



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
2018



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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 GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this 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.

FINANCIAL HIGHLIGHTS

Our revenue decreased by 31.7% to RMB214.4 million for the nine months ended 30 September 2018 from RMB314.0 million for the nine months ended 30 September 2017.

We recorded a loss of RMB42.1 million for the nine months ended 30 September 2018 as compared to the loss of RMB46.2 million for the nine months ended 30 September 2017.

Our Directors do not recommend the payment of dividend for the nine months ended 30 September 2018 (nine months ended 30 September 2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

We have established business relationship with most of the central- and provincial-level TV stations in China and with some of the provincial-level TV broadcasters in China for over 22 years. We have also served alternative broadcasting platforms, such as cable networks operators, Internet media content providers and IPTV operators. During the nine months ended 30 September 2018, we continued to serve a large number of central-, provincial- and municipal-level TV broadcasters and operators in China, including CCTV, the largest broadcaster in China, and Shanghai Media Group Co., Ltd. (上海文化廣播影視集團有限公司).

Two of our products, namely the Dunhuang visual effects comprising system DX3.0 (敦煌視覺效果合成系統DX3.0) (the “**Dunhuang System**”) and Yuntu omnimedia convergence data presentation media (雲圖融合媒體數據呈現系統) (the “**Omnimedia Convergence System**”), earned the award of Product Innovation Excellence Award (2018 CCBN 產品創新傑出獎) in the 26th China Content Broadcasting Network Exhibition - CCBN2018 during the nine months ended 30 September 2018. The Omnimedia Convergence System helps our customers to transform news sourcing production system based on traditional platforms into a platform that is capable of sourcing news contents using both traditional and new mobile-based platforms. After the implementation of the Omnimedia Convergence System, our customers will be able to produce media contents that better satisfy the need of the audience for the latest news from the widest variety of sources. The Dunhuang System has a more comprehensive and advanced set of functions targeting more sophisticated, high-ended customers.

FINANCIAL REVIEW

We recorded a total revenue of RMB214.4 million for the nine months ended 30 September 2018, representing a decrease of 31.7% from RMB314.0 million for the nine months ended 30 September 2017. We recorded a loss of RMB42.1 million for the nine months ended 30 September 2018 as compared to a loss of RMB46.2 million for the nine months ended 30 September 2017. Such loss was mainly attributable to the overall declining market condition as the traditional TV broadcasting industry faces intense competition from the internet.

The loss we recorded for the nine months ended 30 September 2018 was lower than same period in 2017 as (i) we recorded a share-based compensation expense of RMB57.4 million for the nine months ended 30 September 2017 (for the nine months ended 30 September 2018: RMB9.3 million) and (ii) the research and development expenses for the nine months ended 30 September 2018 was lower than the same period in 2017, we incurred RMB11.8 million as research and development expenses for the nine months ended 30 September 2018 (for the nine months ended 30 September 2017: RMB25.2 million).

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS ON CONDENSED CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER 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 the breakdown of our revenue for the periods indicated.

	Nine months ended 30 September			
	2018 (Unaudited)		2017 (Unaudited)	
	Amount	% of total	Amount	% of total
	(RMB in thousands, except percentages)			
Solutions	129,481	60.4	228,412	72.7
Services	39,685	18.5	49,823	15.9
Products	45,190	21.1	35,788	11.4
Total	214,356	100.0	314,023	100.0

Our revenue decreased by 31.7% to RMB214.4 million for the nine months ended 30 September 2018 from RMB314.0 million for the nine months ended 30 September 2017. The decrease of revenue was mainly due to the overall declining market condition as the traditional TV broadcasting industry faces intense competition from the internet.

Cost of Sales

Our cost of sales decreased by 22.7% to RMB162.7 million for the nine months ended 30 September 2018 from RMB210.6 million for the nine months ended 30 September 2017 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 50.0% to RMB51.7 million for the nine months ended 30 September 2018 from RMB103.4 million for the nine months ended 30 September 2017. Our gross profit margin decreased to 24.1% for the nine months ended 30 September 2018 from 32.9% for the nine months ended 30 September 2017. Such decrease was primarily because the fixed cost of our cost of sales remained relatively stable while our revenue decreased.

