



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

FIRST QUARTERLY REPORT

2020



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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.

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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 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.





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FINANCIAL HIGHLIGHTS

Our revenue decreased by 14.6% to RMB60.7 million for the three months ended 31 March 2020 from RMB71.1 million for the three months ended 31 March 2019.

We recorded a loss of RMB18.1 million for the three months ended 31 March 2020 as compared to a loss of RMB13.9 million for the three months ended 31 March 2019.

Our Directors did not recommend the payment of dividend for the three months ended 31 March 2020 (three months ended 31 March 2019: 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, 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 customised 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 relationships 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 24 years. We have also served alternative broadcasting platforms, such as cable network 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.

The outbreak of COVID-19 since January 2020 has severely affected the economic activities and operating environment in the PRC. In particular, the imposition of travel restrictions by the PRC government and the suspension of businesses in the PRC have reduced the Group's sales and marketing activities and hindered the seeking of potential customers and the negotiation of new projects. It is expected that the overall business environment in the PRC will be challenging in the forthcoming year. In order to cope with these challenges, the Group's management will closely monitor the market conditions in the PRC, actively formulate alternative business plans and adjust its business strategies in a timely manner.

FINANCIAL REVIEW

We recorded a revenue of RMB60.7 million for the three months ended 31 March 2020, representing a decrease of 14.6% from RMB71.1 million for the three months ended 31 March 2019. We recorded a loss of RMB18.1 million for the three months ended 31 March 2020 as compared to a loss of RMB13.9 million for the three months ended 31 March 2019. The increase in loss was mainly attributable to the decrease in the number of new projects and the delay in the implementation of ongoing projects as a result of the outbreak of COVID-19.

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS ON CONDENSED CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

We derived revenue primarily from (i) the sale of solutions; (ii) the provision of services; and (iii) the sale of products.

Our revenue decreased by 14.6% to RMB60.7 million for the three months ended 31 March 2020 from RMB71.1 million for the three months ended 31 March 2019. The decrease in revenue was mainly attributable to the decrease in the number of new projects and the delay in the implementation of ongoing projects as a result of the outbreak of COVID-19.

Cost of Sales

Our cost of sales decreased by 9.5% to RMB47.8 million for the three months ended 31 March 2020 from RMB52.8 million for the three months ended 31 March 2019. The decrease in cost of sales was generally in line with the decrease in revenue.

Gross Profit and Gross Profit Margin

Our gross profit represents revenue less cost of sales. Our gross profit decreased by 29.5% to RMB12.9 million for the three months ended 31 March 2020 from RMB18.3 million for the three months ended 31 March 2019, primarily due to the decrease in the proportion of the sales of products and services which were of a higher profit margin and the increase in the proportion of the sales of solutions which were of a lower profit margin. Our gross profit margin decreased to 21.3% for the three months ended 31 March 2020 from 25.8% for the three months ended 31 March 2019.

Other Income

Other income decreased to RMB5.3 million for the three months ended 31 March 2020 from RMB8.2 million for the three months ended 31 March 2019, primarily due to the decrease in value-added tax refund as a result of the decrease in revenue.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 15.9% to RMB10.4 million for the three months ended 31 March 2020 from RMB12.3 million for three months ended 31 March 2019, primarily due to (i) the decrease in sales and marketing staff cost; and (ii) the decrease in business-related travel and entertainment expenses due to the outbreak of COVID-19.

Administrative Expenses

Our administrative expenses decreased by 35.0% to RMB8.1 million for the three months ended 31 March 2020 from RMB12.4 million for the three months ended 31 March 2019, primarily due to the decrease in remuneration expenses as the PRC government has waived certain social insurance expenses of our employees since February 2020.

Share-Based Compensation Expense

We did not record any share-based compensation expense for the three months ended 31 March 2020 as compared to RMB2.1 million for the three months ended 31 March 2019, since all share options were fully vested in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development Expenses

Our research and development expenses decreased by 57.3% to RMB2.7 million for the three months ended 31 March 2020 from RMB6.3 million for the three months ended 31 March 2019, primarily due to (i) the decrease in research and development staff cost; and (ii) the waiving of certain social insurance expenses of our employees by the PRC government since February 2020.

