

POLYONE CORP  
Form 4  
March 15, 2017

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
Van Hulle John V

(Last) (First) (Middle)

POLYONE CENTER, 33587  
WALKER ROAD

(Street)

AVON LAKE, OH 44012

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
POLYONE CORP [POL]

3. Date of Earliest Transaction (Month/Day/Year)  
03/07/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

\_\_\_ Director \_\_\_ 10% Owner  
\_X\_ Officer (give title below) \_\_\_ Other (specify below)

SVP, President of GCAI

6. Individual or Joint/Group Filing(Check Applicable Line)  
\_X\_ Form filed by One Reporting Person  
\_\_\_ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Ownership (Instr. 4)
			Code	V Amount (A) or (D) Price			
Common Stock	03/13/2017		M	25,000 A	\$ 25,935 <sup>(2)</sup>	D	
Common Stock	03/13/2017		F	9,123 D	\$ 33.32	D	
Common Stock	03/07/2017		G <sup>(3)</sup>	V 2,945 D	\$ 0 0	D	
Common Stock	03/07/2017		G <sup>(3)</sup>	V 2,945 A	\$ 0 2,945	I	By Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474  
(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)		
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Restricted Stock Units	(1)	03/13/2017		M	25,000	03/13/2017	03/13/2017	Common Stock	25,000

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Van Hulle John V POLYONE CENTER 33587 WALKER ROAD AVON LAKE, OH 44012			SVP, President of GCAI	

## Signatures

/s/ Lisa K. Kunkle, Power of Attorney For: John V. Van Hulle  
Date: 03/15/2017

\*\*Signature of Reporting Person

Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Each restricted stock unit represents a contingent right to receive one share of PolyOne common stock.
- (2) Includes dividend equivalents earned with respect to the vested restricted stock units.
- (3) This transaction involved a gift of securities by the reporting person to a trust, which holds the shares for the benefit of the reporting person's spouse.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. : 100% ">">"U.S. dollars" or "US\$" refers to the legal currency of the United States; and

· "U.S. GAAP" refers to generally accepted accounting principles in the United States.

All references to "CDTV Holding," "we," "us" or "our" include China Digital TV Holding Co., Ltd. and its subsidiaries.

## FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, with respect to our business, operating results and financial condition as well as our current expectations, assumptions, estimates and projections about our industry. All statements other than statements of historical fact in this annual report are forward-looking statements. These forward-looking statements can be identified by words or phrases such as the words "anticipate," "believe," "estimate," "expect," "intend," "plan," "may," "is/are likely to," "should," "will" and similar expressions. These forward-looking statements include, without limitation, statements relating to:

- operating results of our continuing business;
- changes in technology standards and our ability to adapt to these changes;
- our expectations regarding demand for our products and services;
- our ability to develop new products and services, and expand our sales, distribution network and other aspects of our operations;
- expected changes in our revenues, costs and expense items;
- our ability to effectively protect our intellectual property rights as well as not infringe on the intellectual property rights of others;
- the competitiveness of our products and services;
- the level of competition in the cloud computing market;
- government policies and regulations relating to our business activities;
- general economic and business conditions in the PRC and elsewhere;
- our future business development and economic performance;
- our future business development plans and strategic initiatives;
- the future expansion of the cloud computing market, and factors driving that growth; and
- the possibility of our ADSs being not qualified for trading on any exchange or market.

These forward-looking statements involve various risks and uncertainties. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in "Item 3. Key Information—D. Risk Factors" and the following:

- general economic and business conditions in the PRC and elsewhere;
- governmental, statutory, regulatory or administrative initiatives affecting us;
- trends in the PRC's cloud computing industry;
- future profitability of our business and operations;
- exchange rate fluctuations between the Renminbi and other currencies; and
- availability of qualified management and technical personnel.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this annual report may not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update or otherwise revise the forward-looking statements in this annual report, whether as a result of new information, future events or otherwise.

