




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  
2019

## CHARACTERISTICS OF THE 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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.

This report will remain on the website of GEM at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least seven days from the date of publication and on the website of the Company at [www.cdv.com](http://www.cdv.com).

## FINANCIAL HIGHLIGHTS

- Our revenue decreased by 8.9% to RMB195.2 million for the nine months ended 30 September 2019 from RMB214.4 million for the nine months ended 30 September 2018.
- We recorded a loss of RMB75.1 million for the nine months ended 30 September 2019 as compared to a loss of RMB42.1 million for the nine months ended 30 September 2018.
- Our Directors did not recommend the payment of dividends for the nine months ended 30 September 2019 (nine months ended 30 September 2018: nil).



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND OUTLOOK

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. 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 total revenue of RMB195.2 million for the nine months ended 30 September 2019, representing a decrease of 8.9% from RMB214.4 million for the nine months ended 30 September 2018. We recorded a loss of RMB75.1 million for the nine months ended 30 September 2019 as compared to a loss of RMB42.1 million for the nine months ended 30 September 2018. Such loss was primarily due to the decrease in revenue from the sale of solutions and products as well as the provision for bad debts.

## 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 a breakdown of our revenue for the periods indicated:

	Nine months ended 30 September			
	2019 (Unaudited)		2018 (Unaudited)	
	Amount	% of total	Amount	% of total
	(RMB in thousands,		except percentages)	
Solutions	111,031	56.9	129,481	60.4
Services	50,389	25.8	39,685	18.5
Products	33,794	17.3	45,190	21.1
<b>Total</b>	<b>195,214</b>	<b>100.0</b>	<b>214,356</b>	<b>100.0</b>

Our revenue decreased by 8.9% to RMB195.2 million for the nine months ended 30 September 2019 from RMB214.4 million for the nine months ended 30 September 2018. The decrease in revenue was mainly attributable to the deteriorating market condition as a result of competition from new media and the Internet.

#### Cost of Sales

Our cost of sales decreased by 6.8% to RMB151.6 million for the nine months ended 30 September 2019 from RMB162.7 million for the nine months ended 30 September 2018 as a result of the decrease in revenue.

#### Gross Profit and Gross Profit Margin

Our gross profit represents revenue less cost of sales. Our gross profit decreased by 15.6% to RMB43.6 million for the nine months ended 30 September 2019 from RMB51.7 million for the nine months ended 30 September 2018, and our gross profit margin decreased to 22.4% for the nine months ended 30 September 2019 from 24.1% for the nine months ended 30 September 2018. The decrease in gross profit was primarily attributable to the lower gross profit margin for projects as a result of intense competition as well as the increase in the amortization of research and development expenses.

#### Other Income

Our other income increased by 35.5% to RMB26.9 million for the nine months ended 30 September 2019 from RMB19.8 million for the nine months ended 30 September 2018 as a result of the increase in interest income.

#### Selling and Marketing Expenses

Our selling and marketing expenses decreased by 16.5% to RMB38.9 million for the nine months ended 30 September 2019 from RMB46.6 million for nine months ended 30 September 2018, primarily due to the decrease in the costs relating to sales and marketing staff.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Administrative Expenses

Our administrative expenses decreased by 8.6% to RMB30.0 million for the nine months ended 30 September 2019 from RMB32.8 million for the nine months ended 30 September 2018, primarily due to the decrease in the costs relating to administrative staff.

### Share-Based Compensation Expense

We recorded a share-based compensation expense of RMB1.8 million during the nine months ended 30 September 2019 and RMB9.3 million for the nine months ended 30 September 2018. The lower share-based compensation expense recorded for the nine months ended 30 September 2019 was mainly due to the lapse of the option period.

### Research and Development Expenses

Our research and development expenses increased by 60.8% to RMB19.0 million for the nine months ended 30 September 2019 from RMB11.8 million for the nine months ended 30 September 2018, primarily due to the increase in research and development efforts with respect to 4k and 8k ultra-high definition technology as a result of the optimization of staff structure.

### Finance Costs

Our finance costs remained relatively stable at RMB8.5 million for the nine months ended 30 September 2019 as compared to RMB8.9 million for the nine months ended 30 September 2018.

### Net Impairment Loss on Trade and Other Receivables and Contract Assets

Our net impairment loss on trade and other receivables and contract assets increased by 651.1% to RMB44.1 million for the nine months ended 30 September 2019 from RMB5.9 million for the nine months ended 30 September 2018, primarily due to the provision for bad debts as some of the trade receivables had matured.

