



**China Digital TV
Second Quarter 2015 Earnings Conference Call Script**

Operator:

Good morning and good evening everyone and welcome to China Digital TV's Second Quarter 2015 Earnings Conference Call. All participants are now in listen-only mode. Should you need assistance, please signal a Conference Specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press * then 1 on your touch-tone phone. To withdraw your question, please press * then 2.

Please note: this event is being recorded.

I would now like to turn the conference over to your host for today, Charles Eveslage. Please go ahead.

Charles Eveslage:

Thank you, operator.

Good morning and good evening everyone, and thank you for joining China Digital TV's second quarter 2015 earnings conference call. At this time, all participants are in listen-only mode. After management's prepared remarks, there will be a question-and-answer session.

The company's earnings results were released earlier today, and are available on the company's IR website at ir.chinadtv.cn, as well as through newswire distribution.

Today, you will hear from Mr. Jianhua Zhu, China Digital TV's chief executive officer, who will provide remarks regarding the strategic highlights and future objectives, followed by Ms. Yue Qian, the Company's acting Chief Financial Officer, who will discuss the financial results. After the prepared remarks, we will conduct the question and answer session.

Before we continue, please note that the discussion today will contain certain forward-looking statements made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the company's results may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties is included in the company's registration statement on Form 20-F and other documents filed with the U.S. Securities and Exchange Commission. China Digital TV does not assume any obligation to update any forward-looking statements except as required under applicable law.

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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 will now turn the call over to China Digital TV's chief executive officer, Mr. Jianhua Zhu.

Jianhua Zhu

大家好。非常欢迎大家参加 STV2015 年二季度业绩公告会。

首先，我非常高兴在公司处在转型关键时期重新回到 CEO 的位置上。从 1998 年我和卢博士成立公司以来，我们就致力于把公司打造成广电行业领先的技术服务提供商，经过近 20 年的发展，也实现了这一目标成为业内领先的技术提供商。未来，卢博士还将继续服务于公司，会更加专注新兴技术的研发工作，而我将会更加专注在公司的新业务和战略规划。

Hello everyone. Welcome to our second quarter 2015 earnings conference call.

First of all, I would like to state that I am extremely excited to resume my role as the CEO during such an exciting and transformative time for the company. Ever since Dr. Lu and I founded the Company in 1998, we have committed ourselves to its success. After almost 20 years of effort and dedication to developing the company, we have become a leading technology services provider. Going forward, Dr. Lu will continue to serve the company but will focus on technology, while I will be committed to company strategy and our business transformation.

二季度，我们依旧把重点放在新兴业务的发展和规划上，重点打造云平台技术和屏屏通的市场推广。随着传统智能卡业务市场逐渐成熟，公司的发展策略是成为广电行业里多元化的技术解决方案商和内容服务提供商，把传统的家庭电视信号从客厅延伸到户外，把移动终端应用移植到客厅电视上。

In the second quarter, we continued to make headway in expanding into new frontiers, characterized by the further development of our cloud platform and network broadcasting platform or NBP service offerings. As the traditional smart card market reaches maturity, the company's strategy is to effectively become a diversified content services enabler, driving the pervasion of live television programming outside the home and mobile applications inside the home.

作为转型的一部分，我们和同达创业在 2014 年达成一致做资产重组。我们把公司的传统智能卡业务，屏屏通业务和 VOD 业务卖给同达创业。经过 1 年多的努力工作，同达创业已经向证监会提交了资产重组材料，并收到了证监会的受理函。

Part of this strategy is our asset restructuring, whereby we are preparing to sell our traditional conditional access system business, the equipment sales portion of our NBP business, and our video-on-demand business to Tongda Venture, a Shanghai-listed company. As it stands, Tongda was just issued an acceptance letter last week by the China Security Regulatory Commission stating they have the required materials and that they will proceed to consider the application.

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我们希望能够在年底前完成此次资产重组。但是看到目前 A 股的市场的大幅波动以及监管部门的严格审核，我们无法保证该交易能够在合理时间内获得监管部门的审批。不管资产重组是否能够按时获得监管部门审批，STV 的转型战略将不会改变，同时我们也继续挖掘传统智能卡安全的市场机会。

We hope to complete the restructuring by the end of the year, however, due to current market conditions and elevated regulatory scrutiny in China, uncertainties remain and there is no guarantee the deal will close according to schedule. I would like to reassure investors that regardless of the transaction's outcome, China Digital will remain firmly committed to its business transformation strategy, while, at the same time, we will not lose focus on our traditional business.

