




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

A large, colorful camera aperture graphic is centered on the page. The aperture is open, showing a bright white light source in the center. The blades of the aperture are in various colors: purple, blue, green, yellow, and orange. The background is a dark, gradient blue with a grid of small, colorful images that look like a film strip or a collage of various scenes, including buildings, people, and abstract patterns. The overall effect is one of looking through a lens into a bright, colorful world.

ALWAYS BE
**FORWARD
LOOKING**

FIRST QUARTERLY REPORT
2019

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 increased by 15.0% to RMB71.1 million for the three months ended 31 March 2019 from RMB61.8 million for the three months ended 31 March 2018.

We recorded a loss of RMB13.9 million for the three months ended 31 March 2019 as compared to the loss of RMB15.5 million for the three months ended 31 March 2018.

Our Directors do not recommend the payment of dividend for the three months ended 31 March 2019 (three months ended 31 March 2018: 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 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 23 years. We have also served alternative broadcasting platforms, such as cable networks operators, Internet media content providers and IPTV operators. In view of the sustained losses of the Group, while we will continue our existing principal business, we will conduct a review of our business activities for the purpose of formulating business plans and strategies for our future business development. We may explore other business opportunities and consider whether any asset disposal, asset acquisition, business rationalisation, business divestment, fund raising, restructuring of the existing business and/or business diversification will be appropriate in order to enhance our long-term growth potential.

FINANCIAL REVIEW

We recorded a revenue of RMB71.1 million for the three months ended 31 March 2019, representing an increase of 15.0% from RMB61.8 million for the three months ended 31 March 2018. We recorded a loss of RMB13.9 million for the three months ended 31 March 2019 as compared to a loss of RMB15.5 million recorded by our Group for the three months ended 31 March 2018. The decrease of loss was mainly attributable to the decrease of the selling and marketing expense and the increase of our income tax credit, which was partly offset by the increase of the administrative expense.

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.

Our revenue increased by 15.0% to RMB71.1 million for the three months ended 31 March 2019 from RMB61.8 million for the three months ended 31 March 2018. The increase of revenue was mainly attributable to the increase of sales contracts signed in the first quarter of 2019 compared to the same period in 2018.

Cost of Sales

Our cost of sales increased by 18.6% to RMB52.8 million for the three months ended 31 March 2019 from RMB44.5 million for the three months ended 31 March 2018. The increase in cost of sales was generally in line with the increase in our revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

Our gross profit represents revenue less cost of sales. Our gross profit increased by 5.7% to RMB18.3 million for the three months ended 31 March 2019 from RMB17.3 million for the three months ended 31 March 2018, primarily due to the increase in our revenue. Our gross profit margin remained relatively stable at 25.8% for the three months ended 31 March 2019 as compared to 28.0% for the three months ended 31 March 2018.

Other Income

Other income increased to RMB8.2 million for the three months ended 31 March 2019 from RMB7.1 million for the three months ended 31 March 2018, primarily due to the increase of interest income.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 37.9% to RMB12.3 million for the three months ended 31 March 2019 from RMB19.9 million for three months ended 31 March 2018, primarily due to the decrease in staffing costs.

Administrative Expenses

Our administrative expenses increased by 95.9% to RMB19.9 million for the three months ended 31 March 2019 from RMB10.1 million for the three months ended 31 March 2018, primarily due to the provision of impairment loss on trade and other receivables of RMB7.4 million.

Share-Based Compensation Expense

Our share-based compensation expense decreased by 42.0% to RMB2.1 million for the three months ended 31 March 2019 from RMB3.7 million for the three months ended 31 March 2018, primarily due to the vesting of share awards during the three months ended 31 March 2019.

Research and Development Expenses

Our research and development expenses increased by 52.1% to RMB6.3 million for the three months ended 31 March 2019 from RMB4.1 million for the three months ended 31 March 2018, primarily due to the increase in expenditure on research and development projects which have been completed but not capitalised.

Finance Costs

Our finance costs decreased slightly by 8.9% to RMB2.4 million for the three months ended 31 March 2019 from RMB2.6 million for the three months ended 31 March 2018, primarily due to the decrease in the overall interest rates on our loans.

