



**China Digital TV  
First Quarter 2017 Earnings Conference Call Script**

**Operator:**

Good morning and good evening everyone and welcome to China Digital TV's First Quarter 2017 Earnings Conference Call. All participants are now in listen-only mode. Should you need assistance, please notify a Conference Specialist by pressing the star key followed by zero. After the management's presentation, we shall have a question and answer session.

As a reminder, this conference is being recorded. In addition, a webcast of this conference call will be available on China Digital TV's investor relations website.

I would now like to turn the call to the host for today, Mr. Nan Hao, Investor Relations Director at China Digital TV. Please go ahead.

**Mr. Nan Hao:**

Thank you, operator.

Good morning and good evening everyone. Thank you for joining China Digital TV's First Quarter 2017 earnings conference call. With me here today is Mr. Zhenwen Liang, our CFO, who will answer your questions after the prepared remarks.

Before we begin, I refer you to the Safe Harbor Statement in our earnings release, which also applies to our earnings call today as we will make forward looking statements.

On behalf of our CEO, Mr. Jianhua Zhu and CFO, Mr. Zhenwen Liang, I shall begin our presentation with highlights for the quarter, followed by discussion about the financial results.

First, I would like to reiterate the sale of our interest in Beijing Super TV. As many of you have been aware of, we no longer control or operate in CA or CA related businesses as a result of the sale.

Second, on April 21, 2017, the Board declared a special cash dividend of US\$1.50 per ordinary share. The aggregate amount of cash dividend to be paid approximates US\$90 million. Shareholders of record as of the close of business on May 31, 2017, U.S. Eastern Daylight Time, will be eligible to receive the dividend. The payment date of this special cash dividend is expected to be on or about June 15, 2017. The funds for the dividend, all of which have been received by the Company, will come from the proceeds previously received from the Beijing Super TV sale, after certain foreign currency exchange procedures are completed. So far, the Company's offshore account has received a portion of the proceeds in US dollars equivalent to

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100 million Renminbi. The remaining proceeds are still in the procedures of currency exchange from Renminbi to US dollars. If the Company is unable to pay the dividend due to the foreign currency conversion, the Company commits to update the market with a new special dividend payment date as soon as possible.

Third, as previously disclosed, there has been a significant reduction in the remaining continuing business operations of the Company post the sale of Beijing Super TV asset. Additionally as previously disclosed the payment of the special cash dividend is expected to reduce both the Company's market capitalization and shareholders' equity. Accordingly, there is an increased significant risk of the Company being ineligible for continued listing on the New York Stock Exchange. The Company is currently reviewing its continued listing eligibility with the New York Stock Exchange in light of these issues.

Now turning to our cloud business. As of March 31, 2017, the number of registered users on our cloud platform increased to 5.5 million. The complete number of potential users expanded to 150 million, which was primarily attributable to our continued geographic footprint expansion. In the first quarter, we expanded to Anhui province through our partnership with Anhui Telecom, a branch of China Telecom which covers over 5.5 million provincial users. As of March 31, 2017, our cloud platform has established partnerships with telecom and cable operators in over 30 provinces and cities, including Beijing, Shanghai, Chongqing, Guangdong province, Jiangsu province, Jilin province, Sichuan province, Hebei province, Xinjiang province, Shandong province, and many more.

In addition, our persistent efforts to diversify content offerings on our cloud platform continued to bear fruits in the first quarter of 2017. Besides gaming content, we have been developing new opportunities in innovative cloud VR programs and expect to launch VR game in the near future. Going forward, we will expand into various other fields, such as VR museum, VR education, VR videos, and so on. We are confident in the potential of these new programs and will continue to explore new growth business models for them. What's more, we have also launched a public fitness program for square dancing in the first quarter to expand our content selection and attract more users and enhance user stickiness on our platform.

Going forward, in an effort to generate further value for our shareholders, the Company and its Board of Directors are also reviewing potential opportunities to acquire a new operating business or asset to further diversify its current operations.

Before turning into financial result, I remind you that pursuant to the US GAAP which we comply, the Company's financial statements reflected the effect of the discontinued operation of our CA and CA related businesses starting from the fourth quarter last year. The operational results of the CA and CA related businesses have been excluded from the Company's financial results from continuing operations. Comparative adjustments to the historical statements of operations have also been made to provide a consistent basis of comparison for the financial results.

**With that, we will turn to the financial results for the first quarter.** Please note that, unless otherwise stated, all monetary amounts are stated in US dollars.

**Net revenues** decreased by 56.3% to 0.7 million from 1.5 million in the prior year period. The decline was primarily due to the decreased revenues from system development and system integration, which was partially offset by an increase in revenues from cloud platform operations

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in the first quarter of 2017.

**Cost of revenues** decreased by 51.6% to 0.2 million from 0.4 million in the prior year period. The decline in cost of revenues was primarily in line with the decline of net revenues in the first quarter of 2017.

**Gross profit** for the first quarter was 0.5 million, as compared with 1.1 million in the period year period. **Gross margin** was 69.7%, as compared with 72.7% a year ago.

**Operating expenses** in the first quarter decreased by 35.0% to 2.3 million from 3.6 million in the prior year period. The decline was mainly due to a decrease in personnel related expenses resulting from lower headcount.

**Loss from operations** in the first quarter of 2017 decreased by 24.5% to 1.9 million from 2.5 million in the prior year period.

**Income tax expenses** for the first quarter was 0.1 million, as compared with 0.05 million in the same period last year.

**Net income attributable to China Digital TV Holding** in the first quarter of 2017 was 0.2 million, as compared with 1.2 million in the prior year period. The decrease was primarily due to the discontinued operations were disposed of in the fourth quarter of 2016.

- **Net income from continuing operations attributable to China Digital TV Holding** increased to 0.5 million, as compared with a net loss of 2.5 million in the prior year period.
- **Net income from discontinued operations attributable to China Digital TV Holding** was 0.4 million, as compared with 3.6 million in the prior year period.

**Non-GAAP net income attributable to China Digital TV Holdings** in the first quarter of 2017 was 0.6 million, as compared with 1.2 million in prior year period.

As of March 31, 2017, China Digital TV had cash and cash equivalents, restricted cash and term deposits totaling 125.5 million on the balance sheet.

Now we are ready for the question and answer session. Please note that our CFO will answer the questions in Chinese and I will then translate into English. Operator, we can begin the Q&A session.

**Operator: [give the Q&A instructions and begin the process.]**

We shall now begin the question and answer session. To ask a question, please press \* (star) 1 on your touch-tone phone. To withdraw your question, please press \* (star) 2.

Q&A.

If there is no further question, we shall turn the call to Mr. Nan Hao for the closing remarks.

**Closing remarks for Mr. Nan Hao:**

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Once again, thank you all for joining us today. Please don't hesitate to contact us if you have any further questions. Thank you for your continued support and we look forward to talking with you in the coming quarters.