Other Income

Other income decreased by 21.1% to RMB19.8 million for the nine months ended 30 September 2018 from RMB25.1 million for the nine months ended 30 September 2017. Such decrease was mainly due to the decrease in value-added tax refunds received in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 7.9% to RMB46.6 million for the nine months ended 30 September 2018 from RMB50.6 million for nine months ended 30 September 2017. Such decrease was mainly due to the decrease in staff cost.

Administrative Expenses

Our administrative expenses increased by 13.7% to RMB38.7 million for the nine months ended 30 September 2018 from RMB34.0 million for the nine months ended 30 September 2017. Such increase was mainly due to increase of 4 million in the provision for impairment loss on trade and other receivables.

Share-Based Compensation Expense

We recorded a share-based compensation expense of RMB9.3 million during the nine months ended 30 September 2018 and RMB57.4 million for the nine months ended 30 September 2017. The higher share-based compensation expense recorded for the nine months ended 30 September 2017 was mainly due to the expenses related to (i) the shares awarded to our then Directors, (ii) the share awards granted under the share award scheme of the Company adopted in 2017 and (iii) the share options granted under the share option scheme of the Company adopted in 2017 during the nine months ended 30 September 2017.

Research and Development Expenses

Our research and development expenses decreased by 53.2% to RMB11.8 million for the nine months ended 30 September 2018 from RMB25.2 million for the nine months ended 30 September 2017, primarily due to the capitalization of our research and development expenses as costs of intangible assets and the decrease in staff costs.

Finance Costs

Our finance costs increased by 107.2% to RMB8.9 million for the nine months ended 30 September 2018 from RMB4.3 million for the nine months ended 30 September 2017, primarily due to the increase in interest expenses as the Group was granted new short-term loans during the nine months ended 30 September 2018.

Share of Loss of Joint Ventures

Our share of loss of joint ventures for the nine months ended 30 September 2018 was RMB0.5 million as compared to nil for the same period in 2017. Our share of profit of joint ventures for the nine months ended 30 September 2018 was due to loss from Beijing Meicam Network Technology Co., Ltd (北京美攝網絡科技有限公司) (“**Beijing Meicam**”).

Loss before Income Tax

As a result of the foregoing factors, our loss before income tax amounted to RMB43.3 million for the nine months ended 30 September 2018 as compared to the loss before income tax of RMB43.0 million for the nine months ended 30 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax Credit/(Expense)

We recorded income tax credit of RMB1.3 million for the nine months ended 30 September 2018 due to the decrease in profit for the nine months ended 30 September 2018, as compared to income tax expense of RMB3.2 million for the nine months ended 30 September 2017.

Loss for the Period

As a result of the foregoing factors, our loss for the nine months ended 30 September 2018 amounted to RMB42.1 million as compared to the loss of RMB46.2 million for the nine months ended 30 September 2017.

Other Comprehensive Income/(Loss)

We recorded other comprehensive income of RMB18.5 million for the nine months ended 30 September 2018 as compared to other comprehensive loss of RMB14.4 million for the nine months ended 30 September 2017, primarily due to fluctuations in foreign exchange rate.

Total Comprehensive Loss for the Period

We recorded a total comprehensive loss of RMB23.6 million for the nine months ended 30 September 2018 as compared to RMB60.6 million for the nine months ended 30 September 2017. The decrease was primarily attributable to (i) the absence of the one-off share-based compensation expense of RMB31.8 million in connection with the shares of the Company granted to Mr. Zheng Fushuang, the ultimate controlling shareholder of the Company, and two of our executive Directors at the time and (ii) the decrease of the research and development expense. In particular, we incurred RMB11.8 million as research and development expense for the nine months ended 30 September 2018 while the research and development expense for the same period of 2017 was RMB25.2 million.

