



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

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Third 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 33.7% to RMB314.0 million for the nine months ended 30 September 2017 from RMB437.6 million for the nine months ended 30 September 2016.

We recorded a loss of RMB46.2 million for the nine months ended 30 September 2017 as compared to the profit of RMB318.1 million for the nine months ended 30 September 2016.

Our adjusted net profit (as defined in the section headed “Management Discussion and Analysis - Non-IFRS Financial Measure” below) amounted to RMB11.2 million for the nine months ended 30 September 2017 as compared to an adjusted net profit of RMB63.6 million for the nine months ended 30 September 2016.

Our Directors do not recommend the payment of dividend for the nine months ended 30 September 2017 (nine months ended 30 September 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, to effectively assist and enhance digital video technology content in the upgrade and management works on the post-production segment, a critical part of the PRC TV broadcasting market. We have been at the forefront of digital video technology innovation in China. Our emphasis on developing a demand-driven and highly responsive R&D is particularly critical for us because of our focus on the solutions and services business, where the customers demand customized services. Our solutions, services and products businesses facilitate the processing, enhancement and management of digital video content at the post-production stage between the ingestion of raw content and the output of finished content.

We have established business relationship with most of the central- and provincial-level TV stations in China and with some of the provincial-level TV broadcasters in China for over 21 years. We have also served alternative broadcasting platforms, such as cable networks operators, Internet media content providers and IPTV operators. During the nine months ended 30 September 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, and Shanghai Media Group.

We have launched two new products during the nine months ended 30 September 2017, namely CDV Graphite, a HD/4K graphic creation and display system, and VSE xMotion, a 360-degree HD/4K video recording, producing and playback system, from which we have received excellent market response. These two new products have been used by a number of TV broadcasters in major sports events and well-known sports shows. For example, the CDV Graphite video and graphic display platform has been used in the 13th National Games of China and certain broadcasting work of CCTV, while VSE xMotion has been used in 2017 National Olympic Archery Championships, 2017 International Federation of Beach Volleyball U21 World Championships and 2017 Beijing Ocean Beach Carnival of Beijing Media Network.

FINANCIAL REVIEW

We recorded a total revenue of RMB314.0 million for the nine months ended 30 September 2017, representing a decrease of 33.7% from RMB473.6 million for the nine months ended 30 September 2016. We recorded a loss of RMB46.2 million for the nine months ended 30 September 2017 as compared to a profit of RMB318.1 million recorded by the Group for the nine months ended 30 September 2016. Such loss was primarily attributable to the non-cash share-based compensation expenses of RMB57.4 million related to the shares of the Company (the "Shares") granted by Mr. ZHENG Fushuang to Mr. LIU Baodong and Mr. GUO Langhua in January 2017, the share options granted under the Share Option Scheme and the share awards granted under the Share Award Scheme. The Group recorded a one-off gain of approximately RMB276.1 million arising from fair value gain on redeemable convertible preferred shares for the nine months ended 30 September 2016 and no such gain was recorded for the nine months ended 30 September 2017. In addition, we recorded a decrease of the revenue from our sales of solutions, services and products for the nine months ended 30 September 2017 than that of the nine months ended 30 September 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.

	Nine months ended 30 September			
	2017 (Unaudited)		2016 (Unaudited)	
	Amount	% of total	Amount	% of total
	(RMB in thousands, except percentages)			
Solutions	228,412	72.7	323,052	68.2
Services	49,823	15.9	75,109	15.9
Products	35,788	11.4	75,422	15.9
Total	314,023	100.0	473,583	100.0