## **PART I**

### **Item 1. Identity of Directors, Senior Management and Advisors**

Not Applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not Applicable.

**Item 3. Key Information**

**A. Selected Financial Data**

**Our Selected Consolidated Financial Data**

The following selected consolidated financial data should be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and our audited consolidated financial statements and the notes thereto included elsewhere in this annual report on Form 20-F. The selected consolidated statement of operations data for the years ended December 31, 2015, 2016 and 2017, and the selected consolidated balance sheet data as of December 31, 2016 and 2017 set forth below are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated statement of operations data for the year ended December 31, 2014 and the selected historical consolidated balance sheet data as of December 31, 2015 set forth below are derived from our audited consolidated financial statements which are not included in this annual report. Due to the deconsolidation of Beijing Super TV Co., Ltd., or Beijing Super TV, which we ceased to control on December 29, 2016, the selected consolidated statement of operations data for the year ended December 31, 2013 and the selected historical consolidated balance sheet data as of December 31, 2013 and 2014 set forth below which are derived from our unaudited consolidated financial statements have reflected the impact of retrospective adjustments for discontinued operations.

Our historical consolidated financial statements have been prepared and presented in accordance with U.S. GAAP.

Our historical results for any prior period do not necessarily indicate our results to be expected for any future period.

	For the years ended December 31,				
	2013	2014	2015	2016	2017
	( in thousands of U.S. dollars, except share and per share data )				
Consolidated Statements of Operations					
Data:					
Net revenues	2,680	1,915	1,920	4,228	6,160
Cost of revenues	2,378	2,344	1,380	1,517	1,578
Gross profit/(loss)	302	(429 )	540	2,711	4,582
Total operating expenses	9,718	17,197	16,132	12,141	9,871
Operating loss from continuing operations	(9,416 )	(17,626 )	(15,592 )	(9,430 )	(5,289 )
Interest income	226	205	104	105	1,206
Gain from disposal of an equity method investment	-	-	-	95	-
Other income/(expense)	28	(50 )	354	1,088	710
Loss from continuing operations before income tax expenses	(9,162 )	(17,471 )	(15,134 )	(8,142 )	(3,373 )
Income tax expenses	206	81	292	114	337
Net loss from continuing operations before share of loss on an equity method investment	(9,368 )	(17,552 )	(15,426 )	(8,256 )	(3,710 )
Share of loss on equity method investments, net of nil income taxes	-	-	(101 )	-	-
Net loss from continuing operations	(9,368 )	(17,552 )	(15,527 )	(8,256 )	(3,710 )
Discontinued operations					
Income/(loss) from the operations of discontinued operations, net of income tax expenses	31,944	36,717	16,155	10,445	(389 )
Gain from disposal of discontinued operations, net of income tax expenses	-	-	-	43,190	-
Income/(loss) from discontinued operations, net of income tax expenses	31,944	36,717	16,155	53,635	(389 )
Net income/(loss)	22,576	19,165	628	45,379	(4,099 )
Less: Net loss attributable to noncontrolling interest	(1,832 )	(1,725 )	(900 )	(39 )	(1,031 )
Net loss from continuing operations attributable to ordinary shareholders of China Digital TV Holding Co., Ltd	(7,536 )	(15,827 )	(14,627 )	(7,226 )	(2,679 )
Net income/(loss) from discontinued operations attributable to ordinary shareholders of China Digital TV Holding Co., Ltd	31,944	36,717	16,155	52,644	(389 )
Net income/(loss) attributable to ordinary shareholders of China Digital TV Holding Co., Ltd	\$24,408	\$20,890	\$1,528	\$45,418	\$(3,068 )
Earnings/(loss) per share data – basic and diluted:	\$ (0.13 )	\$ (0.27 )	\$ (0.24 )	\$ (0.12 )	\$ (0.04 )