在电视云游戏方面，我们给北京云合作伙伴歌华搭建的云游戏平台在二季度新增加了 20 万注册用户，累计以有 50 万云游戏注册用户。这个季度我们和新疆广电也签署了部署云平台的协议。

On the cloud front, Beijing Gehua, our Beijing cloud partnership, added 200,000 new registered users in the second quarter bringing our total to 500,000. We also recently signed an agreement with a cable operator from Xinjiang Province, to bring our cloud platform to TV subscribers in that region.

和投资者再强调一下，云计算平台是基于私有云打造的一个多元化应用平台商店，运营商通过该平台可以给用户提供基于电视的娱乐应用，例如游戏，教育，金融等。目前在云平台上打造的应用主要以游戏为主。

To remind investors, our cloud-based content platform is an exciting new offering which enables cable operators to essentially offer their household subscribers a TV-enabled app store. From here the possibilities are limitless: games, educational programs, financial services and much more, all based in the cloud and brought into the living room. Currently, our focus is on providing game applications over our cloud platform.

我们的云平台在快速部署的同时也开始围绕运营商，内容提供商和终端用户打造一个闭环生态系统。目前与我们合作的游戏 CP 已有 50 多家，云平台已经在 30 多家有线和 IPTV 运营商部署了系统并开始运营，我们对其未来潜力充满信心。

The platform is not only rapidly expanding but also beginning to serve as an ecosystem for content providers to channel their creativity and mutually benefit alongside end users, cable operators and platform providers like ourselves. With more than 50 content provider partners and a rapidly expanding presence that now spans 30 municipal or provincial cable networks and IPTV networks, we are very optimistic about the future potential of this offering.

传统的智能卡业务在下降，这也符合我们之前对这块市场的预期。但是我们也看到屏屏通业务在未来带来的商业机会。屏屏通业务是传统有线电视的一个延伸，把传统的有线电视

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信号延伸到户外，让用户可以通过移动终端在公共场所收看电视节目，例如在校园，机场这些地方。

Although the traditional domestic smart card market continued to decline in line with expectations, we saw numerous positive developments in the NBP business. Our NBP business enables our cable operator partners to extend the reach of their content, by facilitating access to live television programming for subscribers over mobile devices in public areas such as campuses or airports.

在屏屏通的业务布局上，我们已经和湖北成立了合资公司，广东省网也启动了合作运营开展屏屏通业务。我们预期在三季度还会继续中标其他地方的屏屏通项目。前期我们主要是以销售屏屏通产品为主，预计下半年逐渐会带来销售收入。

In this segment, we have secured key partnerships with Hubei and Guangdong cable operators that will entail joint operation, local marketing and R&D for the NBP solution. Furthermore, we are in negotiations with several other provincial cable operators to deploy our NBP solutions in the quarters to come. As we foster greater demand for this emerging offering and begin to monetize it, we expect NBP revenue contribution to gradually increase in the second half of 2015.

在中国有线电视和数字传媒行业快速发展的今天，我们的业务也会随之进行调整从而才能够保持行业的领先地位。通过利用我们在传统行业中积累的经验 and 资源，我们相信公司在下一代广播电视网的发展中转型成功，成为中国乃至国际的综合广电行业技术和内容服务商。

As our business continues to adapt and gain momentum within China's dynamic and rapidly-evolving cable TV and digital media sectors, we aim to stay at the forefront of trends transforming China's digital landscape. By leveraging our position as the leading smart card provider to Chinese cable operators, we believe we are uniquely well-positioned to develop and introduce a suite of next-generation content access solutions to cable operators and other content providers in China and globally.

下面我将把话筒交给我们的 CFO 岳茜女士来和大家分享传统业务发展状况和二季度业绩情况。

With this I'll hand it to CFO, Yue Qian to discuss our traditional smart card business and the financial results.

Yue Qian:

Thanks Jianhua and hello everyone.

First let me give you an update on the traditional smart card business and the overall cable market in China. As expected and guided in our last earnings call, revenues and shipment volumes were down year over year, due to the overall maturity of the market. We expect it will continue to decline over the next couple of quarters until bottoming out next year. This follows

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the expected timeline of initial digital upgrades throughout China followed by a normalization of growth in 2016, which will be mainly driven by terrestrial TV upgrades going forward.