Our revenue decreased by 33.7% to RMB314.0 million for the nine months ended 30 September 2017 from RMB473.6 million for the nine months ended 30 September 2016. Our revenue from sale of solutions decreased by 29.3% from RMB323.1 million for the nine months ended 30 September 2016 to RMB228.4 million for the nine months ended 30 September 2017 due to the absence of large value contracts for solutions recognized as revenue in the first three quarters of 2017. Our revenue from provision of services decreased by 33.7% from RMB75.1 million for the nine months ended 30 September 2016 to RMB49.8 million for the nine months ended 30 September 2017 primarily due to the revenue for services provided under a software design contract with a key customer was already recognized in the first three quarters of 2016 and no similar service contracts were entered into during the first three quarters of 2017. Our revenue from sale of products decreased by 52.6% from RMB75.4 million for the nine months ended 30 September 2016 to RMB35.8 million for the nine months ended 30 September 2017 mainly as: (i) some of our major customers delayed their upgrading projects; and (ii) we launched an internal reform to our distributions channels 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 29.1% to RMB210.6 million for the nine months ended 30 September 2017 from RMB297.2 million for the nine months ended 30 September 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 41.4% to RMB103.4 million for the nine months ended 30 September 2017 from RMB176.4 million for the nine months ended 30 September 2016, while our gross profit margin decreased to 32.9% for the nine months ended 30 September 2017 as compared to 37.3% for the nine months ended 30 September 2016. Specifically:

Gross profit for our solution business decreased by 25.5% to RMB60.0 million for the nine months ended 30 September 2017 from RMB80.6 million for the nine months ended 30 September 2016. Gross profit margin for our solution business for the nine months ended 30 September 2017 increased to 26.3% from 24.9% for the nine months ended 30 September 2016.

Gross profit for our service business decreased by 46.3% to RMB22.7 million during the nine months ended 30 September 2017 from RMB42.2 million during the nine months ended 30 September 2016. Gross profit margin for our service business decreased to 45.5% for the nine months ended 30 September 2017 from 56.2% for the nine months ended 30 September 2016, primarily due to the revenue for a software design service contract with a key customer having been recognized during the first three quarters of 2016 and no similar service contracts were entered into for the three quarters of 2017.


Gross profit for our product business decreased by 61.4% to RMB20.7 million for the nine months ended 30 September 2017 from RMB53.4 million during the nine months ended 30 September 2016. Gross profit margin for our product business decreased to 57.8% during the nine months ended 30 September 2017 from 71.1% for the nine months ended 30 September 2016. The main reason for the decrease was that the Company sold a portion of its products to intermediary companies rather than to end customers.

Other Income

Other income remained stable with a slight decrease of 0.9% to RMB25.1 million for the nine months ended 30 September 2017 from RMB25.4 million for the nine months ended 30 September 2016.

Selling and Marketing Expenses

Our selling and marketing expenses remained stable with a slight decrease of 1.9% to RMB50.6 million for the nine months ended 30 September 2017 from RMB51.6 million for nine months ended 30 September 2016.



MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Our administrative expenses decreased by 29.3% to RMB34.0 million for the nine months ended 30 September 2017 from RMB48.1 million for the nine months ended 30 September 2016 as we did not incur any listing expenses for the nine months ended 30 September 2017.

Share-Based Compensation Expense

During the nine months ended 30 September 2017, we recognized share-based compensation expense of RMB57.4 million in connection with (i) the shares awarded by Mr. ZHENG Fushuang to Mr. LIU Baodong and Mr. GUO Langhua, (ii) the share awards granted under the Share Award Scheme and (iii) the share option granted under the Share Option Scheme. Please refer to the announcements of the Company dated 4 January 2017, 20 March 2017 and 24 May 2017 and the circular of the Company dated 11 April 2017 for details. We recorded a share-based compensation expense of RMB11.4 million during the nine months ended 30 September 2016.

Research and Development Expenses

Our research and development expenses decreased by 27.1% to RMB25.2 million for the nine months ended 30 September 2017 from RMB34.6 million for the nine months ended 30 September 2016, primarily due to the expenses having been capitalised as costs of intangible assets.

Finance Costs

Our finance costs decreased by 13.2% to RMB4.3 million for the nine months ended 30 September 2017 from RMB5.0 million for the nine months ended 30 September 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 resulting from the decrease in financing activities in the nine months ended 30 September 2017.

