

1. the non-cash share-based compensation expenses of RMB31.2 million related to the shares of the Company (the “Shares”) granted by Mr. ZHENG Fushuang, the ultimate controlling shareholder of the Company, to Mr. LIU Baodong and Mr. GUO Langhua in January 2017. Please refer to the announcement of the Company dated 4 January 2017 for detailed information;
2. the gain of approximately RMB 66.6 million arising from fair value gain on redeemable convertible preferred shares for the first quarter of 2016. The Group did not record any such gain for the first quarter of 2017 as all the redeemable convertible preferred shares of the Company have been converted to ordinary shares when the Shares listed on the Growth Enterprise Market of the Stock Exchange in June 2016;
3. the decrease in the revenue from sales of solutions and products for the first quarter of 2017 as compared to that of the first quarter of 2016;
4. the Group committed more investment in research and development expenses than in the past to strengthen the research and development capability of our Group, which is in line with our business objectives; and
5. our marketing expense for solutions and services increased significantly in the first quarter of 2017 as compared to that of the first quarter of 2016.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

	Three months ended 31 March			
	2017 (Unaudited)		2016 (Unaudited)	
	Amount	% of total	Amount	% of total
(RMB in thousands, except percentages)				
Solutions	84,401	79.9	130,140	85.0
Services	15,370	14.6	9,107	5.9
Products	5,858	5.5	13,900	9.1
<b>Total</b>	<b>105,629</b>	<b>100.0</b>	<b>153,147</b>	<b>100.0</b>

Our revenue decreased by 31.0% to RMB105.6 million for the three months ended 31 March 2017 from RMB153.1 million in the three months ended 31 March 2016. Our revenue from sale of solutions decreased by 35.1% from RMB130.1 million for the three months ended 31 March 2016 to RMB84.4 million for the three months ended 31 March 2017 due to the absence of large amount contracts for solutions recognized as revenue in the first quarter of 2017. Our revenue from provision of services increased by 69.2% from RMB9.1 million for the three months ended 31 March 2016 to RMB15.4 million for the three months ended 31 March 2017 mainly attributable to the increase of services related to cloud-based cataloging of media assets. Our revenue from sale of products decreased by 57.6% from RMB13.9 million for the three months ended 31 March 2016 to RMB5.9 million for the three months ended 31 March 2017 mainly as: (i) some of our major customers delayed their upgrading projects; and (ii) we launched an internal reform to our distributions channels in the first quarter of 2017 to improve our internal control system, which affected the distribution sales performance to a certain extent.

### Cost of Sales

Our cost of sales decreased by 30.9% to RMB78.2 million for the three months ended 31 March 2017 from RMB113.2 million for the three months ended 31 March 2016, as a result of the decrease of revenue.

### Gross Profit and Gross Profit Margin

Our gross profit represents revenue less cost of sales. Our gross profit decreased by 31.3% to RMB27.4 million for the three months ended 31 March 2017 from RMB39.9 million for the three months ended 31 March 2016, while our gross profit margin remained relatively stable at 25.9% for the three months ended 31 March 2017 as compared to 26.1% for the three months ended 31 March 2016. Specifically:



Gross profit for our solution business decreased by 34.2% to RMB17.5 million for the three months ended 31 March 2017 from RMB26.6 million for the three months ended 31 March 2016. Gross profit margin for our solution business for the three months ended 31 March 2017 remained relatively stable at 20.7% as compared to 20.4% for the three months ended 31 March 2016.

Gross profit for our service business increased by 56.8% to RMB6.9 million during the three months ended 31 March 2017 from RMB4.4 million for three months ended 31 March 2016. Gross profit margin for our service business decreased to 44.7% for the three months ended 31 March 2017 from 47.8% for the three months ended 31 March 2016, primarily due to the relatively low gross margin of certain service projects.

Gross profit for our product business decreased by 66.7% to RMB3.0 million for the three months ended 31 March 2017 from RMB9.0 million for the three months ended 31 March 2016. Gross profit margin for our product business decreased to 51.8% for the three months ended 31 March 2017 from 64.6% for the three months ended 31 March 2016, primarily due to the relatively low gross margin of certain product projects.

### Other Income

Other income decreased by 9.2% to RMB6.9 million for the three months ended 31 March 2017 from RMB7.6 million for the three months ended 31 March 2016, primarily due to the decrease of government subsidies.