Loss Attributable to Non-controlling Interests

We did not record any loss attributable to non-controlling interests for the nine months ended 30 September 2018 as compared to loss attributable to non-controlling interests of RMB2.3 million for the nine months ended 30 September 2017. 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 2018.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 30 September 2018, we had 820 full-time employees and 44 dispatched workers (30 September 2017: 1,082 full-time employees and 45 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the nine months ended 30 September 2018 and 30 September 2017, the remuneration expense, excluding share-based compensation expense, were approximately RMB112.0 million and RMB117.0 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 our 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 customers;
- 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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. We intend to apply our key technologies to the platforms of telecom operators by strengthening the cooperation with telecom operators. In particular, we will seek cooperation with the first-tier telecom operator such as China Mobile and China Unicom.

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 position. 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 2018 (nine months ended 30 September 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

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

During the nine months ended 30 September 2018, the Company repurchased a total of 1,136,000 ordinary shares of the Company (the “Shares”) on the Stock Exchange. As at 13 April 2018, all of such repurchased shares were cancelled. The details of the repurchases are as follows:

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

* Excluding brokerage and cancellation fee

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

Saved as disclosed herein, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the nine months ended 30 September 2018.

EVENT AFTER THE REPORTING PERIOD

There is no significant event since 30 September 2018 and up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 September 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, were as follows:

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

Name of Director	Capacity	Number of shares or underlying shares	Approximate percentage of interest in the Company
Mr. Zheng Fushuang	Founder of a discretionary trust ¹	214,278,278	33.99%
Mr. Liu Baodong	Beneficial owner ²	31,237,338	4.96%
Mr. Xu Da	Beneficial owner ³	6,200,000	0.98%
Mr. Frank Christiaens	Beneficial owner ⁴	750,596	0.12%
Ms. Cao Qian	Beneficial owner ³	300,000	0.05%

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 Limited, 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.
- 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.
- Interests in options granted pursuant to the Share Option Scheme.
- Among the 750,596 shares, 450,596 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, as at 30 September 2018, 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 2018, 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	33.99%
HSBC International Trustee Limited	Trust and interest of controlled corporation ²	214,278,278	33.99%
ZFS Holdings Limited	Interest of controlled corporation ²	214,278,278	33.99%
Wing Success Holdings Limited	Legal owner and beneficial owner ²	214,278,278	33.99%
Eagle Eyes Investment Limited	Interest of controlled corporation ³	98,098,000	15.56%
New Horizon Capital IV, L.P.	Interest of controlled corporation ³	98,098,000	15.56%
New Horizon Capital Partners III, L.P.	Interest of controlled corporation ³	98,098,000	15.56%
Carvillo Success Limited	Legal owner and beneficial owner ³	98,098,000	15.56%

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 Limited, 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 to be interested in the Shares held by Wing Success Holdings Limited under the SFO.
3. New Horizon Capital Partners III Ltd is the controlling shareholder of New Horizon Capital III, L.P., which 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 2018, 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 to the prospectus of the Company dated 15 June 2016. No further options were granted under the Pre-IPO Share Option Scheme during the nine months ended 30 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Outstanding Share Options

From 1 January 2018 to 30 September 2018, 120,158 share options were lapsed and cancelled. As at 30 September 2018, there were a total of 76,285,875 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of the shareholders of the Company (the “Shareholders”) to 11.0% as at 30 September 2018. Save as set out above, no other share options have been or would be granted by us during the nine months ended 30 September 2018 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 2018	Exercised during the period	Lapsed during the period	Number of unvested options	Number of vested options	Number of Shares represented by options at 30 September 2018	Approximate percentage of issued share capital of the Company
Liu Baodong	01/01/2011	01/01/2015-31/12/2021	1.16	14,118,669	–	–	–	14,118,669	14,118,669	2.24%
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%
Other employees of the Company	01/01/2011	01/01/2015-31/12/2021	1.16	52,118,918	–	120,158	–	51,998,760	51,998,760	8.25%
Other employees of the Company	01/10/2015	01/10/2016-31/12/2021	0.00001	4,505,958	–	–	–	4,505,958	4,505,958	0.71%
Total				76,406,033	–	120,158	–	74,934,088	76,285,875	12.10%

MANAGEMENT DISCUSSION AND ANALYSIS

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 the Company, or any of its subsidiaries or associated companies or any other person whom the Board considers, in its sole discretion, has contributed or will contribute to 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 18 May 2017, being a total of 62,000,000 Shares.