Loss before Income Tax

As a result of the foregoing factors, our loss before income tax amounted to approximately RMB16.5 million for the three months ended 31 March 2019 as compared to the loss before income tax of RMB16.0 million for the three months ended 31 March 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax Credit

Our income tax credit increased by 450.1% to RMB2.6 million for the three months ended 31 March 2019 from RMB0.5 million for the three months ended 31 March 2018, primarily due to the deferred tax assets recognised for the three months ended 31 March 2019.

Loss for the Period

As a result of the foregoing factors, our loss for the three months ended 31 March 2019 amounted to RMB13.9 million as compared to the loss of RMB15.5 million for the three months ended 31 March 2018.

Non-controlling Interest and Loss Attributable to Equity Holder

Our non-controlling interest and loss attributable to equity holder amounted to RMB0.1 million and RMB13.8 million for the three months ended 31 March 2019, as compared to nil and RMB15.5 million for the three months ended 31 March 2018, respectively.

Other Comprehensive Loss

We recorded other comprehensive loss of RMB9.0 million for the three months ended 31 March 2019 as compared to other comprehensive loss of RMB11.5 million for the three months ended 31 March 2018, primarily due to fluctuations in foreign exchange rate.

Total Comprehensive Loss for the Period attributable to Equity Holders and Non-controlling Interests

Our total comprehensive loss for the period attributable to equity holders and non-controlling interests amounted to RMB23.0 million and RMB0.1 million for the three months ended 31 March 2019 as compared to RMB27.0 million and nil for the three months ended 31 March 2018, respectively. The decrease in loss was primarily due to the increase in revenue.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

We did not have material acquisitions and disposal of subsidiaries, associates and joint ventures during the three months ended 31 March 2019.

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 31 March 2019, we had 724 full-time employees and 46 dispatched workers (31 March 2018: 925 full-time employees and 41 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the three months ended 31 March 2019 and 31 March 2018, the remuneration expense, excluding share-based compensation expense, were approximately RMB237.2 million and RMB41.5 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. 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. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND DISTRIBUTION

The Board does not recommend the payment of dividend for the three months ended 31 March 2019 (three months ended 31 March 2018: Nil).

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

The Directors confirm that neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2019.

EVENT AFTER THE REPORTING PERIOD

There is no significant event since 31 March 2019 and up to the date of this quarterly report.

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

As at 31 March 2019, 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:

MANAGEMENT DISCUSSION AND ANALYSIS

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	33.99%
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:

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, 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. 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.
3. Interests in options granted pursuant to the Share Option Scheme.
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.

Save as disclosed above, as at 31 March 2019, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 31 March 2019, 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 III, L.P.	Interest of controlled corporation ³	98,098,000	15.56%
New Horizon Capital Partners III, Limited	Interest of controlled corporation ³	98,098,000	15.56%
Carvillo Success Limited	Legal owner and beneficial owner ³	98,098,000	15.56%

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. 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 Limited which in turn holds the entire issued share capital of Wing Success Holdings Limited. Therefore, HSBC International Trustee Limited and ZFS Holdings Limited 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, as at 31 March 2019, 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 will be granted under the Pre-IPO Share Option Scheme after the Listing.

Outstanding Share Options

From 1 January 2019 to 31 March 2019, 30,040 share options were lapsed and cancelled. As at 31 March 2019, there were a total of 76,195,756 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of our Shareholders to 12.1 % as at 31 March 2019. 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.

Grantee	Date of grant	Exercisable period	Exercise price per share (US\$)	Number of Shares represented by options as at 1 January 2019	Exercised during the period	Lapsed during the period	Number of unvested option	Number of vested options	Number of Shares represented by options as at 31 March 2019	Approximately percentage of issued share capital of the Company
Directors 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	01/10/2017-31/12/2021	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	51,938,681	–	30,040	–	51,908,641	51,908,641	8.24%
Other employees of the Company	01/10/2015	01/01/2016-31/12/2021	0.00001	4,505,958	–	–	–	4,505,958	4,505,958	0.71%
Total				<u>76,225,796</u>	<u>–</u>	<u>30,040</u>	<u>–</u>	<u>76,195,756</u>	<u>76,195,756</u>	<u>12.09%</u>

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 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 31 March 2019. No options were exercised during the three months ended 31 March 2019. 177,000 options were lapsed during the three months ended 31 March 2019.