### Selling and Marketing Expenses

Our selling and marketing expenses increased by 24.4% to RMB16.8 million for the three months ended 31 March 2017 from RMB13.5 million for three months ended 31 March 2016 as we spent more marketing expense for certain types of solutions and services in the first quarter of 2017.

### Administrative Expenses


Our administrative expenses decreased by 28.2% to RMB8.9 million for the three months ended 31 March 2017 from RMB12.4 million for the three months ended 31 March 2016 as we did not incur any listing expenses for the three months ended 31 March 2017 and partially offset by the increase of the staff cost as a result of the salary increment of our employees for the three months ended 31 March 2017.

### Share-Based Compensation Expense

During the three months ended 31 March 2017, we recognized share-based compensation expense of RMB31.8 million in connection with the shares awarded by Mr. ZHENG Fushung to Mr. LIU Baodong and Mr. GUO Langhua. Please refer to the announcement of the Company dated 4 January 2017 for details. We recorded a share-based compensation expense of RMB3.7 million during the three months ended 31 March 2016.

### Research and Development Expenses

Our research and development expenses increased by 33% to RMB14.1 million for the three months ended 31 March 2017 from RMB10.6 million for the three months ended 31 March 2016 as we committed more investment in research and development expenses than in the past to strengthen our research and development capability, which was in line with our business objectives.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Finance Costs

Our finance costs decreased by 52.6% to RMB0.9 million for the three months ended 31 March 2017 from RMB1.9 million for the three months ended 31 March 2016 primarily due to our repayment of bank borrowings during the three months ended 31 March 2017, which led to a decrease in our interest payment in the three months ended 31 March 2017.

### Fair Value Gain on Redeemable Convertible Preferred Shares

We recorded approximately RMB 66.6 million arising from fair value gain on redeemable convertible preferred shares for the first quarter of 2016. The Group did not record any such gain for the first quarter of 2017 as all the redeemable convertible preferred shares of the Company have been converted to ordinary shares when the shares of the Company listed on the Growth Enterprise Market of the Stock Exchange in June 2016.

### Share of Losses of Joint Ventures

Our share of losses of joint ventures was nil for the three months ended 31 March 2017 and RMB2.9 million for the three months ended 31 March 2016. Our share of losses of joint ventures for the three months ended 31 March 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. During the three months ended 31 March 2017, as our share of losses exceeds our interests in the joint ventures, our interest is reduced to nil and recognition of further losses is discontinued as we have no legal or constructive obligation on behalf of the joint ventures.

### Loss/Profit before Income Tax

As a result of the foregoing factors, our loss amounted to RMB38.2 million for the three months ended 31 March 2017 as compared to profit before income tax of RMB69.0 million for the three months ended 31 March 2016.

### Income Tax Expense

We recorded an income tax expense of RMB1.3 million for the three months ended 31 March 2017 as compared to an income tax expense of RMB3.4 million for the three months ended 31 March 2016, representing a decrease of 61.8%. The decrease was primarily due the decrease in revenue.

### Loss/Profit for the Period

As a result of the foregoing factors, our loss for the three months ended 31 March 2017 amounted to RMB39.5 million as compared to the profit of RMB65.5 million for the three months ended 31 March 2016. We had adjusted net loss of RMB7.7 million for the three months ended 31 March 2017 and adjusted net profit of RMB 8.7 million for the three months ended 31 March 2016.

### Other Comprehensive Loss

We recorded other comprehensive loss of RMB1.8 million for the three months ended 31 March 2017 as compared to other comprehensive loss of RMB7.1 million for the three months ended 31 March 2016, primarily due to exchange rate differences arising on the translation of foreign operation as a result of Renminbi's appreciation against US dollars during the three months ended 31 March 2017 as compared to three months ended 31 March 2016.



### Total Comprehensive Loss/Income for the Period

We recorded a total comprehensive loss of RMB41.3 million for the three months ended 31 March 2017 as compared to a total comprehensive income RMB58.4 million for the three months ended 31 March 2016 which is resulted from the decrease of revenue.

### Profit/Loss Attributable to Non-controlling Interests

Profit attributable to non-controlling interests totalled RMB1.3 million for the three months ended 31 March 2017 as compared to loss attributable to non-controlling interests of RMB0.9 million for the three months ended 31 March 2016. Non-controlling interests in the three months ended 31 March 2017 primarily represented the minority interests in Beijing Meicam.

### MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

We had no material acquisitions and disposal of subsidiaries, associates and joint ventures during the three months ended 31 March 2017.