Fair Value Gain on Redeemable Convertible Preferred Shares

We recorded approximately RMB276.1 million arising from fair value gain on redeemable convertible preferred shares for the nine months ended 30 September 2016. The Group did not record any such gain for the first three quarters 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

We did not have any share of losses of joint ventures for the nine months ended 30 September 2017 and recorded RMB3.6 million as share of losses of joint ventures for the nine months ended 30 September 2016. 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. During the nine months ended 30 September 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 before income tax amounted to RMB43.0 million for the nine months ended 30 September 2017 as compared to profit before income tax of RMB323.6 million for the nine months ended 30 September 2016.

Income Tax Expense

We recorded an income tax expense of RMB3.2 million for the nine months ended 30 September 2017 as compared to an income tax expense of RMB5.4 million for the nine months ended 30 September 2016, representing a decrease of 41.4%. The decrease was primarily due to the decrease in revenue.

Loss/Profit for the Period

As a result of the foregoing factors, our loss for the nine months ended 30 September 2017 amounted to RMB46.2 million as compared to the profit of RMB318.1 million for the nine months ended 30 September 2016. We had an adjusted net profit of RMB11.2 million for the nine months ended 30 September 2017 and an adjusted net profit of RMB63.6 million for the nine months ended 30 September 2016.

Other Comprehensive Loss

We recorded other comprehensive loss of RMB14.4 million for the nine months ended 30 September 2017 as compared to other comprehensive loss of RMB10.3 million for the nine months ended 30 September 2016, primarily due to fluctuations in foreign exchange rate.

Total Comprehensive Loss/Income for the Period

We recorded a total comprehensive loss of RMB60.6 million for the nine months ended 30 September 2017 as compared to a total comprehensive income of RMB307.9 million for the nine months ended 30 September 2016 which was a result of non-cash share-based compensation expenses and the decrease in revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit/Loss Attributable to Non-controlling Interests

Loss attributable to non-controlling interests totalled RMB2.3 million for the nine months ended 30 September 2017 as compared to loss attributable to non-controlling interests of RMB3.7 million for the nine months ended 30 September 2016. Non-controlling interests in the nine months ended 30 September 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 nine months ended 30 September 2017.

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

Save as disclosed regarding the Company's investment of RMB15 million in a private equity fund, details of which are set out in the announcement of the Company dated 28 April 2017, 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:

	Nine months ended 30 September	
	2017 RMB'000	2016 RMB'000
(Loss)/Profit for the period	(46,211)	318,137
Add:		
Share-based compensation expense	57,447	11,410
Fair value gain on redeemable convertible preferred shares	—	276,108
Listing expenses	—	10,148
Adjusted net loss/profit (unaudited)	11,236	63,587



HUMAN RESOURCES

As at 30 September 2017, we had 1,082 full-time employees and 45 dispatched workers (30 September 2016: 1,001 full-time employees and 60 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the nine months ended 30 September 2017 and 30 September 2016, the remuneration expense, excluding share-based compensation expense, were approximately RMB117.0 million and RMB96.9 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 Share Option Scheme and the Share Award Scheme. The purpose of the Pre-IPO Share Option Scheme, the Share Option Scheme and the Share Award Scheme is to attract, retain and motivate the directors, senior management and employees of the Group and other participants. For further details, please see sections headed "Pre-IPO Share Option Scheme", "Share Option Scheme" and "Share Award Scheme" of 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;
- 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.



MANAGEMENT DISCUSSION AND ANALYSIS

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. Meicam, one of our mobile application businesses, is currently at its preliminary stage which its targets are the mass-market audiences. The user base and the activity level of Meicam has gradually increased. In addition, we have expanded the user base of Meicam to enterprise users due to the market demand of enterprises on mobile video applications. We have also launched the Meicam SDK business, for which we have entered into cooperation with certain video network platforms such as IPTV and VEER VR and we have signed strategic cooperation agreements with mobile reading application provider Yidian Zixun and Phoenix New Media. We expected sustainable and impressive returns due to our rapid business developments.