Grantee	Date of grant	Number of share options outstanding as at 1 January 2019	Closing Price per Share immediately prior to the date of grant (HK\$)	Exercise price per share (HK\$)	Exercise Period	Number of options granted during the three months ended	Number of options exercised during the three months ended	Number of options lapsed during the three months ended	Number of options cancelled during the three months ended	Number of options outstanding as at 31 March 2019	Approximate percentage of shareholding upon fully exercise of share options
						31 March 2019	31 March 2019	31 March 2019	31 March 2019		
Executive Directors											
Liu Baodong	24 May 2017	3,000,000	1.31	1.33	24 May 2017 to 17 May 2027	–	–	–	–	3,000,000	0.48%
Xu Da	24 May 2017	6,200,000	1.31	1.33	24 May 2017 to 17 May 2027	–	–	–	–	6,200,000	0.98%
Independent non-executive Directors											
Frank Christiaens	24 May 2017	3,000,000	1.31	1.33	24 May 2017 to 17 May 2027	–	–	–	–	300,000	0.05%
Cao Qian	24 May 2017	3,000,000	1.31	1.33	24 May 2017 to 17 May 2027	–	–	–	–	300,000	0.05%
Other employees and consultants of the Group	24 May 2017	51,859,700	1.31	1.33	24 May 2017 to 17 May 2027	–	–	177,000	–	51,682,700	8.20%

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 the 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 (i.e. 24 May 2018):	30% vested
On the second anniversary of the date of grant (i.e. 24 May 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.

During the three months ended 31 March 2019, 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 three months ended 31 March 2019, 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 is comprised of four 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 2019, 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 2019 to the date of this quarterly report. No incident of non-compliance was noted by the Company during this period.

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, Dr. Li Wanshou, Mr. Frank Christiaens and Ms. Cao Qian and is chaired by Ms. Cao Qian. The audit committee has reviewed the unaudited financial statements for the three months ended 31 March 2019 and is of the opinion that (i) the unaudited financial statements of the Group for the three months ended 31 March 2019 comply with the applicable accounting standards and the GEM Listing Rules and (ii) adequate disclosures been made in such unaudited financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

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, 8 May 2019

QUARTERLY CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED 31 MARCH 2019

		(Unaudited)	
		Three months ended	
		31 March	
	Notes	2019 RMB'000	2018 RMB'000
Revenue	3	71,103	61,845
Cost of sales		(52,784)	(44,510)
Gross profit		18,319	17,335
Other income	4	8,181	7,110
Selling and marketing expenses		(12,344)	(19,888)
Administrative expenses		(19,879)	(10,147)
Share-based compensation expense		(2,146)	(3,697)
Research and development expenses		(6,295)	(4,138)
Finance costs	5	(2,390)	(2,624)
Share of profit of joint ventures		—	86
Loss before income tax	5	(16,554)	(15,963)
Income tax credit/(expense)	6	2,635	479
Loss for the period		(13,919)	(15,484)
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on the translation of foreign operation		(9,036)	(11,501)
Total comprehensive loss for the period		(22,955)	(26,985)

QUARTERLY CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED 31 MARCH 2019

		(Unaudited) Three months ended 31 March	
	Notes	2019 RMB'000	2018 RMB'000
Loss for the period attributable to:			
Equity holders of the Company		(13,796)	(15,484)
Non-controlling interests		(123)	–
		<u>(13,919)</u>	<u>(15,484)</u>
Total comprehensive loss for the period attributable to:			
Equity holders of the Company		(22,832)	(26,985)
Non-controlling interests		(123)	–
		<u>(22,955)</u>	<u>(26,985)</u>
Loss per share for profit attributable to equity holders of the Company (expressed in RMB cents per share)			
Basic	8	<u>(2.21)</u>	<u>(2.50)</u>
Diluted		<u>(2.21)</u>	<u>(2.50)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2019