Net loss from continuing operations attributable to ordinary shareholders of China Digital TV Holding Co., Ltd:					
Net income/(loss) from discontinued operations attributable to ordinary shareholders of China Digital TV Holding Co., Ltd:	0.54	0.62	0.27	0.87	(0.01 )
Net income/(loss) attributable to ordinary shareholders of China Digital TV Holding Co., Ltd:	\$0.41	\$0.35	\$0.03	\$0.75	\$(0.05 )
Cash dividends declared per share	\$-	\$0.50	\$-	\$0.20	\$1.50
Weighted average shares outstanding, basic and diluted:	59,111,594	59,369,708	59,968,346	60,199,096	62,372,111
Consolidated Balance Sheet Data:					
Total current assets	\$ 139,953	\$ 130,154	\$ 121,873	\$ 126,585	\$ 33,784
Total assets	148,806	139,111	130,750	127,971	33,784
Total liabilities	37,834	37,084	28,944	4,900	4,802
Total China Digital TV Holding Co., Ltd shareholders' equity	110,036	101,462	101,480	119,610	26,136
Noncontrolling interest	936	565	326	3,461	2,846
Total liabilities and equity	\$ 148,806	\$ 139,111	\$ 130,750	\$ 127,971	\$ 33,784

### Exchange Rate Information

Our business is primarily conducted in China and substantially all of our revenues are denominated in Renminbi. We present our historical consolidated financial statements in U.S. dollars. In addition, solely for the convenience of the reader, this annual report contains translations of certain Renminbi amounts into U.S. dollars at specific rates. For January 1, 2013 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicated, conversions of Renminbi into U.S. dollars in this annual report are based on the exchange rate on December 31, 2017. We make no representation that any Renminbi amounts could have been, or could be, converted into U.S. dollars or vice versa, as the case may be, at any particular rate, the rates stated below, or at all. For a detailed explanation of the risk of currency rate fluctuations, please see "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—Fluctuations in exchange rates could result in foreign currency exchange losses." The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.



On April 13, 2018, the daily exchange rate reported by the Federal Reserve Board was RMB 6.2725 to US\$1.00. The following table sets forth additional information concerning exchange rates between Renminbi and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we use in this annual report or will use in the preparation of our future periodic reports or any other information to be provided to you.

	RMB per US\$1.00	
	High	Low
October 2017	6.6533	6.5712
November 2017	6.6385	6.5967
December 2017	6.6210	6.5063
January 2018	6.5263	6.2841
February 2018	6.3471	6.2649
March 2018	6.3565	6.2685
April 2018 (through April 13, 2018)	6.3045	6.2655

The following table sets forth the average exchange rates between Renminbi and U.S. dollars for each of 2013, 2014, 2015, 2016 and 2017 calculated by averaging the exchange rates on the last day of each month during each of the relevant years.

#### Average Exchange Rate

	RMB per US\$ 1.00
2013	6.1412
2014	6.1704
2015	6.2869
2016	6.6549
2017	6.7350

#### **B. Capitalization and Indebtedness**

Not Applicable.

#### **C. Reasons for the Offer and Use of Proceeds**

Explanation of Responses:

Not Applicable.

#### **D. Risk Factors**

*You should carefully consider all of the information in this annual report, including the risks and uncertainties described below, before deciding to invest in our ADSs. The trading price of our ADSs could decline due to any of these risks and uncertainties, and you may lose all or part of your investment.*

#### **Risks Relating to Our Business and Industry**

*We depend, and expect to continue to depend, on a limited number of customers for a significant portion of our revenues in any single period. If one customer defers or cancels its orders, our revenues and net income could decline significantly.*

The revenues for continuing operations generated by our top three customers for a particular year as a percentage of our total revenues decreased from 71.1% in 2015 to 54.9% in 2017. We currently still derive, and we expect to continue to derive, a significant portion of our revenues from a limited number of customers, although the particular customers may vary from period to period. As cloud-based application platforms, or cloud platforms, are still at the developing stage in the PRC, our major clients are large television and telecommunication network operators who are launching cloud services and need to establish their networks based on our platforms. If a customer terminates its relationship with us, our revenues and net loss could increase significantly and, as a result, our financial condition and results of operations could be materially and adversely affected.