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 the 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 2018. No options were exercised during the nine months ended 30 September 2018. 307,300 options were lapsed during the nine months ended 30 September 2018.

Grantee	Date of grant	Number of share options outstanding as at 1 January 2018 ¹	Closing price per Share immediately prior to the date of grant	Exercise price per Share	Exercise period	Number of options granted during the nine months ended 30 September 2018	Number of options lapsed during the nine months ended 30 September 2018	Number of options outstanding as at 30 September 2018	Approximate percentage of shareholding upon full exercise of share options
Executive Directors									
Liu Baodong	24 May 2017	3,000,000	HK\$1.31	HK\$1.33	24 May 2017 to 17 May 2027 ¹	—	—	3,000,000	0.48%
Xu Da	24 May 2017	6,200,000	HK\$1.31	HK\$1.33	24 May 2017 to 17 May 2027 ¹	—	—	6,200,000	0.98%
Independent non-executive Directors									
Frank Christiaens	24 May 2017	300,000	HK\$1.31	HK\$1.33	24 May 2017 to 17 May 2027	—	—	300,000	0.05%
Cao Qian	24 May 2017	300,000	HK\$1.31	HK\$1.33	24 May 2017 to 17 May 2027	—	—	300,000	0.05%
Other employees and consultants of the Group	24 May 2017	52,170,000	HK\$1.31	HK\$1.33	24 May 2017 to 17 May 2027	—	307,300	51,862,700	8.22%

Note:

- 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 (i.e. 11 April 2018): 30% vested; and
 - On the second anniversary of the date of grant (i.e. 11 April 2019): 30% vested.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

During the nine months ended 30 September 2018, 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.

COMPETING BUSINESSES

For the nine months ended 30 September 2018, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Effective from 3 April 2018, Mr. Zheng Fushuang (“**Mr. Zheng**”) was appointed as the chief executive officer of the Company (the “**CEO**”). As Mr. Zheng now serves as both of the Chairman and the CEO, such practice deviates from code provision A.2.1 of the Corporate Governance Code as set forth in the Corporate Governance Code. The Board believes that vesting the roles of both the Chairman and the CEO in the same person can facilitate the execution of the Group’s business strategies and boost effectiveness of its operation. Therefore, the Board considers that the deviation from the code provision A.2.1 of the Corporate Governance Code is appropriate in such circumstance. In addition, under the supervision of the Board, which comprises three executive Directors and three independent non-executive Directors, the Board is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Company and its shareholders.

Save as disclosed, in the opinion the Directors, the Company has complied with all the code provisions set out in the Corporate Governance Code from 1 January 2018 up to the date of this 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 2018 to the date of this 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, TC Capital International Limited (“**TC Capital**”), save as the compliance adviser agreement entered into between the Company and TC Capital dated 18 February 2018, none of TC Capital or its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in any securities of the Company or any member of the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

AUDIT COMMITTEE AND REVIEW OF QUARTERLY RESULTS

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

The audit committee comprises three independent non-executive Directors, namely, Ms. Cao Qian, Dr. Li Wanshou 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 2018 and is of the opinion that (i) the unaudited financial statements of the Group for the nine months ended 30 September 2018 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 three executive Directors and three independent non-executive Directors. The Directors have no financial, business, family or other material/relevant relationships with one another.

With effect from 28 June 2018, Mr. Guo Langhua resigned as an executive Director, vice chairman of the Board and a member of the remuneration committee of the Company and Mr. Zhang Yaqin resigned as an independent nonexecutive Director and a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Each of Mr. Guo Langhua and Mr. Zhang Yaqin has confirmed that there is no disagreement with the Board and there is no matter in respect of his retirement as a Director that needs to be brought to the attention of the Shareholders or the Stock Exchange.