Finance Costs

Our finance costs decreased by 50.0% to RMB1.2 million for the three months ended 31 March 2020 from RMB2.4 million for the three months ended 31 March 2019, primarily due to the decrease in the balance of bank borrowings.

Net Impairment Loss on Financial and Contract Assets

Our net impairment loss on financial and contract assets increased by 85.1% to RMB13.7 million for the three months ended 31 March 2020 from RMB7.4 million for the three months ended 31 March 2019, primarily due to the increase in the expected credit loss on our past due trade and other receivables.

Loss before Income Tax

As a result of the foregoing factors, our loss before income tax amounted to RMB20.1 million for the three months ended 31 March 2020 as compared to a loss before income tax of RMB16.6 million for the three months ended 31 March 2019.

Income Tax Credit

Our income tax credit decreased by 22.0% to RMB2.1 million for the three months ended 31 March 2020 from RMB2.6 million for the three months ended 31 March 2019, primarily due to the decrease in deductible temporary difference on income tax.

Loss for the Period

As a result of the foregoing factors, our loss for the three months ended 31 March 2020 amounted to RMB18.1 million as compared to a loss of RMB13.9 million for the three months ended 31 March 2019.

Non-controlling Interest and Loss Attributable to Equity Holders

Our non-controlling interest and loss attributable to equity holders amounted to RMB0.2 million and RMB18.3 million for the three months ended 31 March 2020, as compared to RMB0.1 million and RMB13.8 million for the three months ended 31 March 2019, respectively.

Other Comprehensive Loss

We recorded other comprehensive loss of RMB4.8 million for the three months ended 31 March 2020 as compared to other comprehensive loss of RMB9.0 million for the three months ended 31 March 2019, primarily due to the exchange difference arising from the translation of Renminbi and U.S. dollars.

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 RMB22.9 million for the three months ended 31 March 2020 as compared to RMB23.0 million for the three months ended 31 March 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020.

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.

HUMAN RESOURCES

As at 31 March 2020, we had 676 full-time employees and 40 dispatched workers (31 March 2019: 724 full-time employees and 46 dispatched workers). The remuneration package of the employees includes salary, sales commission, bonus and other cash subsidies. For the three months ended 31 March 2020 and 2019, the remuneration expenses, excluding share-based compensation expenses, were approximately RMB28.8 million and RMB40.7 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 trainings to our 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.

DIVIDEND DISTRIBUTION

The Board did not recommend the payment of dividend for the three months ended 31 March 2020 (three months ended 31 March 2019: 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 2020.

EVENT AFTER THE REPORTING PERIOD

There had been no significant event since 31 March 2020 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 31 March 2020, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, were as follows:

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

| Name of shareholder | Capacity | Number of shares or underlying shares | Approximate percentage of interest in the Company |
|-----------------------|---|---------------------------------------|---|
| Mr. Zheng Fushuang | Founder of a discretionary trust ¹ | 214,278,278 | 33.99% |
| Mr. Liu Baodong | Beneficial owner ² | 17,118,669 | 2.71% |
| Mr. Xu Da | Beneficial owner ³ | 6,200,000 | 0.98% |
| Mr. Frank Christiaens | Beneficial owner ³ | 300,000 | 0.05% |
| 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 3,000,000 underlying shares upon fully exercise of such options.
3. Interests in options granted pursuant to the Share Option Scheme.

Save as disclosed above, as at 31 March 2020, 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 2020, 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:

1. Mr. Zheng Fushuang is the settlor and a beneficiary of Future Success Trust. Future Success Trust holds the entire issued share capital of ZFS Holdings Limited, which in turn holds the entire issued share capital of Wing Success Holdings Limited. Therefore, Mr. Zheng Fushuang is deemed to be interested in the shares held by Wing Success Holdings Limited.
2. HSBC International Trustee Limited is the trustee of Future Success Trust and holds the entire issued share capital of ZFS Holdings 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.
3. 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 2020, 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 would be granted under the Pre-IPO Share Option Scheme after the Company's listing.

