



**China Digital TV  
Fourth Quarter and Full Year 2015 Earnings Conference Call Script**

**Operator:**

Good morning and good evening everyone and welcome to China Digital TV's Fourth Quarter and Full Year 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 fourth quarter and full year 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](http://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.

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，感谢大家参加公司 2015 年 4 季度及 2015 全年业绩电话会议。

Hello everyone. Welcome to our fourth quarter and full year 2015 earnings conference call.

公司四季度发卡量和收入均超出预期主要受益于常规季节性因素的影响和海外市场，尤其是印度市场的表现超出我们的预期。

Thanks to positive seasonality and an uptick in international shipments of smart cards especially to the Indian market, we ended 2015 on a positive note with revenues and shipments outperforming our guidance.

虽然四季度的业绩优于预期，但是 2015 年对公司来说是艰难的一年。纵观 2015 年，智能卡市场持续趋于饱和，同时市场激烈的竞争环境导致我们的传统业务出现较大的下滑，但是新业务在过去一年中的增长速度还无法弥补传统业务的下滑。所以目前公司依旧处在一个艰难的转型时期。但是我们依旧有信心通过利用公司的技术优势从传统的设备技术提供商转型成为综合服务提供商，为运营商提供综合增值服务。

Despite this achievement in the fourth quarter, it was a tough year for the Company. The stagnation of the overall smart card sector coupled with intense competition in the market precipitated a large decline in our traditional business, which could not be offset by growth in our emerging businesses. Although we continue to navigate this challenging market transition, we are confident in our ability to evolve from being a traditional equipment technology provider into an integrated service provider, and successfully introduce comprehensive value-added services to operators.

近几年由于 IPTV 和 OTT 带来的竞争，广电行业面临着用户流失，业务单一，技术标准碎片化的问题，需要对现有的业务格局进行整合，并通过建设下一代广播电视网来提升自身的竞争力。我们认为客厅经济在互联网时代将在电视云游戏，购物，旅游，缴费，虚拟现实等几个方面来探索新的盈利模式。

A major trend and opportunity we have identified and are actively targeting relates to the rising competition from IPTV and OTT and how that threatens the cable operators' businesses in several ways. As they experience greater customer churn, and increased fragmentation of technical standards, the cable operators have reallocated resources in an effort to improve the existing cable TV network infrastructure and provide more comprehensive services to subscribers. This "Next Generation Broadcasting Network" will broaden the content programming options available to cable subscribers and strengthen the operators' competitiveness and diversification. In a time where TV programming is increasingly driven by the Internet, we anticipate that many new profit opportunities in the 'living-room economy' will emerge in the fields of TV-based cloud gaming, shopping, tourism, payment, virtual reality and so on.

从中长期看，中国的有线电视和网络电视依旧蕴藏着巨大商机，尤其是电视游戏的未来发展。我们会不遗余力的使我们的业务模式适应运营商和用户不断变化的需求。

From a mid- to long-term perspective, we see enormous opportunities laying on the horizon across China's cable and internet TV sectors, especially related to TV-based cloud gaming. Recognizing these realities in the market, we have spared no effort to adapt our business model to meet the evolving demands of cable operators and subscribers alike.

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从 2014 年开始，公司的云平台全国注册用户累计达到 170 万，日活用户达到 3 万人，付费转换率达到 5%，包月费用为每个月人民币 50 元。我们希望今年公司的云平台用户和收入都会有显著增长。

To provide you a very clear example of the success we have had in leveraging our deep partnerships and our expertise in the cable industry, we were able to amass 1.7 million registered users on our cyber cloud platform across all geographies since its inception in 2014. In the fourth quarter, daily active users for cloud games were 30,000. Among these users we are seeing the payment conversion rate of 5% and ARPU of RMB50 per month. We hope to see significant user and revenue growth on this platform in 2016.

2016 年，我们对云平台的发展主要体现在两个方面。第一，继续扩大系统在各省运营商的部署；第二，我们将通过累积的运营数据和用户的行为持续优化云游戏的运营，并扩大用户基础。同时，我们也更关注用户的游戏体验和对游戏内容的引进，为用户提供更适合电视屏幕的游戏，尤其是互联网游戏。

Looking ahead in 2016, we will focus on executing upon two key objectives as we develop our cyber cloud business:

- The first is expanding platform deployment; by targeting additional cable operator partners, we will accelerate our expansion into new geographies,
- Second is optimizing the cloud gaming operations for TV; by leveraging the power of big data and analyzing user behavior, we will continue to optimize and enhance the user experience and increase the games – particular online games – available on the platform in order to expand and diversify our user base and prepare the platform for monetization.

中国广播电视行业目前处在发展和变革时期，我们对未来行业的发展充满了期待。作为行业领先的服务提供商，我们相信我们提供的服务能够给运营商提供多元化的适合客厅的智能应用和服务。

China's TV broadcasting industry has entered a revolutionary and transformative period, and we are excited about the many opportunities that this will bring our company. As the long-standing leading content access technology supplier for cable operators, we believe our evolving suite of next-generation services will support operators as they diversify and expand their business through introducing smart Apps and other emerging content programming into the living room.