### Loss before Income Tax

As a result of the foregoing factors, we recorded a loss before income tax of RMB75.1 million for the nine months ended 30 September 2019 as compared to a loss before income tax of RMB43.3 million for the nine months ended 30 September 2018.

### Income Tax Credit/(Expense)

We recorded no income tax expense for the nine months ended 30 September 2019 as compared to an income tax credit of RMB1.3 million for the nine months ended 30 September 2018, primarily due to losses.

### Loss for the Period

As a result of the foregoing factors, we recorded a loss of RMB75.1 million for the nine months ended 30 September 2019 as compared to a loss of RMB42.1 million for the nine months ended 30 September 2018.

### Other Comprehensive Income

We recorded other comprehensive income of RMB9.2 million for the nine months ended 30 September 2019 as compared to other comprehensive income of RMB18.5 million for the nine months ended 30 September 2018, primarily due to exchange rate conversion difference.

### Total Comprehensive Loss for the Period

We recorded a total comprehensive loss of RMB65.9 million for the nine months ended 30 September 2019 as compared to a total comprehensive loss of RMB23.6 million for the nine months ended 30 September 2018, primarily due to the decrease in revenue.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Loss Attributable to Non-controlling Interests

We had a loss attributable to non-controlling interests of RMB0.7 million for the nine months ended 30 September 2019. We did not have any income or loss attributable to non-controlling interests for the nine months ended 30 September 2018.

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

We made no material acquisition or disposal of subsidiaries, associates and joint ventures during the nine months ended 30 September 2019.

### FUTURE PLANS FOR MATERIAL INVESTMENT IN OR ACQUISITION OF CAPITAL ASSETS

During the nine months ended 30 September 2019, we did not have any plans for material investment in or acquisition of capital assets.

### HUMAN RESOURCES

As at 30 September 2019, we had 587 full-time employees and 38 dispatched workers (30 September 2018: 820 full-time employees and 44 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the nine months ended 30 September 2019 and 30 September 2018, the remuneration expense, excluding share-based compensation expense, was approximately RMB111.1 million and RMB112.0 million, respectively. In general, our employees' salaries are determined based on individual performance, qualification, position and seniority. We place a strong emphasis on recruiting skilled personnel. We typically recruit talents from universities and technical schools and conduct annual review to assess our employees' performance and determine their salary, bonus and promotion. We also place a strong emphasis on providing training to our employees in order to enhance their technical and product knowledge as well as comprehension of industry quality standards.

We have adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme"), a share option scheme (the "Share Option Scheme") and a share award scheme (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 "Pre-IPO Share Option Scheme", "Share Option Scheme" and "Share Award Scheme" in this report.

### DIVIDEND DISTRIBUTION

The Board did not recommend the payment of dividends for the nine months ended 30 September 2019 (nine months ended 30 September 2018: nil).

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2019.

### EVENT AFTER THE REPORTING PERIOD

There was no significant event since 30 September 2019 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 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) (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, 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 <sup>1</sup>	214,278,278	33.99%
Mr. Liu Baodong	Beneficial owner <sup>2</sup>	31,237,338	4.96%
Mr. Xu Da	Beneficial owner <sup>3</sup>	6,200,000	0.98%
Mr. Frank Christiaens	Beneficial owner <sup>4</sup>	750,596	0.12%
Ms. Cao Qian	Beneficial owner <sup>3</sup>	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, a controlling shareholder of the Company. Therefore, Mr. Zheng Fushuang is deemed to be interested in the shares of the Company (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, 450,596 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.

Save as disclosed above, as at 30 September 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 30 September 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 or underlying shares	Approximate percentage of interest in the Company
Mr. Zheng Fushuang	Founder of a discretionary trust <sup>1</sup>	214,278,278	33.99%
HSBC International Trustee Limited	Trust and interest of controlled corporation <sup>2</sup>	214,278,278	33.99%
ZFS Holdings Limited	Interest in controlled corporation <sup>2</sup>	214,278,278	33.99%
Wing Success Holdings Limited	Legal owner and beneficial owner	214,278,278	33.99%
Eagle Eyes Investment Limited	Interest in controlled corporation	98,098,000	15.56%
New Horizon Capital IV, L.P.	Interest in controlled corporation	98,098,000	15.56%
New Horizon Capital Partners III, L.P.	Interest in controlled corporation	98,098,000	15.56%
Carvillo Success Limited	Legal owner and beneficial owner	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.

Save as disclosed above, as at 30 September 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PRE-IPO SHARE OPTION SCHEME

The Company adopted the Pre-IPO Share Option Scheme on 20 December 2010, the principal terms and conditions of which are set out in “D. Pre-IPO Share Option Scheme” in Appendix IV to the prospectus of the Company issued on 15 June 2016. No further options was granted under the Pre-IPO Share Option Scheme during the nine months ended 30 September 2019.