Outstanding Share Options

From 1 January 2020 to 31 March 2020, 180,239 share options lapsed and were cancelled. As at 31 March 2020, there were a total of 12,902,060 share options outstanding. If all the outstanding options are exercised, there would be a dilution effect on the shareholdings of the shareholders to 2.05% as at 31 March 2020. 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 2020 | 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 2020 | Approximate percentage of issued share capital of the Company |
|--------------------|---------------|-----------------------|---------------------------------|--|-----------------------------|--------------------------|---------------------------|--------------------------|---|---|
| Other participants | 01/01/2011 | 01/01/2015-31/12/2021 | 1.16 | 4,265,641 | — | 180,239 | — | 4,085,402 | 4,085,402 | 0.65% |
| | 01/10/2015 | 01/01/2016-31/12-2021 | 0.00001 | 8,816,658 | — | — | — | 8,816,658 | 8,816,658 | 1.40% |
| Total | | | | 13,082,299 | — | 180,239 | — | 12,902,060 | 12,902,060 | 2.05% |

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 abovementioned limit shall be subject to the shareholders' approval in general meeting with such participant and his associates (as defined under the GEM Listing Rules) abstaining from voting.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following details the options granted pursuant to the Share Option Scheme but not yet exercised as at 31 March 2020. No options were exercised during the three months ended 31 March 2020. No option lapsed during the three months ended 31 March 2020.

| Grantee | Date of grant | Number of share options outstanding as at 1 January 2020 | 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 31 March 2020 | Number of options exercised during the three months ended 31 March 2020 | Number of options lapsed during the three months ended 31 March 2020 | Number of options cancelled during the three months ended 31 March 2020 | Number of options outstanding as at 31 March 2020 | Approximate percentage of shareholding upon fully exercise of share options |
|--|---------------|--|---|---------------------------------|----------------------------|---|---|--|---|---|---|
| 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 | 300,000 | 1.31 | 1.33 | 24 May 2017 to 17 May 2027 | — | — | — | — | 300,000 | 0.05% |
| Cao Qian | 24 May 2017 | 300,000 | 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 | 51,682,700 | 1.31 | 1.33 | 24 May 2017 to 17 May 2027 | — | — | — | — | 51,682,700 | 8.20% |
| Total | | 61,482,700 | | | | — | — | — | — | 61,482,700 | 9.76% |

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 administrators 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 fulfilment 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 2020, the Company neither issued new shares nor arranged any funds to be paid to the Trustee for the purchasing of shares of the Company from the market.

COMPETING BUSINESSES

For the three months ended 31 March 2020, 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 which 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 (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 nonexecutive 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 code provision A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

Save as disclosed, in the opinion the Directors, the Company had complied with all the code provisions set out in the Corporate Governance Code from 1 January 2020 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 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 2020 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 to oversee the auditing 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 2020 and is of the opinion that (i) the unaudited financial statements of the Group for the three months ended 31 March 2020 comply with the applicable accounting standards and the GEM Listing Rules; and (ii) adequate disclosures have 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 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