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 2017 (nine months ended 30 September 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 30 September 2017.

EVENT AFTER THE REPORTING PERIOD


There is no significant event since 30 September 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 30 September 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 ¹	214,278,278	33.90%
Mr. Guo Langhua	Beneficial owner ²	34,842,106	5.51%
Mr. Liu Baodong	Beneficial owner ³	31,237,338	4.94%
Mr. Xu Da	Beneficial owner ⁵	6,200,000	0.98%
Mr. Zhang Yaqin	Beneficial owner ⁴	750,596	0.12%
Mr. Frank Christiaens	Beneficial owner ⁴	750,596	0.12%
Ms. Cao Qian	Beneficial owner ⁵	300,000	0.05%



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, 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 18,921,053 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 17,118,669 underlying shares upon fully exercise of such options.
4. Among the 750,596 shares, 450,594 shares are interests in options granted pursuant to the Pre-IPO Share Option Scheme and 300,000 shares are interests in options granted pursuant to the Share Option Scheme.
5. Interests in options granted pursuant to the Share Option Scheme.

Save as disclosed above, as at 30 September 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 30 September 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 ¹	214,278,278	33.90%
HSBC International Trustee Limited	Trust and interest of controlled corporation ²	214,278,278	33.90%
ZFS Holdings	Interest of controlled corporation ²	214,278,278	33.90%
Wing Success Holdings Limited	Legal owner and beneficial owner ²	214,278,278	33.90%
Eagle Eyes Investment Limited	Interest of controlled corporation ³	98,098,000	15.52%
New Horizon Capital III, L.P.	Interest of controlled corporation ³	98,098,000	15.52%
New Horizon Capital Partners III, Limited	Interest of controlled corporation ³	98,098,000	15.52%
Carvillo Success Limited	Legal owner and beneficial owner	98,098,000	15.52%

Notes:

- 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.
- 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.
- New Horizon Capital Partners III Ltd is the controlling shareholder of New Horizon Capital III, L.P., who in turn is a controlling shareholder of Eagle Eyes Investment Limited, which holds 80% interest in Carvillo Success Limited. Therefore, New Horizon Capital Partners III Ltd, New Horizon Capital III, L.P. and Eagle Eyes Investment Limited are deemed to be interested in the Shares held by Carvillo Success Limited.

Save as disclosed above, as at 30 September 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 to 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 30 September 2017, 615,814 share options were lapsed and cancelled. As at 30 September 2017, there were a total of 76,406,033 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of our Shareholders to 11% as at 30 September 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 Shares represented by options at 1 January 2017	Exercised during the period	Cancelled during the period	Number of unvested option	Number of vested options	Number of Shares represented by options at 30 September 2017	Approximate Percentage of issued share capital 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	2.52%
Liu Baodong	01/01/2011	01/01/2015-31/12/2021	1.16	14,118,669	–	–	–	14,118,669	14,118,669	2.23%
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	01/10/2015	01/10/2016-31/12/2021	0.00001	4,310,700	–	–	–	4,310,700	4,310,700	0.68%
David Cui ¹	01/10/2015	01/10/2016-31/12/2021	0.00001	4,505,958	–	–	2,703,575 ¹	–	4,505,958	0.71%
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	36,212,884	–	615,814	–	35,597,070	35,597,070	5.63%
Total				77,021,847	–	615,814	2,703,575	73,822,617	76,406,033	12.09%

Note:

- Mr. David Cui resigned the role of chief financial officer 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. As at the date of this report, 3,154,170 shares were vested and 1,351,789 shares will be vested on 1 October 2018.

SHARE OPTION SCHEME

On 18 May 2017, the Company adopted the Share Option Scheme which is subject to the provisions under Chapter 23 of the GEM Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and other participants, and to provide a means of compensation through the grant of options for their contribution to the growth and profits of the Group, and to allow them to participate in the future growth and profitability of the Group. The participants of the Share Option Scheme are any executive, non-executive or independent non-executive Directors or any employees (whether full-time or part-time) of our Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to our Group. The basis of eligibility of any of the class of the participants to the grant of any options under the Share Option Scheme shall be determined by the Board from time to time on the basis of their contribution to the development and growth of our Group and any invested entity.

The Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Company (and to which the provisions of the GEM Listing Rules are applicable) shall not exceed 10% of the aggregate of the Shares of the Company in issue on the Listing Date, being a total of 62,000,000 Shares, which also represents 9.81% of the issued share capital of the Company as at the date of this report.

The total number of Shares issued and to be issued upon exercise of the options granted to each eligible participant under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue. Any further grant of options to an eligible participant under the Share Option Scheme which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant exceeding the abovesaid limit shall be subject to our Shareholders' approval in general meeting with such participant and his associates (as defined under the GEM Listing Rules) abstaining from voting.

The amount of HK\$1.00 is payable as consideration for each grant of options under the Share Option Scheme, upon acceptance of such grant. The subscription price in respect of Shares upon exercise of options under the Share Option Scheme shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the subscription price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day, (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) business days immediately preceding the date of grant, and (c) the nominal value of a Share.

An option granted under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each grantee as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme.

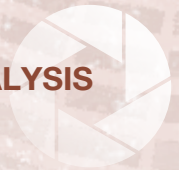
MANAGEMENT DISCUSSION AND ANALYSIS

The following details the options granted (the “Granted Options”) pursuant to the Share Option Scheme but not yet exercised as at 30 September 2017. No options were exercised during the nine months ended 30 September 2017. 30,000 options lapsed during the nine months ended 30 September 2017.

Grantee	Date of grant	Closing Price per Share immediately prior to the date of grant	Exercise Price per Share	Exercisable Period	Number of share options outstanding as at 1 January 2017 (note 1)	Number of options granted during the nine months ended 30 September 2017	Number of options lapsed during the nine months ended 30 September 2017	Number of options outstanding as at 30 September 2017	Approximate percentage of shareholding upon fully exercise of share options
Executive Directors									
Guo Langhua	24 May 2017	HK\$1.31	HK\$1.33	24/05/2017 - 17/05/2027 (Note 2)	–	3,000,000	–	3,000,000	0.47%
Liu Baodong	24 May 2017	HK\$1.31	HK\$1.33	24/05/2017 - 17/05/2027 (Note 2)	–	3,000,000	–	3,000,000	0.47%
Xu Da	24 May 2017	HK\$1.31	HK\$1.33	24/05/2017 - 17/05/2027 (Note 2)	–	6,200,000	–	6,200,000	0.98%
Independent non-executive Directors									
Frank CHRISTIAENS	24 May 2017	HK\$1.31	HK\$1.33	24/05/2017 - 17/05/2027	–	300,000	–	300,000	0.05%
ZHANG Yaqin	24 May 2017	HK\$1.31	HK\$1.33	24/05/2017 - 17/05/2027	–	300,000	–	300,000	0.05%
CAO Qian	24 May 2017	HK\$1.31	HK\$1.33	24/05/2017 - 17/05/2027	–	300,000	–	300,000	0.05%
Other employees and consultants of the Group	24 May 2017	HK\$1.31	HK\$1.33	24/05/2017 - 17/05/2027	–	48,900,000	30,000	48,870,000	7.73%

Notes:

- The options were granted on 24 May 2017. For full details of the Share Option Scheme, please refer to the circular of the Company dated 11 April 2017 regarding, among others, the adoption of share option scheme.
- The option under the Share Option Scheme were vested as follows:
 - On the date of grant: 40% vested;
 - On the first anniversary of the date of grant: 30% vested
 - On the first anniversary of the date of grant: 30% vested



SHARE AWARD SCHEME

On 20 March 2017, the Company adopted the Share Award Scheme to recognize and reward the contribution of certain selected participants to the growth and development of the Group. The Share Award Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 23 of the GEM Listing Rules. The shares under the Share Award Scheme will be acquired by a trustee by way of subscription of new shares (whether pursuant to general mandate or specific mandate granted by the shareholders or otherwise) and/or purchase of shares from the market out of cash contributed by the Group and be held on trust for the participants until such awarded shares are vested in the relevant selected participants in accordance with the provisions of the Share Award Scheme. The administrator of the Share Award Scheme, may from time to time, at their absolute discretion, select any participant for participation in the Share Award Scheme as a selected participant.