### Outstanding Share Options

From 1 January 2019 to 30 September 2019, 1,051,391 pre-IPO share options lapsed. As at 30 September 2019, there were a total of 75,174,405 pre-IPO share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholding of the shareholders of the Company (the “Shareholders”) of 10.89% as at 30 September 2019. Save as set out above, no other share options had been or would be granted by us during the nine months ended 30 September 2019 pursuant to the Pre-IPO Share Option Scheme.

Grantee	Date of grant	Exercise period	Exercise price (US\$)	Number of shares represented by options as at 1 January 2019	Options exercised during the pe-riod	Options lapsed during the period	Number of unvested options	Number of vested options	Number of shares represented by options as at 30 September 2019	Approximate percentage of issued share capital of the Company
<b>Directors of the Company</b>										
Liu Baodong	01/01/2011	01/01/2015-31/12/2021	1.16	14,118,669	–	–	–	14,118,669	14,118,669	2.04%
Frank Christiaens	01/01/2011	01/01/2014-31/12/2021	1.16	450,596	–	–	–	450,596	450,596	0.07%
<b>Senior management of the Company</b>										
Sun Jichuan	01/01/2011	01/01/2015-31/12/2021	1.16	450,596	–	–	–	450,596	450,596	0.07%
Other participants	01/01/2011	01/01/2015-31/12/2021	1.16	52,389,277	–	1,051,391	–	51,337,886	51,337,886	7.44%
	01/10/2015	01/10/2016-31/12/2021	0.00001	8,816,658	–	–	–	8,816,658	8,816,658	1.28%
<b>Total</b>				<b>76,225,796</b>	<b>–</b>	<b>1,051,391</b>	<b>–</b>	<b>75,174,405</b>	<b>75,174,405</b>	<b>10.89%</b>

## 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 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 aforesaid 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 the 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 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 pursuant to the Share Option Scheme but not yet exercised as at 30 September 2019. 177,000 options lapsed during the nine months ended 30 September 2019.

Grantee	Date of grant	Number of share options outstanding as at 1 January 2019 <sup>1</sup>	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 2019	Number of options lapsed during the nine months ended 30 September 2019	Number of options outstanding as at 30 September 2019	Approximate percentage of shareholding upon fully exercise of share options
<b>Executive Directors</b>									
Liu Baodong	24 May 2017	3,000,000	HK\$1.31	HK\$1.33	24 May 2017 to 17 May 2027	—	—	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	—	—	6,200,000	0.98%
<b>Independent non-executive Directors</b>									
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%
<b>Other participants of the Share Option Scheme</b>	24 May 2017	51,859,700	HK\$1.31	HK\$1.33	24 May 2017 to 17 May 2027	—	177,000	51,682,700	8.20%
<b>Total</b>		<b>61,659,700</b>					<b>177,000</b>	<b>61,482,700</b>	<b>9.75%</b>

*Notes:*

- As at 30 September 2019, all options granted under the Share Option Scheme were 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 2019, the Company neither issued new Shares nor arranged any funds to be paid to the Trustee for purchasing of Shares from the market.

### COMPETING BUSINESSES

For the nine months ended 30 September 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 that 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.

Mr. Zheng Fushuang (“**Mr. Zheng**”) was appointed as the chief executive officer of the Company (the “**CEO**”) with effect from 3 April 2018 and is currently serving as both the chairman (the “**Chairman**”) and the CEO of the Company. Such practice deviates from code provision A.2.1 of 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 the effectiveness of its operation. The Board is comprised of three executive Directors and three independent non-executive Directors, which is appropriately structured to ensure that there is a balance of power to provide sufficient checks to protect the interests of the Company and the Shareholders. Therefore, the Board considers that the deviation from the code provision A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

Saved as disclosed above, in the opinion of the Directors, the Company had complied with all the code provisions set out in the Corporate Governance Code from 1 January 2019 and 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 with all the Directors, who confirmed their compliance with the required standard of dealings and the code of conduct regarding Directors’ securities transactions during the nine months ended 30 September 2019 and up to the date of this 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 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 2019 and is of the opinion that (i) the unaudited financial statements of the Group for the nine months ended 30 September 2019 comply with the applicable accounting standards and the GEM Listing Rules; and (ii) adequate disclosure has been made in such unaudited financial statements.

## MANAGEMENT DISCUSSION AND ANALYSIS

### COMPOSITION OF THE BOARD

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.