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四季度业绩情况。

With this I'll hand it to Yue Qian to discuss our traditional smart card business and the financial results in fourth quarter of 2015.

**Yue Qian:**

Thanks Jianhua and hello everyone.

Although we comfortably beat our guidance for revenues and shipments in the fourth quarter, our traditional smart card business continued to stagnate. It is likely that this trend will remain in place for the next couple of quarters as the market reaches maturity and ASPs bottom out.

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It is important to note that our smart card segment remains a valuable asset that provides us solid cash flow and profit margins. We also see some potential upside in the international markets as evidenced by the higher-than-expected smart card shipments in the fourth quarter, and we are focusing on further developing business in key growth markets like India, Southeast Asia and South America.

Most importantly, this business offers us many intangible benefits as the leading smart card supplier to China's cable operators. We will continue to leverage our leadership position in the cable TV market as we focus on developing and promoting our emerging cyber cloud ecosystem in China, which will be a key growth engine for China Digital TV in the long run.

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

In the fourth quarter of 2015, China Digital TV shipped approximately 3.54 million **smart cards**, compared to 5.15 million in the prior year period.

**Net revenues** were 17.9 million, as compared to 29.2 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, and the decline in smart card ASPs.

**Revenues from our top five customers** accounted for 34.5% of total revenues, as compared to 26.5% in the prior year period, primarily attributable to the consolidation of certain cable operators in the market.

**Revenues from smart cards** were 12.8 million in the fourth quarter of 2015, as compared to 22.1 million in the prior year period. The decrease was mainly due to a decrease in shipment volumes of smart cards, as well as a decline in smart card ASPs. Sales of smart cards and other products accounted for 70.3% of total revenues in the fourth quarter of 2015, as compared to 74.4% in the prior year period. **ASPs** for smart cards in the quarter decreased by 16.2% year over year, while the unit cost of smart cards decreased by 27.4% year over year.

**Revenues from other products** were 1.7 million in the fourth quarter of 2015, as compared to 2.4 million in the prior year period. The decrease was mainly attributable to a decline in sales of network broadcasting platforms. Sales of other products accounted for 9.6% of total revenues in the fourth quarter of 2015, as compared to 7.9% in the prior year period.

**Revenues from services** were 3.6 million in the fourth quarter of 2015, as compared to 5.3 million in the prior year period. The decrease was primarily due to the decline in revenues from head-end system integration, as well as licensing income, which was partially offset by an increase in revenues from head-end system development. Revenues from services accounted for 20.1% of total revenues in the fourth quarter of 2015, as compared to 17.7% in the prior year period.

**Cost of revenues from smart cards and other products** were 2.9 million in the fourth quarter of 2015, as compared to 4.1 million in the prior year period. The decrease was mainly due to a decline in cost of revenues from smart cards resulting from decreased shipment volumes of smart cards. Cost of revenues from smart cards and other products accounted for 29.3% and 20.5%, respectively, of total cost of revenues in the fourth quarter of 2015, as compared to 60.8% and 12.2% in the prior year period.

**Cost of revenues from services** was 2.9 million in the fourth quarter of 2015, as compared to 1.5 million in the prior year period. The increase was mainly due to the increases in costs associated with head-end system integration and development. Cost of revenues from services accounted for 50.2% of total cost of revenues, as compared to 27.0% in the prior year period.

**Gross profit** was 12.1 million, as compared to 23.6 million in the prior year period. **Gross margin** was 67.6%, as compared to 80.9% in the prior year period. The decline in gross margin was primarily due to the decreased portion of total revenues accounted for by net revenues from smart cards, which have a higher gross margin than other products and services.

**Operating expenses** decreased to 9.3 million from 11.8 million in the prior year period, primarily due to a decrease in general and administrative, and research and development expenses.

**Income from operations** was 2.7 million, as compared to 11.9 million in the prior year period.

**Income tax expenses** were 1.6 million, as compared to 3.6 million in the prior year period. The decline was mainly due to a decrease in taxable income.

**Net income attributable to holders of ordinary shares** was 2.3 million, compared to 10.9 million in the prior year period. **Net margin** was 12.9%, as compared to 37.4% in the prior year period.

**Non-GAAP net income attributable to holders of ordinary shares** was 2.3 million, compared to a non-GAAP net income attributable to holders of ordinary shares of 11.1 million in the prior year period.

#### **Turning to our balance sheet.**

As of December 31, 2015, China Digital TV had cash and cash equivalents and restricted cash totaling 70.2 million.

**Now, let me provide you our business outlook.** Based on information available as of March 3, 2016, China Digital TV expects smart card shipments for the first quarter of 2016 to be in the range of 2.7 million and 3.0 million. Net revenues for Q1 2016 are expected to be in the range of 12.1 million and 13.3 million dollars.

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

#### **Closing Remarks from Charles Eveslage:**

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.