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


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

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

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

On 30 August 2017, 12,000,000 awarded shares were issued by the Company to the Trustee under the Share Award Scheme. The 12,000,000 awarded shares shall vest in the grantees subject to the vesting scale under the grant letter.

Save as disclosed, during the nine months ended 30 September 2017, the Company neither issued new shares nor arranged any funds to be paid to the Trustee for purchasing of shares of the Company from the market.



MANAGEMENT DISCUSSION AND ANALYSIS

COMPETING BUSINESSES

For the nine months ended 30 September 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 nine months ended 30 September 2017 and is of the opinion that (i) the unaudited financial statements of the Group for the nine months ended 30 September 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 reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. The Board currently comprises four executive Directors and three independent non-executive Directors. The Directors have no financial, business, family or other material/relevant relationships with one another.

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

Hong Kong, 9 November 2017

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

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

	Notes	(Unaudited)		(Unaudited)	
		Three months ended 30 September		Nine months ended 30 September	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	3	100,644	161,738	314,023	473,583
Cost of sales		(72,324)	(99,137)	(210,636)	(297,175)
Gross profit		28,320	62,601	103,387	176,408
Other income	4	9,137	9,953	25,137	25,371
Selling and marketing expenses		(16,888)	(15,997)	(50,582)	(51,584)
Administrative expenses		(12,553)	(15,429)	(33,995)	(48,109)
Share-based compensation expense		(5,627)	(3,824)	(57,447)	(11,410)
Research and development expenses		(5,316)	(11,636)	(25,206)	(34,589)
Finance costs	5	(1,996)	(1,906)	(4,317)	(4,975)
Fair value gain on redeemable convertible preferred shares		—	—	—	276,108
Share of losses of joint ventures		—	—	—	(3,647)
Profit/(Loss) before income tax	5	(4,923)	23,762	(43,023)	323,573
Income tax expense	6	(30)	(3,663)	(3,188)	(5,436)
(Loss)/Profit for the period		(4,953)	20,099	(46,211)	318,137
Other comprehensive income/(loss)					
Items that may be subsequently reclassified to profit or loss:					
Exchange difference arising on the translation of foreign operation		(6,567)	667	(14,365)	(10,261)
Total comprehensive income/(loss) for the period		(11,520)	20,766	(60,576)	307,876

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

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
(Loss)/Profit for the period attributable to:					
Equity holders of the Company		(4,810)	21,484	(43,903)	321,815
Non-controlling interests		(143)	(1,385)	(2,308)	(3,678)
		<u>(4,953)</u>	<u>20,099</u>	<u>(46,211)</u>	<u>318,137</u>
Total comprehensive income/(loss) for the period attributable to:					
Equity holders of the Company		(11,377)	22,151	(58,268)	311,554
Non-controlling interests		(143)	(1,385)	(2,308)	(3,678)
		<u>(11,520)</u>	<u>20,766</u>	<u>(60,576)</u>	<u>307,876</u>
(Loss)/earnings per share for profit attributable to ordinary equity holders of the Company (expressed in RMB cents per share)					
	8				
Basic		<u>(0.77)</u>	<u>3.47</u>	<u>(7.07)</u>	<u>84.8</u>
Diluted		<u>(0.77)</u>	<u>3.47</u>	<u>(7.07)</u>	<u>8.65</u>

The notes on pages 21 to 31 are an integral part of this Report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