### 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.

### 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 and listing expenses.

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:



## MANAGEMENT DISCUSSION AND ANALYSIS

	Three months ended 31 March	
	2017 RMB'000	2016 RMB'000
(Loss)/Profit for the period	(39,480)	65,546
Add:		
Share-based compensation expense	31,799	3,744
Fair value gain on redeemable convertible preferred shares	—	(66,575)
Listing expenses	—	5,990
<b>Adjusted net loss/profit (unaudited)</b>	<b>(7,681)</b>	<b>8,705</b>

### HUMAN RESOURCES

As at 31 March 2017, we had 1,056 full-time employees and 34 dispatched workers (31 March 2016: 1,003 full-time employees and 61 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the three months ended 31 March 2017 and 31 March 2016, the remuneration expense, excluding share-based compensation expense, were approximately RMB47.7 million and RMB36 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.

In addition to the Pre-IPO Share Option Scheme, as an incentive to retain valuable employees, we also adopted the share award scheme (the "Share Award Scheme") and proposed to adopt a share option scheme ("Post-IPO Share Option Scheme") on 20 March 2017. The adoption of the Post-IPO Share Option Scheme is subject to shareholders approval at the annual general meeting scheduled to be held on 18 May 2017.

### 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;
- 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.



## MANAGEMENT DISCUSSION AND ANALYSIS

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;
- 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.

During the three months ended 31 March 2017, we launched two new products, namely, VSE xMotion (a 360-degree HD/4K video recording, producing and playback system) and CDV Graphite (a HD/4k graphic creation and display system). VSE xMotion was awarded as an outstanding innovative product in the 25th China Content Broadcasting Network Exhibition, the largest broadcasting technology and equipment expo in Asia-Pacific. It is hope that the launch of these new products will generate good return for the Group.

### 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 three months ended 31 March 2017 (three months ended 31 March 2016: Nil).

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities from 1 January 2017 to 31 March 2017.



## EVENT AFTER THE REPORTING PERIOD

There is no significant event since 31 March 2017 and up to the date of this quarterly report.

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

As at 31 March 2017, 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 shareholder	Capacity	Number of shares or underlying shares	Approximate percentage of interest in the Company
Mr. Zheng Fushuang	Founder of a discretionary trust <sup>1</sup>	210,278,278	33.92%
Mr. Guo Langhua	Beneficial owner <sup>2</sup>	31,842,106	5.14%
Mr. Liu Baodong	Beneficial owner <sup>3</sup>	28,237,338	4.56%
Mr. Zhang Yaqin	Beneficial owner <sup>4</sup>	450,596	0.07%
Mr. Frank Christiaens	Beneficial owner <sup>4</sup>	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. Mr. Guo Langhua held 15,921,053 shares and the remaining interest is the options representing 15,921,053 underlying shares upon fully exercise of such options.
3. Mr. Liu Baodong held 14,118,669 shares and the remaining interest is the options representing 14,118,669 underlying shares upon fully exercise of such options.
4. Interests in options granted pursuant to the Pre-IPO Share Option Scheme.

## MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, as at 31 March 2017, 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 31 March 2017, 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 <sup>1</sup>	210,278,278	33.92%
HSBC International Trustee Limited	Trust and interest of controlled corporation <sup>2</sup>	210,278,278	33.92%
ZFS Holdings	Interest of controlled corporation <sup>2</sup>	210,278,278	33.92%
Wing Success Holdings Limited	Legal owner and beneficial owner <sup>2</sup>	210,278,278	33.92%
Eagle Eyes Investment Limited	Interest of controlled corporation	98,098,000	15.82%
New Horizon Capital IV, L.P.	Interest of controlled corporation	98,098,000	15.82%
New Horizon Capital Partners III, L.P.	Interest of controlled corporation	98,098,000	15.82%
Carvillo Success Limited	Legal owner and beneficial owner	98,098,000	15.82%

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 31 March 2017, 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 1 January 2017 to 31 March 2017, 495,655 share options were lapsed and cancelled. As at 31 March 2017, there were a total of 76,526,192 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings (assuming all options have been exercised) of our Shareholders of 10.99% as at 31 March 2017. Save as set out above, no other share options have been or would be granted by us after the Listing pursuant to the Pre- IPO Share Option Scheme.