With effect from 28 June 2018, Mr. Liu Baodong was appointed as a member of the remuneration committee of the Company and Dr. Li Wanshou was appointed as an independent non-executive Director and a member of each of the remuneration committee, the audit committee and the nomination committee of the Company.

By order of the Board
China Digital Video Holdings Limited
ZHENG Fushuang
Chairman and Chief Executive Officer

Hong Kong, 8 November 2018

QUARTERLY CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

	Notes	(Unaudited)		(Unaudited)	
		Three months ended 30 September		Nine months ended 30 September	
		2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	4	52,784	100,644	214,356	314,023
Cost of sales		(44,226)	(72,324)	(162,673)	(210,636)
Gross profit		8,558	28,320	51,683	103,387
Other income	5	8,451	9,137	19,824	25,137
Selling and marketing expenses		(12,450)	(16,888)	(46,597)	(50,582)
Administrative expenses		(19,882)	(12,553)	(38,665)	(33,995)
Share-based compensation expense		(2,980)	(5,627)	(9,292)	(57,447)
Research and development expenses		(4,066)	(5,316)	(11,803)	(25,206)
Finance costs	6	(2,812)	(1,996)	(8,943)	(4,317)
Share of losses of joint ventures		447	—	447	—
Loss before income tax	6	(24,734)	(4,923)	(43,346)	(43,023)
Income tax credit/(expense)	7	460	(30)	1,254	(3,188)
Loss for the period		(24,274)	(4,953)	(42,092)	(46,211)
Other comprehensive income/(loss)					
Items that may be subsequently reclassified to profit or loss:					
Exchange difference arising on the translation of foreign operation		14,833	(6,567)	18,505	(14,365)
Total comprehensive loss for the period		(9,441)	(11,520)	(23,587)	(60,576)

QUARTERLY CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

	Note	(Unaudited)		(Unaudited)	
		Three months ended 30 September		Nine months ended 30 September	
		2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Loss for the period attributable to:					
Equity holders of the Company		(24,274)	(4,810)	(42,092)	(43,903)
Non-controlling interests		—	(143)	—	(2,308)
		<u>(24,274)</u>	<u>(4,953)</u>	<u>(42,092)</u>	<u>(46,211)</u>
Total comprehensive loss for the period attributable to:					
Equity holders of the Company		(9,441)	(11,377)	(23,587)	(58,268)
Non-controlling interests		—	(143)	—	(2,308)
		<u>(9,441)</u>	<u>(11,520)</u>	<u>(23,587)</u>	<u>(60,576)</u>
Loss per share for loss attributable to equity holders of the Company (expressed in RMB cents per share)					
	9				
Basic		<u>(3.94)</u>	<u>(0.77)</u>	<u>(6.81)</u>	<u>(7.07)</u>
Diluted		<u>(3.94)</u>	<u>(0.77)</u>	<u>(6.81)</u>	<u>(7.07)</u>

The notes on pages 23 to 30 are an integral part of this report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

	Equity attributable to equity holders of the Company										
	Share capital	Treasury shares	Share premium	Statutory reserve	Translation reserve	Share option reserve	Other reserve	Retained earnings/ (Accumulated losses)	Sub-total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at 1 January 2018	43	(1)	588,503	28,982	(12,531)	55,842	41,398	49,019	751,255	–	751,255
IFRS 9 and IFRS 15 adjustments on retained earnings	–	–	–	–	–	–	–	(11,656)	(11,656)	–	(11,656)
Balance as at 1 January 2018 (adjusted)	43	(1)	588,503	28,982	(12,531)	55,842	41,398	37,363	739,599	–	739,599
Comprehensive loss for the period											
Loss for the period	–	–	–	–	–	–	–	(42,092)	(42,092)	–	(42,092)
Other comprehensive income for the period	–	–	–	–	18,505	–	–	–	18,505	–	18,505
Total comprehensive income/(loss) for the period	–	–	–	–	18,505	–	–	(42,092)	(23,587)	–	(23,587)
Transactions with owners											
Share repurchased and cancelled	–	–	(787)	–	–	–	–	–	(787)	–	(787)
Share-based compensation	–	–	–	–	–	6,487	2,753	–	9,240	–	9,240
Transfer upon forfeiture of share options	–	–	–	–	–	(26)	–	26	–	–	–
Total transactions with owners	–	–	(787)	–	–	6,461	2,753	26	8,453	–	8,453
Balance at 30 September 2018	43	(1)	587,716	28,982	5,974	62,303	44,151	(4,703)	724,965	2,000	726,465