Equity attributable to equity holders of the Company											
	Share capital – Non- redeemable capital – Ordinary Shares RMB'000 (Unaudited)	Share redeemable capital – convertible preferred shares RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Statutory reserve RMB'000 (Unaudited)	Translation reserve RMB'000 (Unaudited)	Share option reserve RMB'000 (Unaudited)	other reserve RMB'000 (Unaudited)	(Accumulated losses)/ Retained earnings RMB'000 (Unaudited)	Sub-total RMB'000 (Unaudited)	Non- controlling interests RMB'000 (Unaudited)	(Capital deficiency)/ Total equity RMB'000 (Unaudited)
Balance at 1 January 2017	42	–	588,902	28,982	2,477	34,527	–	139,223	794,153	(9,399)	784,754
Comprehensive loss for the period											
Loss for the period	–	–	–	–	–	–	–	(43,903)	(43,903)	(2,308)	(46,211)
Other comprehensive loss for the period	–	–	–	–	(14,365)	–	–	–	(14,365)	–	(14,365)
Total comprehensive loss for the period	–	–	–	–	(14,365)	–	–	(43,903)	(58,268)	(2,308)	(60,576)
Transactions with owners											
Share-based compensation	–	–	–	–	–	17,790	39,656	–	57,447	–	57,447
Lapse of share option	–	–	–	–	–	(286)	–	286	–	–	(128)
Appropriation to Statutory reserve	–	–	–	3,504	–	–	–	(3,504)	–	–	–
Capital contribution from a non- controlling shareholder	–	–	–	–	–	–	–	–	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–
Total transactions with owners	–	–	–	3,504	–	17,504	39,656	(3,218)	57,447	–	57,447
Balance at 30 September 2017	42	–	588,902	32,486	(11,888)	52,037	39,656	92,102	793,331	(11,707)	781,624

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017



Equity attributable to equity holders of the Company

	Share capital – Non- redeemable	Share capital – convertible	Share premium	Statutory reserve	Translation reserve	Share option reserve	(Accumulated losses)/ Retained earnings	Sub-total	Non- controlling interests	(Capital deficiency)/ Total equity
	Ordinary Shares	preferred shares								
	RMB'000	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)	(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	–	–	–	–	–	–	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



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

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 nine months ended 30 September 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 9 November 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 accountant’s report for the year ended 31 December 2016 included except for the adoption of a number of amendments to International Financial Reporting Standards (“IFRSs”) that have become 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 Group’s financial statements 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 NINE MONTHS ENDED 30 SEPTEMBER 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 30 September		(Unaudited) Nine months ended 30 September	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Solutions	67,554	101,901	228,412	323,052
Services	17,552	29,934	49,823	75,109
Products	15,537	29,903	35,788	75,422
	<u>100,644</u>	<u>161,738</u>	<u>314,023</u>	<u>473,583</u>

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

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

4. OTHER INCOME

	(Unaudited)		(Unaudited)	
	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Other revenue				
Interest income	5,604	1,589	8,574	2,451
Reversal of provision for doubtful debt	1,521	788	4,428	1,760
Value-added tax ("VAT") refunds (note a)	954	7,062	10,053	16,543
	<u>8,079</u>	<u>9,439</u>	<u>23,055</u>	<u>20,754</u>
Other net income/gain				
Subsidy income from government (note b)	698	514	1,722	4,579
Sundry income	360	0	360	38
	<u>1,058</u>	<u>514</u>	<u>2,082</u>	<u>4,617</u>
	<u><u>9,137</u></u>	<u><u>9,953</u></u>	<u><u>25,137</u></u>	<u><u>25,371</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 NINE MONTHS ENDED 30 SEPTEMBER 2017



5. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at after charging:

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Finance costs				
Interest on bank and other borrowings, wholly repayable within five years	2,935	3,730	5,265	4,895
Employee benefit expenses				
Salaries, bonus and allowances	28,165	27,126	77,245	77,745
Retirement benefit scheme contributions	5,063	7,212	18,597	19,110
Severance payments	270	44	548	62
Share-based compensation expense	5,627	3,824	52,447	11,410
	<u>39,125</u>	<u>38,206</u>	<u>148,837</u>	<u>108,327</u>
Other items				
Listing-related expenses	—	210	—	10,148
Cost of software and hardware equipments recognised as an expense, including	66,993	81,555	168,836	233,442
– Provision for inventory obsolescence	—	—	—	858
Depreciation of property, plant and equipment	2,429	1,541	4,689	6,049
Amortisation of intangible assets	499	3,288	8,457	10,042
Provision for doubtful trade and other receivables	2,312	4,274	7,190	10,112

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

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

6. INCOME TAX EXPENSE

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Current tax				
– PRC enterprise income tax				
Current period	30	4,253	3,281	9,076
Over-provision in respect of prior year	–	–	–	(5,802)
	<u>30</u>	<u>4,253</u>	<u>3,281</u>	<u>3,274</u>
Deferred tax				
Prior year temporary differences	–	(590)	(593)	(613)
Effect on deferred tax balances resulting from changes in tax rates	–	–	–	2,775
	<u>–</u>	<u>(590)</u>	<u>(593)</u>	<u>2,162</u>
Income tax expense	<u>30</u>	<u>3,663</u>	<u>3,188</u>	<u>5,436</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 NINE MONTHS ENDED 30 SEPTEMBER 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 2016. 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 2016 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 2017.

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 2016 and 2017.

7. DIVIDENDS

The directors do not recommend the payment of dividend for the nine months ended 30 September 2017 (2016: Nil).

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

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

8. (LOSS)/EARNINGS PER SHARE

(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 30 September		(Unaudited) Nine months ended 30 September	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
(Loss)/Earnings				
(Loss)/Profit attributable to equity holders of the Company	(4,810)	21,484	(43,903)	321,815
Undeclared dividend of preferred shares	—	—	—	(5,208)
(Loss)/Profit used to determine basic (loss)/earnings per share	<u>(4,810)</u>	<u>21,484</u>	<u>(43,903)</u>	<u>316,607</u>

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2017	2016	2017	2016
Number of shares(in thousands)				
Weighted average number of ordinary shares outstanding for basic (loss)/earnings per share	<u>624,000</u>	<u>620,000</u>	<u>621,333</u>	<u>373,345</u>

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

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017



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

(b) Diluted (loss)/earnings per share

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

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
(Loss)/Earnings				
(Loss)/Profit attributable to ordinary equity holders of the Company used to determine basic (loss)/earnings per share	(4,810)	21,484	(43,903)	316,607
Change in fair value on redeemable convertible preferred shares	—	—	—	(276,886)
Undeclared dividend of preferred shares	—	—	—	5,208
(Loss)/Profit used to determine diluted (loss)/earnings per share	<u>(4,810)</u>	<u>21,484</u>	<u>(43,903)</u>	<u>44,929</u>

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2017	2016	2017	2016
Number of shares (in thousands)				
Weighted average number of ordinary shares used to determine basic (loss)/earnings per share	624,000	620,000	621,333	373,345
Effect of deemed conversion of preferred shares (after capitalization issue adjustment)	—	—	—	145,962
	<u>624,000</u>	<u>620,000</u>	<u>621,333</u>	<u>519,307</u>



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

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017

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

(b) Diluted (loss)/earnings per share – *continued*

For the three months and nine months ended 30 September 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 nine months ended 30 September 2016, the computation of diluted earnings per share has assumed the conversion of nonredeemable convertible Series A-1 preferred shares, redeemable convertible Series A, Series A-1, Series B and Series C preferred shares. 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. For the three months ended 30 September 2016, the diluted earnings per share was the same as the basic earnings per share as the potential ordinary shares were anti-dilutive.

For the three months and nine months ended 30 September 2017, the Company has three categories of potential dilutive ordinary shares: the 2010 Share Option Plan and the 2017 Share Option. The diluted loss per share for the three months and nine months ended 30 September 2017 was the same as the basic loss per share as the potential ordinary shares were anti-dilutive.