Grantees	Date of grant	Exercise Period	Exercise price (US\$)	Number of	Exercised during the period	Cancelled during the period	Number of unvested option	Number of vested options	Number of	Approximate Percentage of issued share capital of the Company
				Shares represented by options at 1 January 2017					Shares represented by options at 31 March 2017	
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%
<b>Senior management of the Company</b>										
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 <sup>1</sup>	1/10/2015	01/10/2016-31/12/2021	0.00001	4,505,958	–	–	2,703,575 <sup>1</sup>	1,802,383	4,505,958	0.73%
<b>Directors of a subsidiary of the Company not mentioned above</b>										
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	36,212,884	–	495,655	–	35,717,229	35,717,229	5.84%
<b>Total</b>				<b>77,021,847</b>	<b>–</b>	<b>495,655</b>	<b>2,703,575</b>	<b>73,822,617</b>	<b>76,526,192</b>	<b>12.34%</b>



## MANAGEMENT DISCUSSION AND ANALYSIS

Note:

1. Mr. David Cui resigned the role of chief financial officer with effective from 1 April 2017. 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.

### SHARE AWARD SCHEME AND SHARE OPTION SCHEME

The Company adopted the Share Award Scheme on 20 March 2017. The purposes and objectives of the Share Award Scheme are to recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. Subject to any early termination as may be determined by the Board by a resolution of the Board, the Share Award Scheme shall be valid and effective for a term of ten years commencing from the adoption date of the Share Award Scheme. The Board shall not make any further award of awarded shares which will result in the total number of issued shares capital of the Company exceeding 8.5% of issued shares capital of the Company as at the adoption date of the Share Award Scheme.

On 20 March 2017, subject to the approval of the independent shareholder/shareholder at the 2017 annual general meeting to be held on 18 May 2017 (the “**Annual General Meeting**”), an aggregate of 12,000,000 awarded shares were proposed to be issued and allotted to 30 selected participants under the Share Award Scheme (the “**Proposed Issue**”). Save as the Proposed Issue, no shares were awarded to any employee or director of the Company under the Share Award Scheme during the three months ended 31 March 2017.

On 20 March 2017, the Board proposed to adopt a share option scheme (the “**Share Option Scheme**”), which is subject to the approval of the shareholders at the Annual General Meeting.

Please refer to the Company’s announcement dated 20 March 2017 and circular dated 11 April 2017 for details of the Share Award Scheme, the Proposed Issue and the Share Option Scheme.

### COMPETING BUSINESSES

For the three months ended 31 March 2017, 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 1 January 2017 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 1 January 2017 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.

## 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 three months ended 31 March 2017 and is of the opinion that (i) the unaudited financial statements of the Group for the three months ended 31 March 2017 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, 8 May 2017



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

FOR THE THREE MONTHS ENDED 31 MARCH 2017

		(Unaudited)	
		Three months ended	
		31 March	
	Notes	2017 RMB'000	2016 RMB'000
Revenue	3	105,629	153,147
Cost of sales		(78,219)	(113,217)
<b>Gross profit</b>		<b>27,410</b>	39,930
Other income	4	6,850	7,614
Selling and marketing expenses		(16,825)	(13,528)
Administrative expenses		(8,876)	(12,446)
Share-based compensation expense		(31,799)	(3,744)
Research and development expenses		(14,090)	(10,626)
Finance costs	5	(900)	(1,904)
Fair value gain on redeemable convertible preferred shares		–	66,575
Share of losses of joint ventures		–	(2,883)
<b>(Loss)/Profit before income tax</b>	5	<b>(38,230)</b>	68,988
Income tax expense	6	(1,250)	(3,442)
<b>(Loss)/Profit for the period</b>		<b>(39,480)</b>	65,546
<b>Other comprehensive income/(loss)</b>			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on the translation of foreign operation		(1,809)	(7,145)
<b>Total comprehensive income/(loss)</b>			
for the period		<b>(41,289)</b>	58,401

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

FOR THE THREE MONTHS ENDED 31 MARCH 2017



		(Unaudited)	
		Three months ended	
		31 March	
	Notes	2017 RMB'000	2016 RMB'000
<b>(Loss)/Profit for the period attributable to:</b>			
Equity holders of the Company		(38,145)	66,461
Non-controlling interests		(1,335)	(915)
		<b>(39,480)</b>	<b>65,546</b>
<b>Total comprehensive income/(loss)</b>			
<b>for the period attributable to:</b>			
Equity holders of the Company		(39,954)	59,316
Non-controlling interests		(1,335)	(915)
		<b>(41,289)</b>	<b>58,401</b>
<b>(Loss)/Earnings per share for profit attributable to ordinary equity</b>			
<b>holders of the Company</b>			
(expressed in RMB cents per share)			
Basic	8	<b>(6.15)</b>	26.56
Diluted		<b>(6.13)</b>	(0.04)