Hong Kong, 8 May 2020

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

FOR THE THREE MONTHS ENDED 31 MARCH 2020

| | Notes | (Unaudited) | |
|---|-------|--------------------------------|----------|
| | | Three months ended 31 March | |
| | | 2020 | 2019 |
| | | RMB'000 | RMB'000 |
| Revenue | 3 | 60,717 | 71,103 |
| Cost of sales | | (47,795) | (52,784) |
| Gross profit | | 12,922 | 18,319 |
| Other income | 4 | 5,262 | 8,181 |
| Selling and marketing expenses | | (10,385) | (12,344) |
| Administrative expenses | | (8,092) | (12,443) |
| Share-based compensation expense | | — | (2,146) |
| Research and development expenses | | (2,689) | (6,295) |
| Finance costs | 5 | (1,196) | (2,390) |
| Net impairment loss on financial and contract assets | | (13,710) | (7,436) |
| Share of profit of joint ventures | | (2,230) | — |
| Loss before income tax | 5 | (20,118) | (16,554) |
| Income tax credit/(expense) | 6 | 2,056 | 2,635 |
| Loss for the period | | (18,062) | (13,919) |
| Other comprehensive loss | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Exchange difference arising on the translation of foreign operation | | (4,825) | (9,036) |
| Total comprehensive loss for the period | | (22,887) | (22,955) |

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

FOR THE THREE MONTHS ENDED 31 MARCH 2020

| | Notes | (Unaudited) | |
|---|-------|--------------------------------|-----------------|
| | | Three months ended 31 March | |
| | | 2020 | 2019 |
| | | RMB'000 | RMB'000 |
| Loss for the period attributable to: | | | |
| Equity holders of the Company | | (18,266) | (13,796) |
| Non-controlling interests | | 204 | (123) |
| | | <u>(18,062)</u> | <u>(13,919)</u> |
| Total comprehensive loss | | | |
| for the period attributable to: | | | |
| Equity holders of the Company | | (23,091) | (22,832) |
| Non-controlling interests | | 204 | (123) |
| | | <u>(22,887)</u> | <u>(22,955)</u> |
| Loss per share for profit attributable to equity | | | |
| holders of the Company | | | |
| (expressed in RMB cents per share) | 8 | | |
| Basic | | <u>(2.87)</u> | <u>(2.21)</u> |
| Diluted | | <u>(2.87)</u> | <u>(2.21)</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2020

| | 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 | 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 2020 | 43 | (1) | 600,213 | 28,982 | 2,909 | 47,914 | 31,278 | (282,097) | 429,241 | 1,147 | 430,388 |
| Comprehensive loss for the year | | | | | | | | | | | |
| Loss for the year | — | — | — | — | — | — | — | (18,265) | (18,265) | 204 | (18,062) |
| Other comprehensive loss for the year | — | — | — | — | 4,825 | — | — | — | 4,825 | — | 4,825 |
| Total comprehensive loss for the year | — | — | — | — | 4,825 | — | — | (18,265) | (13,441) | 204 | (13,237) |
| Transactions with owners | | | | | | | | | | | |
| Vesting of shares of share award scheme | — | — | — | — | — | — | 796 | — | 796 | — | 796 |
| Total transactions with owners | — | — | — | — | — | — | 796 | — | 796 | — | 796 |
| Balance at 31 March 2020 | 43 | (1) | 600,213 | 28,982 | 7,734 | 47,914 | 32,074 | (300,363) | 416,596 | 1,351 | 417,947 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2020

| | Equity attributable to equity holders of the Company | | | | | | | | | | |
|--|--|---|---|---|---|--|---|---|-------------------------------------|---|--|
| | Share capital RMB'000 (Unaudited) | Treasury shares RMB'000 (Unaudited) | Share premium RMB'000 (Unaudited) | Statutory reserve RMB'000 (Unaudited) | Translation reserve RMB'000 (Unaudited) | Share option reserve RMB'000 (Unaudited) | Other reserve RMB'000 (Unaudited) | Accumulated profits RMB'000 (Unaudited) | Sub-total RMB'000 (Unaudited) | Non-controlling interests RMB'000 (Unaudited) | Total equity 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 |

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

FOR THE THREE MONTHS ENDED 31 MARCH 2020

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 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 the 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 2020 (the “Results”) 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 Results were authorised for issue by the Board on 8 May 2020.

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 2019 except for the adoption of a number of amendments to International Financial Reporting Standards (“IFRSs”) that became effective for the accounting period beginning on 1 January 2020 and are relevant to the Group.