	Equity attributable to equity holders of the Company										Total equity RMB'000 (Unaudited)		
	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)	Accumulated profits RMB'000 (Unaudited)	Sub-total RMB'000 (Unaudited)	Non- controlling interests RMB'000 (Unaudited)			
	Balance at 1 January 2019	43	(1)	597,479	28,982	(2,201)	64,116	34,631	(131,334)	591,715		2,015	593,730
	Comprehensive loss for the year												
Loss for the year	-	-	-	-	-	-	-	(13,916)	(13,916)	(123)	(14,039)		
Other comprehensive loss for the year	-	-	-	-	(9,036)	-	-	-	(9,036)	-	(9,036)		
Total comprehensive loss for the year	-	-	-	-	(9,036)	-	-	(13,916)	(22,952)	(123)	(23,075)		
Transactions with owners													
Share-based compensation	-	-	-	-	-	1,487	659	-	2,146	-	2,146		
Total transactions with owners	-	-	-	-	-	1,487	659	-	2,146	-	2,146		
Balance at 31 March 2019	43	(1)	597,479	28,982	(11,237)	65,603	35,290	(145,250)	570,909	1,892	572,801		

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2019

	Equity attributable to equity holders of the Company											
	Share capital	Treasury shares	Share premium	Statutory reserve	Translation reserve	Share option reserve	Other reserve	Accumulated profits	Sub-total	Non-controlling interests	Total equity	
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (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 accumulated profits	–	–	–	–	–	–	–	(11,656)	(11,656)	–	(11,656)	
Balance at 1 January 2018 (adjusted)	<u>43</u>	<u>(1)</u>	<u>588,503</u>	<u>28,982</u>	<u>(12,531)</u>	<u>55,842</u>	<u>41,398</u>	<u>37,363</u>	<u>739,599</u>	<u>–</u>	<u>739,599</u>	
Comprehensive loss for the period												
Loss for the period	–	–	–	–	–	–	–	(15,484)	(15,484)	–	(15,484)	
Other comprehensive loss for the period	–	–	–	–	(11,501)	–	–	–	(11,501)	–	(11,501)	
Total comprehensive loss for the period	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(11,501)</u>	<u>–</u>	<u>–</u>	<u>(15,484)</u>	<u>(26,985)</u>	<u>–</u>	<u>(26,985)</u>	
Transactions with owners												
Shares cancelled	–	–	(494)	–	–	–	–	–	(494)	–	(494)	
Shares repurchased and not yet cancelled	–	–	(293)	–	–	–	–	–	(293)	–	(293)	
Share-based compensation	–	–	–	–	–	2,130	1,567	–	3,697	–	3,697	
Total transactions with owners	<u>–</u>	<u>–</u>	<u>(787)</u>	<u>–</u>	<u>–</u>	<u>2,130</u>	<u>1,567</u>	<u>–</u>	<u>2,910</u>	<u>–</u>	<u>2,910</u>	
Balance at 31 March 2018	<u>43</u>	<u>(1)</u>	<u>587,716</u>	<u>28,982</u>	<u>(24,032)</u>	<u>57,972</u>	<u>42,965</u>	<u>21,879</u>	<u>715,524</u>	<u>–</u>	<u>715,524</u>	

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED 31 MARCH 2019

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 in the People’s Republic of China (the “**PRC**”).

2. BASIS OF PREPARATION

This unaudited condensed consolidated quarterly results for the three months ended 31 March 2019 (the “**Results**”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of Stock Exchange. The Results was authorised for issue by the Board on 8 May 2019.

The accounting policies and methods of computation used in the preparation of the Results are consistent with those used in the preparation of the annual report for the year ended 31 December 2018 except for the adoption of a number of amendments to International Financial Reporting Standards (“**IFRSs**”) that effective for accounting period beginning on 1 January 2019 and are relevant to the Group.

The Group has applied all the new and amended to standards, which are mandatory for the financial year beginning 1 January 2019. The adoption had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

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

The Results does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual report for the year ended 31 December 2019.