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2017

	Equity attributable to equity holders of the Company								
	Share capital – Ordinary 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	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at 1 January 2017	42	588,902	28,982	2,477	34,527	139,222	794,152	(9,399)	784,753
<b>Comprehensive income for the period</b>									
Profit for the period	–	–	–	–	–	(38,145)	(38,145)	(1,335)	(39,480)
Other comprehensive loss for the period	–	–	–	(1,809)	–	–	(1,809)	–	(1,809)
<b>Total comprehensive income for the period</b>	–	–	–	(1,809)	–	(38,145)	(39,954)	(1,335)	(41,289)
<b>Transactions with owners</b>									
Share-based compensation	–	–	–	–	31,799	–	31,799	–	31,799
Appropriation to statutory reserve	–	–	889	–	–	(889)	–	–	–
<b>Total transactions with owners</b>	–	–	889	–	31,799	(889)	31,799	–	31,799
Balance at 31 March 2017	42	588,902	29,871	668	66,326	100,188	785,997	(10,734)	775,263

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2017



Equity attributable to equity holders of the Company

	Share capital – Non-redeemable		Statutory reserve	Translation reserve	Share option reserve	(Accumulated losses)/ Retained earnings	Sub-total	Non-controlling interests	(Capital deficiency)/ Total equity
	Share capital – Ordinary Shares	Share capital – convertible preferred shares							
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at 1 January 2016	6	26,235	19,731	2,865	21,723	(190,489)	(119,929)	(3,955)	(123,884)
Comprehensive income for the period									
Profit for the period	–	–	–	–	–	66,461	66,461	(915)	65,546
Other comprehensive loss for the period	–	–	–	(7,145)	–	–	(7,145)	–	(7,145)
Total comprehensive income for the period	–	–	–	(7,145)	–	66,461	59,316	(915)	58,401
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	–	–	–	–	3,744	–	3,744	–	3,744
Transfer upon forfeiture of share options	–	–	–	–	–	–	–	–	–
Appropriation to statutory reserve	–	–	2,022	–	–	(2,022)	–	–	–
Capital contribution from a Non-controlling shareholder	–	–	–	–	–	–	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–
Total transactions with owners	–	–	2,022	–	3,744	(2,022)	3,744	–	3,744
Balance at 31 March 2016	6	26,235	21,753	(4,280)	25,467	(126,050)	(56,869)	(4,870)	(61,739)



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

FOR THE THREE MONTHS ENDED 31 MARCH 2017

## 1. GENERAL INFORMATION

China Digital Video Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 8 January 2007 as an exempted company with limited liability under the Companies Law (as consolidated and revised) of the Cayman Islands. The 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 three months ended 31 March 2017 (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 8 May 2017.

The accounting policies and methods of computation used in the preparation of the Results are consistent with those used in the preparation of the annual report for the year ended 31 December 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 2017 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 2017. 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 annual report for the year ended 31 December 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 MONTHS ENDED 31 MARCH 2017



## 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) Three months ended 31 March	
	2017 RMB'000	2016 RMB'000
Solutions	84,401	130,140
Services	15,370	9,107
Products	5,858	13,900
	<u>105,629</u>	<u>153,147</u>

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

FOR THE THREE MONTHS ENDED 31 MARCH 2017

## 4. OTHER INCOME

	(Unaudited) Three months ended 31 March	
	2017 RMB'000	2016 RMB'000
<b>Other revenue</b>		
Interest income	260	196
Reversal of provision for doubtful debt	2,475	918
Value-added tax ("VAT") refunds (note a)	4,115	4,340
	<u>6,850</u>	<u>5,454</u>
<b>Other net income/gain</b>		
Subsidy income from government (note b)	—	2,149
Sundry income	—	11
	<u>—</u>	<u>2,160</u>
	<u><u>6,850</u></u>	<u><u>7,614</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 MONTHS ENDED 31 MARCH 2017



## 5. LOSS/PROFIT BEFORE INCOME TAX

Loss/Profit before income tax has been arrived at after charging:

	(Unaudited) Three months ended 31 March	
	2017 RMB'000	2016 RMB'000
<b>Finance costs</b>		
Interest on bank and other borrowings, wholly repayable within five years	900	1,904
<b>Employee benefit expenses</b>		
Salaries, bonus and allowances	35,212	25,136
Retirement benefit scheme contributions	8,206	6,439
Severance payments	205	9
Share-based compensation expense	31,799	3,744
	<u>75,422</u>	<u>35,328</u>
<b>Other items</b>		
Listing-related expenses	—	5,990
Cost of software and hardware equipments recognised as an expense, including – Provision for inventory obsolescence	74,033	86,261
Depreciation of property, plant and equipment	1,182	1,823
Amortisation of intangible assets	2,768	3,503
Provision for doubtful trade and other receivables	1,000	—



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

FOR THE THREE MONTHS ENDED 31 MARCH 2017

## 6. INCOME TAX EXPENSE

	(Unaudited) Three months ended 31 March	
	2017 RMB'000	2016 RMB'000
<b>Current tax - PRC enterprise income tax</b>		
Current period	1,524	3,568
	<u>1,524</u>	<u>3,568</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(274)	(126)
	<u>(274)</u>	<u>(126)</u>
<b>Income tax expense</b>	<u>1,250</u>	<u>3,442</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 MONTHS ENDED 31 MARCH 2017



## 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 ended 31 March 2017.

## 7. DIVIDENDS

The directors do not recommend the payment of dividend for the three months ended 31 March 2017 (2016: Nil).

## 8. (LOSS)/EARNINGS PER SHARE

For the purpose of computing basic and diluted (loss)/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 (loss)/earnings per share for the three months ended 31 March 2017 and 2016.

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

FOR THE THREE MONTHS ENDED 31 MARCH 2017

### 8. (LOSS)/EARNINGS PER SHARE – *continued*

#### (a) Basic (loss)/earnings per share

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

	(Unaudited) Three months ended 31 March	
	2017 RMB'000	2016 RMB'000
(Loss)/Profit attributable to equity holders of the Company	(38,145)	66,461
Undeclared dividend of preferred shares	—	(2,644)
(Loss)/Profit used to determine basic (loss)/earnings per share	<u>(38,145)</u>	<u>63,817</u>

	(Unaudited) Three months ended 31 March	
	2017	2016
<b>Number of shares (in thousands)</b>		
Weighted average number of ordinary shares outstanding for basic (loss)/earnings per share	<u>620,000</u>	<u>240,318</u>

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

FOR THE THREE MONTHS ENDED 31 MARCH 2017



## 8. (LOSS)/EARNINGS PER SHARE – *continued*

### (b) Diluted loss per share

Diluted loss 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 31 March	
	2017 RMB'000	2016 RMB'000
<b>(Loss)/Earnings</b>		
(Loss)/Profit attributable to ordinary equity holders of the Company used to determine basic (loss)/earnings per share	(38,145)	63,817
Change in fair value on redeemable convertible preferred shares	—	(66,575)
Undeclared dividend of preferred shares	—	2,562
Loss used to determine diluted loss per share	<u>(38,145)</u>	<u>(196)</u>

	(Unaudited) Three months ended 31 March	
	2017	2016
<b>Number of shares (in thousands)</b>		
Weighted average number of ordinary shares used to determine basic (loss)/earnings per share	620,000	240,318
Effect of deemed conversion of preferred shares (after capitalization issue adjustment)	—	210,601
Effect of deemed issue of shares under the 2010 Share Option Plan	<u>2,225</u>	<u>869</u>
	<u>622,225</u>	<u>451,788</u>



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

FOR THE THREE MONTHS ENDED 31 MARCH 2017

### 8. (LOSS)/EARNINGS PER SHARE – *continued*

#### (b) Diluted loss per share – *continued*

For the three months ended 31 March 2017, the Company has only one dilutive potential ordinary shares: the 2010 Share Option Plan of the Company. For the three months ended 31 March 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 31 March 2017, the computation of diluted loss per share has assumed the conversion of the 2010 Share Option Plan of the Company.

For the three months ended 31 March 2016, the computation of diluted loss per share has assumed the conversion of non-redeemable convertible Series A-1 preferred shares, redeemable convertible Series B, Series C preferred shares and the 2010 Share Option Plan of the Company, but not on the remaining preferred shares since their conversion would result in an decrease in loss per share.