***We have a limited operating history in providing cloud computing-based services, which makes it difficult to predict our future operating results.***

We introduced our first cloud computing-based service in 2012. As a result of our limited operating history, our ability to forecast our future operating results is limited and subject to a number of uncertainties, including our ability to plan for and model future growth. We face risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties (which we use to plan our business) are incorrect or change due to changes in our markets, or if we do not address these risks successfully, our business could suffer and our operating and financial results could differ materially from our expectations.

***Our operating results may fluctuate significantly, which could materially and adversely affect the price of our ADSs.***

Our operating results have fluctuated significantly in the past and are likely to continue to fluctuate significantly in the future. Such fluctuation may be a result of a number of factors, many of which are outside of our control. Our cost of revenues and operating expenses may also fluctuate. As a result, you may not be able to rely on period-to-period comparisons of our operating results as an indication of our future performance. In addition, our actual results may differ from market expectations, which may cause the price of our ADSs to decline significantly.

***The cloud computing market is subject to rapid technological changes, and we depend on new product and service introductions in order to maintain and grow our business.***

Cloud computing solutions and services is an emerging market that is characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. To compete successfully in this emerging market, we must continue to design, develop, manufacture, and sell new and enhanced cloud software products and services that provide increasingly higher levels of performance and reliability at lower costs.

***As an SEC registrant, we will continue to incur the expenses of complying with relevant reporting requirements.***

We remain an SEC registrant and continue to comply with the applicable reporting requirements of the Exchange Act, which includes the filing with the SEC of periodic reports and other documents relating to our business, financial

condition and other matters, even though compliance with such reporting requirements is economically burdensome.

***We depend upon key personnel, including our senior executives and technical and engineering staff, and our business and prospects would greatly suffer if we lose their services.***

Our future success depends heavily on the continued service of our key executives. In particular, we rely on the expertise and experience of our management team in our business operations and technology development efforts, and on their relationships with the regulatory authorities, our customers, our suppliers and our employees. If any of them becomes unable or unwilling to continue in their present positions, or if they join a competitor or form a competing company, we may not be able to replace them easily, our business may be significantly disrupted and our business, financial condition and results of operations may be materially and adversely affected. We do not currently maintain key-man insurance for any of our key personnel. Furthermore, our future success depends heavily upon our ability to recruit and retain experienced technical and engineering staff. There is substantial competition for qualified technical personnel from other companies in our industry as well as from businesses outside our industry, and we may not be successful in retaining technical and engineering employees and recruiting new ones. If we are unsuccessful in our recruitment and retention efforts, our business and prospects may be materially and adversely affected.

***We may face difficulties implementing our acquisition strategy, including identifying suitable opportunities and integrating acquired businesses and assets with our existing operations.***

Our ability to implement our acquisition strategy will depend on our ability to identify suitable acquisition candidates, our ability to compete effectively to attract and reach agreement with acquisition candidates on commercially reasonable terms and the availability of financing to complete larger acquisitions, as well as our ability to obtain any required shareholder or government approvals. In addition, any particular acquisition may not produce the intended benefits. For example, we may not be successful in integrating acquisitions with our existing operations and personnel, and the process of integration may cause unforeseen operating difficulties and expenditures and may divert significant attention of our management that would otherwise be available for the ongoing development of our business. If we make future acquisitions, we may issue new shares that dilute the interests of our other shareholders, expend cash, incur debt, assume contingent liabilities or create additional expenses related to the impairment of goodwill or the amortization of other intangible assets with estimable useful lives.