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 RMB'000 (Unaudited)	Treasury 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)	Retained earnings RMB'000 (Unaudited)	Sub-total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	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											
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)	—	—	—
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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

1. GENERAL INFORMATION

China Digital Video Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 8 January 2007 as an exempted company with limited liability under the Companies Law (as consolidated and revised) of the Cayman Islands. The Company’s shares were listed on the GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 27 June 2016 (the “**Listing**”).

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

2. BASIS OF PREPARATION

This unaudited condensed consolidated quarterly financial information for the nine months ended 30 September 2018 (the “**Quarterly Financial Information**”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The Quarterly Financial Information was authorised for issue by the Company’s board of directors (the “**Board**”) on 8 November 2018.

The accounting policies and methods of computation used in the preparation of the Quarterly Financial Information are consistent with those used in the annual financial statements for the year ended 31 December 2017 except for the adoption of the amendments to International Financial Reporting Standards (“**IFRSs**”) that have become effective for accounting period beginning on 1 January 2018.

The Group has applied all the new and amended to standards, which are mandatory for the financial year beginning 1 January 2018. The adoption had no material impact on how the results and financial position for the current and prior periods have been prepared and presented, except the new IFRSs as described below:

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

2. BASIS OF PREPARATION – *continued*

IFRS 9 “Financial Instruments”

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

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities’ risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The impairment of financial assets applying the ECL model and it applies to the Group’s trade and other receivables. For contract assets arising from IFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime ECL as these items do not have a significant financing components. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group’s unquoted equity investment previously classified as available-for-sale financial assets were reclassified as financial asset with fair value change through other comprehensive income. The cash flows of the investment does not solely payments of principal and interest. The Group classified the equity investment as financial asset measured at fair value and elected to present any changes in the fair value in other comprehensive income, because the investment is held as long-term strategic investment that are not expected to be sold in the short to medium term.

In current period, the Group has elected to use the cumulative effect transition method for the adoption of IFRS 9 with cumulative effect of initial application recognised in the opening balance of equity at 1 January 2018.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 and the related clarification to IFRS 15 (hereinafter referred to as “**IFRS 15**”) presents new requirements for the recognition of revenue, replacing IAS 18 “Revenue”, IAS 11 “Construction Contracts”, and several revenue-related Interpretations. IFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

Previously, the Group’s revenue arising from solution sales and provision of services are recognised over time, whereas revenue from products sales is generally recognised when the risks and rewards of ownership have passed to the customers. Under the transfer-of-control approach in IFRS 15, revenue arising from solution sales will need to be recognised at a point of time when the solution is delivered to the customers and the relevant installation services are fully performed. This results in revenue, and some associated costs, for those contracts being recognised later as the Group previously recognised the revenue from solution sales by using “percentage of completion method”.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

2. BASIS OF PREPARATION – *continued*

IFRS 15 “Revenue from Contracts with Customers” – *continued*

For contracts with multiple performance obligations including, but not limited to, goods delivery, installation and training and warranty, revenue is recognised for each of these performance obligations when control over the corresponding goods and services is transferred for the customers. Under IFRS 15, the Group evaluates the separability of the promised goods or services based on whether they are distinct.

The Group has elected to use the cumulative effect transition method for the adoption of IFRS 15 with cumulative effect of initial application recognised in the opening balance of equity at 1 January 2018.

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

The Quarterly Financial Information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2017.