The Group has applied all the new and amended standards, which are mandatory for the financial year beginning on 1 January 2020. 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 2020

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 or other discrete financial information is available for the assessment of the performance of the respective type of revenue. The CODM reviews the overall results of the Group as a whole to make decisions about resource allocation. Accordingly, no segment information is presented. An analysis of the Group's revenue is as follows:

| | (Unaudited) Three months ended 31 March | |
|-----------|---|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Solutions | 48,084 | 43,217 |
| Services | 9,561 | 16,143 |
| Products | 3,072 | 11,743 |
| | <u>60,717</u> | <u>71,103</u> |

4. OTHER INCOME

| | (Unaudited) Three months ended 31 March | |
|--|---|-----------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| Other income | | |
| Interest income | 2,363 | 5,030 |
| Value-added tax ("VAT") refunds (note a) | 1,899 | 3,051 |
| | <u>4,262</u> | <u>8,081</u> |
| Other net income/gain | | |
| Subsidy income from government | 999 | — |
| Sundry income | 1 | 100 |
| | <u>1,000</u> | <u>100</u> |
| | <u>5,262</u> | <u>8,181</u> |

Note:

- (a) The sales of software products in the PRC are subject to VAT calculated at 13%. 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 2020

5. LOSS BEFORE INCOME TAX

Loss before income tax has been arrived at after charging:

| | (Unaudited) | |
|--|--------------------------------|---------------|
| | Three months ended 31 March | |
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| Finance costs | | |
| Interest on bank and other borrowings, wholly repayable within five years | 1,196 | 2,390 |
| Employee benefit expenses | | |
| Salaries, bonus and allowances | 16,588 | 18,038 |
| Retirement benefit scheme contributions | 2,222 | 5,361 |
| Severance payments | 34 | 60 |
| Share-based compensation expense | — | 2,146 |
| | <u>18,844</u> | <u>25,605</u> |
| Other items | | |
| Cost of software and hardware equipments recognised as an expense | 38,018 | 39,855 |
| Depreciation of property, plant and equipment | 571 | 1,268 |
| Amortisation of intangible assets | 5,655 | 4,758 |
| Provision for impairment loss on trade and other receivables | 13,710 | 7,436 |

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

FOR THE THREE MONTHS ENDED 31 MARCH 2020

6. INCOME TAX (CREDIT)/EXPENSE

| | (Unaudited) | |
|---|--------------------|---------|
| | Three months ended | |
| | 31 March | |
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| Deferred tax | | |
| Origination and reversal of temporary differences | (2,056) | (2,635) |
| | (2,056) | (2,635) |
| Income tax (credit)/expense | (2,056) | (2,635) |

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 will continue 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 will continue to enjoy the preferential income tax rate of 15% up to year 2021.

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 2020.

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

FOR THE THREE MONTHS ENDED 31 MARCH 2020

7. DIVIDENDS

The directors did not recommend the payment of dividend for the three months ended 31 March 2020 (three months ended 31 March 2019: 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 | |
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| Loss used to determine basic loss per share | 18,062 | 13,919 |

| | (Unaudited) | |
|--|--------------------------------|---------|
| | Three months ended 31 March | |
| | 2020 | 2019 |
| Number of shares (in thousands) | | |
| Weighted average number of ordinary shares outstanding for basic loss per share | 630,332 | 630,332 |

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

FOR THE THREE MONTHS ENDED 31 MARCH 2020

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 | |
| | 2020 | 2019 |
| Number of shares (in thousands) | | |
| Weighted average number of ordinary shares used to determine basic loss per share | 630,332 | 630,332 |
| | <u>630,332</u> | <u>630,332</u> |

For the three months ended 31 March 2020 and 2019, the Company had two categories of potential dilutive ordinary shares, namely, the 2010 Share Option Plan and the 2017 Share Option Scheme.

For the three months ended 31 March 2020, the computation of diluted loss per share was calculated based on the weighted average number of ordinary shares 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 2020 and 2019 was the same as the basic loss per share as all the potential ordinary shares were anti-dilutive.