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

FOR THE THREE MONTHS ENDED 31 MARCH 2019

3. REVENUE AND SEGMENT INFORMATION

The Group's operating activities are attributable to a single reportable and operating segment focusing primarily on the research, development and sales of video-related and broadcasting equipment and software and provision of related technical services in the PRC. This operating segment has been identified on the basis of internal management reports reviewed by the chief operating decision-makers (the "CODM"), being the executive directors of the Group. The CODM mainly reviews revenue derived from sales of products, solutions and services, which are measured in accordance with the Group's accounting policies. However, other than revenue information, no operating results and other discrete financial information is available for the assessment of performance of the respective type of revenue. The CODM reviews the overall results of the Group as a whole to make decisions about resources allocation. Accordingly, no segment information is presented. An analysis of the Group's revenue is as follows:

	(Unaudited) Three months ended 31 March	
	2019 RMB'000	2018 RMB'000
Solutions	43,217	40,284
Services	16,143	15,071
Products	11,744	5,490
	71,104	61,845

4. OTHER INCOME

	(Unaudited) Three months ended 31 March	
	2019 RMB'000	2018 RMB'000
Other income		
Interest income	5,030	2,020
Reversal of provision for doubtful debt	—	76
Value-added tax ("VAT") refunds (note a)	3,051	3,562
	8,181	5,658
Other net income/gain		
Sundry income	—	1,452
	—	1,452
	—	7,110

Note:

- (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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED 31 MARCH 2019

5. LOSS BEFORE INCOME TAX

Loss before income tax has been arrived at after charging:

	(Unaudited) Three months ended 31 March	
	2019 RMB'000	2018 RMB'000
Finance costs		
Interest on bank and other borrowings, wholly repayable within five years	2,390	2,624
Employee benefit expenses		
Salaries, bonus and allowances	18,038	21,165
Retirement benefit scheme contributions	5,361	6,405
Severance payments	60	115
Share-based compensation expense	2,146	3,697
	25,605	31,382
Other items		
Cost of software and hardware equipments recognised as an expense	39,855	26,745
Depreciation of property, plant and equipment	1,268	940
Amortisation of intangible assets	4,758	2,949
Provision for impairment loss on trade and other receivables	7,436	2,024

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED 31 MARCH 2019

6. INCOME TAX (CREDIT)/EXPENSE

	(Unaudited)	
	Three months ended 31 March	
	2019 RMB'000	2018 RMB'000
Current tax - PRC enterprise income tax		
Current period	—	—
	—	—
Deferred tax		
Origination and reversal of temporary differences	(2,635)	(479)
	(2,635)	(479)
Income tax (credit)/expense	(2,635)	(479)

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% up to year 2019.

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 PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED 31 MARCH 2019

7. DIVIDENDS

The directors do not recommend the payment of dividend for the three months ended 31 March 2019 (2018: Nil).

8. LOSS PER SHARE

(a) Basic loss per share

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

	(Unaudited) Three months ended 31 March	
	2019 RMB'000	2018 RMB'000
Loss used to determine basic loss per share	13,919	(15,484)

	(Unaudited) Three months ended 31 March	
	2019	2018
Number of shares (in thousands)		
Weighted average number of ordinary shares outstanding for basic loss per share	630,332	618,619

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS

FOR THE THREE MONTHS ENDED 31 MARCH 2019

8. LOSS PER SHARE – *continued*

(b) Diluted loss per share

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

	(Unaudited) Three months ended 31 March	
	2019	2018
Number of shares (in thousands)		
Weighted average number of ordinary shares used to determine basic loss per share	630,332	618,619
Effect of deemed issue of shares under the 2010 Share Option Plan	—	—
	630,332	618,619

For the three months ended 31 March 2019 and 2018, the Company had two categories of potential dilutive ordinary shares, namely, the 2010 Share Option Plan and the 2017 Share Option Scheme. The diluted loss per share for the three months ended 31 March 2019 and 2018 was the same as the basic loss per share as the potential ordinary shares were anti-dilutive.

For the three months ended 31 March 2019, the computation of diluted loss per share was calculated based on the weighted average number of ordinary share outstanding adjusted to assume conversion or exercise of all dilutive potential ordinary shares. The diluted loss per share for the three months ended 31 March 2019 was the same as the basic loss per share as all the potential ordinary shares were anti-dilutive.

For the three months ended 31 March 2019, the computation of the diluted loss per share has assumed the conversion of the 2010 Share Option Plan of the Company.