By order of the Board

**China Digital Video Holdings Limited**

**ZHENG Fushuang**

*Chairman and Chief Executive Officer*

Hong Kong, 8 November 2019

# QUARTERLY CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Nine months ended 30 September	
		2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
<b>Revenue</b>	4	<b>75,520</b>	52,784	<b>195,214</b>	214,356
Cost of sales		(62,289)	(44,226)	(151,572)	(162,673)
<b>Gross profit</b>		<b>13,231</b>	8,558	<b>43,642</b>	51,683
Other income	5	13,366	8,451	26,854	19,824
Selling and marketing expenses		(12,830)	(12,450)	(38,891)	(46,597)
Administrative expenses		(10,899)	(15,962)	(29,972)	(32,798)
Share-based compensation expense		—	(2,980)	(1,800)	(9,292)
Research and development expenses		(5,639)	(4,066)	(18,975)	(11,803)
Finance costs	6	(3,287)	(2,812)	(8,479)	(8,943)
Net impairment loss on trade and other receivables and contract sales	6	(26,836)	(3,920)	(44,065)	(5,867)
Share of losses of joint ventures		(323)	447	(907)	447
Share of loss of associates	6	(2,055)	—	(2,503)	—
<b>Loss before income tax</b>	6	<b>(35,272)</b>	(24,734)	<b>(75,096)</b>	(43,346)
Income tax credit/(expense)	7	—	460	—	1,254
<b>Loss for the period</b>		<b>(35,272)</b>	(24,274)	<b>(75,096)</b>	(42,092)
<b>Other comprehensive income/(loss)</b>					
Items that may be subsequently reclassified to profit or loss:					
Exchange difference arising on the translation of foreign operation		8,695	14,833	9,223	18,505
<b>Total comprehensive loss for the period</b>		<b>(26,577)</b>	(9,441)	<b>(65,873)</b>	(23,587)
<b>Loss for the period attributable to:</b>					
Equity holders of the Company		(34,758)	(24,274)	(74,355)	(42,092)
Non-controlling interests		(514)	—	(741)	—
		<b>(35,272)</b>	(24,274)	<b>(75,096)</b>	(42,092)
<b>Total comprehensive loss for the period attributable to:</b>					
Equity holders of the Company		(26,063)	(9,441)	(65,132)	(23,587)
Non-controlling interests		(514)	—	(741)	—
		<b>(26,577)</b>	(9,441)	<b>(65,873)</b>	(23,587)
<b>Loss per share for loss attributable to equity holders of the Company</b> (expressed in RMB cents per share)	9				
Basic		(5.62)	(3.94)	(12.03)	(6.81)
Diluted		(5.62)	(3.94)	(12.03)	(6.81)

The notes on pages 17 to 22 are an integral part of this report.



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

	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/ 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 2019	43	(1)	597,479	28,982	(2,201)	64,116	34,631	(131,334)	591,715	2,015	593,730
<b>Comprehensive loss for the period</b>	-	-	-	-	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	-	-	(74,356)	(74,356)	(741)	(75,097)
Other comprehensive income for the period	-	-	-	-	9,223	-	-	-	9,223	-	9,223
<b>Total comprehensive income/(loss) for the period</b>	-	-	-	-	9,223	-	-	(74,356)	(65,133)	(741)	(65,874)
<b>Transactions with owners</b>	-	-	-	-	-	-	-	-	-	-	-
Share repurchased and cancelled	-	-	443	-	-	-	-	-	443	-	443
Share-based compensation	-	-	-	-	-	1,601	183	-	1,784	-	1,784
Transfer upon forfeiture of share options	-	-	-	-	-	(34)	-	34	-	-	-
Vesting of shares of share award scheme	-	-	2,795	-	-	-	(2,795)	-	-	-	-
Capital contribution from a non-controlling shareholder	-	-	-	-	-	-	-	-	-	445	445
<b>Total transactions with owners</b>	-	-	3,238	-	-	1,567	(2,612)	34	2,227	445	2,672
Balance at 30 September 2019	43	(1)	600,717	28,982	7,022	65,683	32,019	(205,656)	528,809	1,719	530,528

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

	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)
<b>Balance at 1 January 2018</b>	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)
<b>Balance as at 1 January 2018 (adjusted)</b>	43	(1)	588,503	28,982	(12,531)	55,842	41,398	37,363	739,599	–	739,599
<b>Comprehensive loss for the period</b>											
Loss for the period	–	–	–	–	–	–	–	(42,092)	(42,092)	–	(42,092)
Other comprehensive income for the period	–	–	–	–	18,505	–	–	–	18,505	–	18,505
<b>Total comprehensive income/(loss) for the period</b>	–	–	–	–	18,505	–	–	(42,092)	(23,587)	–	(23,587)
<b>Transactions with owners</b>											
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	–	–	–
<b>Total transactions with owners</b>	–	–	(787)	–	–	6,461	2,753	26	8,453	–	8,453
<b>Balance at 30 September 2018</b>	43	(1)	587,716	28,982	5,974	62,303	44,151	(4,703)	724,965	2,000	726,465

# NOTES TO THE CONDENSED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 (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 2019 (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 2019.

