



China Digital TV
Third Quarter 2016 Earnings Conference Call Script

Operator:

Good morning and good evening everyone and welcome to China Digital TV's Third Quarter 2016 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 Manager at China Digital TV. Please go ahead sir.

Mr. Nan Hao:

Thank you, operator.

Good morning and good evening everyone. Thank you for joining China Digital TV's Third Quarter 2016 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.

We are glad with the overall business performance in the third quarter of 2016. To begin with, let's first look at our traditional smart card business which accounted for 67% of the revenues during the third quarter. Smart card shipments grew 12.7% year over year to 2.58 million units as we experienced shipment growth both in the international and domestic markets. Smart card shipments to overseas customers accounted for 9% of total shipments during the third quarter this year, which was up from 7% last year.

We continued to see ASP pressure outpacing unit growth as anticipated, which led to a declined smart card revenue of 8.1 million, versus 9 million in the same quarter last year. Our smart card ASP came down 20.5% from a year ago, which was also adversely impacted by the depreciation of the RMB. Excluding the forex impact, smart card ASP declined in the mid teen percentage year over year, which was in-line with our expectation.

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Now moving on to our key growth business, the Cyber Cloud. Our cloud platform again showed exponential growth over the quarter as our transition continues to bear fruit. During the third quarter, Cyber Cloud revenues grew substantially year over year and increased its geographic diversification. As we mentioned in the last earnings call, our cloud services have expanded into Tianjin and Sichuan Province during the third quarter, which we expect to begin revenue contribution in the fourth quarter this year. In addition, we are on track to add Shenzhen, Ningxia Province and Anhui Province to our network soon. We are excited about the further roll out of our cloud services throughout the nation and expect increasing revenue growth from this area.

By the end of third quarter, the total number of registered users on our cloud platform grew to 4.3 million, from only 1.5 million one year ago. Our on-going marketing and promotional efforts for our game services continued to fuel our cloud user base expansion. We are in the early stage to accumulate a larger base of users who want more home entertainment options which we will provide through our broad network. As of today, through partnerships with cable TV operators, our cloud network now covers 100 million users in Beijing, Tianjin, Chongqing, Hebei and Sichuan, etc. We see tremendous penetration potential in these existing cities and provinces as well as new opportunities from other regions to be added this quarter and going forward.

For content offered through the Cyber Cloud, we continue to explore the other applications outside of games, in fields like education, online shopping and entertainment, especially in the virtual reality space, which should contribute to the future growth of the company as the Cyber Cloud platform expands and user habits evolve with the offerings. We will continue to invest in the development of content which will further increase the attractiveness of our platform as a leading gateway for cloud based entertainment into Chinese homes.

In addition, I would like to reiterate that our wholly-owned subsidiary, Golden Benefit, has entered into an equity transfer agreement with the buyer group, as referred to a press release dated November 7, 2016. Under the agreement, the buyer group has agreed to acquire all the equity interest in Super TV currently held by Golden Benefit. In exchange, the buyer group has agreed to pay China Digital TV consideration of 610 million RMB in cash. The transaction will be considered and voted during our Extraordinary General Meeting on December 19, 2016.

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

Total net revenues grew 12% year over year to 11.8 million in the third quarter this year. Similar with the prior quarter, revenues from other services and other products increased, but were partly offset by a decrease in smart card revenues.

Revenues from smart cards were 8.1 million in the quarter, as compared to 9.0 million in the prior year period. The decrease was mainly due to the decline in average selling price of smart cards, which was down 20.5% year over year, including an adverse impact from RMB depreciation. Sales of smart cards accounted for 67% of total revenues in the third quarter, as compared to 84.6% in the prior year period.

Revenues from other products increased to 1.6 million in the third quarter of 2016 from 1.3 million in the same quarter last year. The increase was mainly attributable to increased sales of set-top-boxes with pre-installed smart cards, IPQAM and surface mounted chips. Sales of other

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products accounted for 20% of total in the third quarter of 2016, as compared to only 3% in the prior year period.

Revenues from services increased by 18.1% year over year to 1.6 million in the third quarter from 1.3 million in the prior year period. The increase was primarily attributable to the continuous expansion and monetization of our cloud platform, but partly offset by declines in smart card related revenues. Revenues from services accounted for 13% of total revenues in the third quarter, as compared to 12.4% in the prior year period.

Cost of revenues from smart cards and other products increased by 22.7% year over year to 2.6 million in the third quarter from 2.1 million in the prior year period. The increase was mainly due to the increase in cost of revenues from other products, and partly offset by the decline in cost of revenues from smart cards. Cost of revenues from smart cards and other products accounted for 37.1% and 33.2%, respectively, of total cost of revenues in the third quarter, down from 58.7% and 6.9% in the third quarter last year.

Cost of revenues from services in the third quarter 2016 increased slightly by 1.5% year over year to 1.1 million, which accounted for 29.7% of total cost of revenues, down from 34.5% in the prior year period.

Gross profit for the third quarter increased to 8.2 million, compared to 7.4 million in the prior year period. **Gross margin** was 69.2%, compared to 69.8% a year ago.

Operating expenses in the third quarter came in at 8.9 million, slightly up compared to 8.4 million in the prior year period.

Loss from operations in the third quarter of 2016 was 0.7 million, as compared to loss from operations of 1.0 million in the prior year period.

Income tax expenses for the third quarter decreased by 35.7% year over year to 0.4 million, from 0.7 million in the same period last year. The decline was mainly due to a decrease in taxable income.

Net loss attributable to holders of ordinary shares in the third quarter of 2016 was 0.5 million. It remained relatively stable as compared to same period last year.

Non-GAAP net loss attributable to holders of ordinary shares in the third quarter of 2016 was 0.4 million. It remained relatively stable as compared to the same period last year.

As of September 30, 2016, China Digital TV had cash and cash equivalents, restricted cash and term deposits totaling 62.7 million on the balance sheet.

Now, let me provide you with our business outlook. Smart card shipment volumes for the fourth quarter of 2016 are expected to be in the range of 3.2 million to 3.5 million. Net revenues for the fourth quarter are expected to be in the range of 11.0 million to 12.6 million.

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

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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.

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

Closing remarks for Mr. Nan Hao:

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 months.