Despite these secular headwinds, we met our guidance in terms of revenues and volumes, and continue to maintain a healthy balance sheet. We will continue to leverage our 50% market share in China's smart card market and key relationships with cable operators to grow our emerging business segments and spearhead the development of our cloud-based diversified content ecosystem for cable operators and their subscribers.

Turning to the financial highlights for the second quarter. Please note that, unless otherwise stated, all monetary amounts are in US dollars.

In the second quarter of 2015, China Digital TV shipped approximately 2.11 million **smart cards**, compared to 3.55 million in the prior year period.

Net revenues were 10.4 million, as compared to 17.2 million in the prior year period. The decrease was primarily due to decreases in revenue from the sales of smart cards caused by the general market decline of the mature CAS business.

Revenues from our top five customers accounted for 37.0% of total revenues, as compared to 23.7% in the prior year period.

Revenues from smart cards were 8.9 million in the second quarter of 2015, as compared to 15.0 million in the prior year period. The decrease was mainly due to a decrease in shipment volumes of smart cards. Sales of smart cards and other products accounted for 84.5% of total revenues in the second quarter of 2015, as compared to 86.0% in the prior year period. **ASPs** for smart cards in the quarter remained stable, while the unit cost of smart cards increased by 8.5% year over year.

Revenues from other products were 0.4 million in the second quarter of 2015, as compared to 0.9 million in the prior year period. The decrease was mainly attributable to lower sales of surface mounted chips and multimedia home entertainment boxes. Sales of other products accounted for 4.1% of total revenues in the second quarter of 2015, as compared to 5.4% in the prior year period.

Revenues from services were 1.2 million in the second quarter of 2015, as compared to 1.5 million in the prior year period. The decrease was primarily due the decline in licensing income, which was partially offset by an increase in head-end system integration. Revenues from services accounted for 11.4% of total revenues in the second quarter of 2015, as compared to 8.6% in the prior year period.

Cost of revenues from smart cards and other products were 2.0 million in the second quarter of 2015, as compared to 3.7 million in the prior year period. The decrease was mainly due to the decline in cost of revenues from smart cards resulting from decreased shipment volumes of smart cards, as well as the decline in cost of revenues from multimedia home entertainment and surface mounted chips resulting from lower shipment volumes of both products. Cost of revenues from

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smart cards and other products accounted for 55.8% and 10.2% of total cost of revenues, as compared to 55.9% and 23.9% in the prior year period.

Cost of revenues from services was 1.0 million in the second quarter of 2015, as compared to 0.9 million in the prior year period. The increase was mainly due to an increase in cost of revenues from head-end system integration. Cost of revenues from services accounted for 34.0% of total cost of revenues, as compared to 20.2% in the prior year period.

Gross profit was 7.5 million, as compared to 12.6 million in the prior year period. **Gross margin** was 71.6%, as compared to 73.3% in the prior year period. The decline in gross margin was primarily due to a decrease in gross margin of smart cards, attributable to increased unit cost of smart cards, which account for a high proportion of total revenues.

Operating expenses decreased to 8.2 million from 9.3 million in the prior year period, primarily due to lower marketing expenses, and decreased personnel related expenses resulting from lower R&D headcount.

Loss from operations was 0.8 million, as compared to an income from operations of 3.3 million in the prior year period.

Income tax expenses were 0.9 million, as compared to 0.3 million in the prior year period.

Net loss attributable to holders of ordinary shares was 0.7 million, compared to a net income attributable to holders of ordinary shares of 4.4 million in the prior year period. **Net margin** was negative 6.3%, as compared to positive 25.6% in the prior year period.

Non-GAAP net loss attributable to holders of ordinary shares was 0.6 million, compared to a non-GAAP net income attributable to holders of ordinary shares of 4.7 million in the prior year period.

Turning to our balance sheet.

As of June 30, 2015, China Digital TV had cash and cash equivalents and restricted cash totaling US\$68.5 million. In the second quarter of 2015, cash flow generated from operations was approximately US\$6.6 million.

Now, let me provide you our business outlook.

Based on information available as of August 13, 2015, China Digital TV expects smart card shipments for the third quarter of 2015 to be in the range of 2.4 million and 2.7 million. Net revenues for Q3 2015 are expected to be in the range of 11.1 million and 12.4 million dollars.

Thank you for listening; we will now take your questions.

Closing Remarks from Eveslage:

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Once again, thank you 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 months.