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 2018 except for the adoption of a number of amendments to International Financial Reporting Standards (“**IFRSs**”) that have become effective for accounting period beginning on 1 January 2019 and are relevant to the Group.

The Group has applied all the new and amended 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 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 2018.

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

The Quarterly Financial Information was unaudited.

# NOTES TO THE CONDENSED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

## 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 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)		(Unaudited)	
	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Solutions	46,625	35,319	111,031	129,481
Services	17,143	8,710	50,389	39,685
Products	11,752	8,755	33,794	45,190
	<b>75,520</b>	<b>52,784</b>	<b>195,214</b>	<b>214,356</b>

## NOTES TO THE CONDENSED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

### 5. OTHER INCOME

	(Unaudited)		(Unaudited)	
	Three months ended 30 September		Nine months ended 30 September	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
<b>Other revenue</b>				
Interest income	7,630	3,458	13,792	7,501
Value-added tax ("VAT") refunds <sup>1</sup>	5,577	4,258	9,473	10,301
	<b>13,207</b>	<b>7,716</b>	<b>23,265</b>	<b>17,802</b>
<b>Other net income/gain</b>				
Gain on disposal of intangible assets	—	—	2,400	—
Subsidy income from government <sup>2</sup>	111	645	1,027	1,676
Sundry income	48	90	162	346
	<b>159</b>	<b>735</b>	<b>3,589</b>	<b>2,022</b>
	<b>13,366</b>	<b>8,451</b>	<b>26,854</b>	<b>19,824</b>

*Notes:*

- The sales of software products in the PRC are subject to VAT calculated at 13% or 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.
- 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 CONDENSED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

## 6. LOSS BEFORE INCOME TAX

Loss before income tax has been arrived at after charging:

	(Unaudited)		(Unaudited)	
	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Finance costs</b>				
Interest on bank and other borrowings, wholly repayable within five years	<b>3,287</b>	2,812	<b>8,479</b>	8,943
<b>Employee benefit expenses</b>				
Salaries, bonus and allowances	<b>19,364</b>	21,153	<b>66,695</b>	64,459
Retirement benefit scheme contributions	<b>1,091</b>	6,099	<b>11,877</b>	16,396
Severance payments	<b>374</b>	279	<b>538</b>	394
Share-based compensation expense	<b>—</b>	3,360	<b>1,800</b>	9,672
	<b>20,829</b>	30,891	<b>80,910</b>	90,921
<b>Other items</b>				
Cost of software and hardware equipment recognised as an expense	<b>34,955</b>	40,517	<b>88,178</b>	109,921
Depreciation of property, plant and equipment	<b>293</b>	1,340	<b>3,120</b>	3,975
Amortisation of intangible assets	<b>5,937</b>	7,554	<b>17,764</b>	16,821

## NOTES TO THE CONDENSED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

### 7. INCOME TAX (CREDIT)/EXPENSE

	(Unaudited)		(Unaudited)	
	Three months ended 30 September		Nine months ended 30 September	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
<b>Current tax</b>				
<b>– PRC enterprise income tax</b>				
Current period	–	–	–	–
<b>Deferred tax</b>				
Origination and reversal of temporary differences	–	(460)	–	(1,254)
<b>Income tax (credit)/expense</b>	–	(460)	–	(1,254)

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 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 CONDENSED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

## 8. DIVIDENDS

The directors did not recommend the payment of dividends for the nine months ended 30 September 2019 (nine months ended 30 September 2018: 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)		(Unaudited)	
	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Loss</b>				
Loss used to determine basic loss per share	<u>(34,758)</u>	<u>(24,274)</u>	<u>(74,355)</u>	<u>(42,092)</u>

	(Unaudited)		(Unaudited)	
	Three months ended 30 September		Nine months ended 30 September	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Number of shares (in thousands)</b>				
Weighted average number of ordinary shares outstanding for basic loss per share	<u>618,332</u>	<u>616,368</u>	<u>618,332</u>	<u>618,423</u>

### (b) Diluted loss per share

For the three months and nine months ended 30 September 2019 and 2018, the Company had 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 2019 and 2018 was the same as the basic loss per share as the potential ordinary shares were anti-dilutive.