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Quarterly Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Quarterly Financial Information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017, with the exception of the below changes:

Measurement of impairment loss on trade and other receivables

Credit losses are the difference between all contractual cash flows the Group is due and the cash flows that it actually expects to receive. An expected credit loss is the probability-weighted estimate of credit losses which requires the Group’s judgement. Where the actual result is different from the original estimate, such difference will impact the carrying amount of the trade and other receivables and impairment loss in the period in which such estimate has been changed.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

4. 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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Solutions	35,319	67,554	129,481	228,412
Services	8,710	17,552	39,685	49,823
Products	8,255	15,537	45,190	35,788
	<u>52,784</u>	<u>100,644</u>	<u>214,356</u>	<u>314,023</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

5. OTHER INCOME

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Other revenue				
Interest income	3,457	5,604	7,501	8,574
Reversal of provision for impairment loss on trade and other receivables	—	1,521	—	4,428
Value-added tax (“VAT”) refunds ¹	4,258	954	10,053	10,053
	<u>7,716</u>	<u>8,079</u>	<u>17,802</u>	<u>23,055</u>
Other net income/gain				
Subsidy income from government ²	645	698	1,676	1,722
Sundry income	90	360	346	360
	<u>735</u>	<u>1,058</u>	<u>2,022</u>	<u>2,082</u>
	<u>8,451</u>	<u>9,137</u>	<u>19,824</u>	<u>25,137</u>

Notes:

- The sales of software products in the PRC are subject to VAT calculated at 16%. 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 2% of the sales invoice amount paid in the month when output VAT exceeds input VAT.
- 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 COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

6. LOSS BEFORE INCOME TAX

Loss before income tax has been arrived at after charging:

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Finance costs				
Interest on bank and other borrowings, wholly repayable within five years	2,812	1,996	8,943	4,317
Employee benefit expenses				
Salaries, bonus and allowances	21,153	28,165	64,459	77,245
Retirement benefit scheme contributions	6,099	5,063	16,396	18,597
Severance payments	279	270	394	548
Share-based compensation expense	3,360	5,627	9,672	52,447
	30,891	39,125	90,921	148,837
Other items				
Cost of software and hardware equipments recognised as an expense	40,517	66,993	109,921	168,836
Depreciation of property, plant and equipment	1,340	2,429	3,975	4,689
Amortisation of intangible assets	7,554	499	16,821	8,457
Provision for impairment loss on trade and other receivables	3,920	2,312	5,867	7,190

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

7. INCOME TAX (CREDIT)/EXPENSE

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Current tax				
– PRC enterprise income tax				
Current period	—	30	—	3,281
Deferred tax				
Origination and reversal of temporary differences	(460)	—	(1,254)	(593)
Income tax (credit)/expense	(460)	30	(1,254)	3,188

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) 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. In 2017, CDV WFOE enjoyed preferential income tax rate of 15% and continues to enjoy the preferential income tax rate of 15% until year 2018.

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. In 2017, Beijing Zhengqi renewed the HNTE and continues to enjoy the preferential income tax rate of 15% for the years from 2017 to 2019.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

8. DIVIDENDS

The directors do not recommend the payment of dividend for the nine months ended 30 September 2018 (nine months ended 30 September 2017: nil).

9. LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the adjusted loss attributable to 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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Loss				
Loss used to determine basic loss per share	<u>(24,274)</u>	<u>(4,953)</u>	<u>(42,092)</u>	<u>(46,211)</u>

	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
	2018	2017	2018	2017
Number of shares (in thousands)				
Weighted average number of ordinary shares outstanding for basic loss per share	<u>616,368</u>	<u>624,000</u>	<u>618,423</u>	<u>621,333</u>

(b) Diluted loss per share

For the three months and nine months ended 30 September 2018 and 2017, the Company has three categories of potential dilutive ordinary shares: the 2010 Share Option Plan, the 2017 Share Option Scheme and the 2017 Share Award Scheme. The diluted loss per share for the three months and nine months ended 30 September 2018 and 2017 was the same as the basic loss per share as the potential ordinary shares were anti-dilutive.