***Our business could be harmed if a defect in our software, technology or services interferes with, or causes any failure in, our customers' systems.***

A defect, error or performance problem with our software or technology could interfere with, or cause a critical component of, one or more of our customers' systems to fail for a period of time. Any negligence or error of our employees in the course of their performance of system integration, upgrade or maintenance services for our customers may also cause malfunctioning, suspension or failure of our customers' systems. Occurrence of such incidents could result in claims for substantial damages against us, regardless of whether we are responsible for such failure. Any claim brought against us could be expensive to defend and require the expenditure of a significant amount of resources, regardless of whether we prevail. In addition, we do not currently maintain any product or business liability insurance. Although we have not experienced any such material interference or failure in the past, our potential exposure to this risk may increase as sales of our products and customer demand for our upgrade or maintenance services grow. Any future problem in this area could cause severe customer service problems and reputational damage.

***If we fail to protect our intellectual property rights, it could harm our business and competitive position.***

We are required to continually improve our products and services to stay competitive in the marketplace, and as a result intellectual property is critical to our continued success. We rely on a combination of patent, trademark and copyright laws, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property rights and the obligations we have to third parties from whom we license intellectual property rights. Nevertheless, these afford only limited protection and policing unauthorized use of proprietary technology can be difficult and expensive. In addition, intellectual property rights historically have not been enforced in the PRC to the same extent as

in the United States, and intellectual property theft presents a serious risk in doing business in the PRC. We may not be able to detect unauthorized use of, or take appropriate steps to enforce, our intellectual property rights and this could have a material adverse effect on our business, financial condition and results of operations.

***We may be exposed to infringement or misappropriation claims by our suppliers and third parties that, if determined adversely to us, could require us to pay significant damage awards.***

Our success depends largely on our ability to use and develop our technology and know-how, and to provide services based on the contents from our suppliers without infringing the intellectual property rights of third parties and content suppliers. The validity and scope of any claims relating to our technology patents would involve complex technological, legal and factual questions and analyses and, as a result, the outcome of such claims would be highly uncertain. The services our cloud platforms provide rely heavily on our content suppliers, especially the game developers. We may be subject to litigation involving claims of violation of intellectual property rights of third parties if our contents are not from legal copyright sources. We may also be subject to litigation involving claims violation of intellectual property rights of our contents providers, if our application of the contents exceeds the scope we agreed upon with the contents providers. We may be subject to litigation involving claims of patent infringement or violation of other intellectual property rights of third parties. The defense of such claims would be costly and time-consuming, and could significantly divert the efforts and resources of our management and technical personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties and/or suppliers, require us to seek licenses from the right holders, pay ongoing royalties or redesign our products, or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation. In addition, we could face disruptions to our business and damage to our reputation, and our financial condition and results of operations could be materially adversely affected.

***We rely on a single facility for most of our business operations. Any destruction of, or significant disruption to, this facility could severely affect our ability to conduct normal business operations.***

Most of our business operations, all our research and development activities and our corporate headquarters are concentrated within a single facility that we lease in Beijing, PRC. As we do not maintain back-up facilities, we rely on this facility for the continued operation of our business. In addition, we currently do not maintain any business disruption or similar insurance coverage. A major earthquake, fire or other catastrophic event that results in the destruction of or significant disruption to, the facility could severely affect our ability to complete sales or conduct other normal business operations, which would materially reduce our revenues and increase net loss.

***We have identified a material weakness in our internal controls over financial reporting which could, if not remedied, result in material misstatements in our financial statements.***

We are subject to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires that we include a report of management on our internal controls over financial reporting in our annual report on Form 20-F.

In connection with the audit of our consolidated financial statements as of and for the fiscal year ended December 31, 2016, we and our independent registered public accounting firm identified a material weakness in internal controls over financial reporting related to insufficient accounting personnel with appropriate U.S. GAAP knowledge for accounting, presentation and disclosure of complex unusual transactions. Under standards established by the Public Company Accounting Oversight Board, a material weakness is a deficiency, or combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

In 2017, we took measures to address the material weakness identified above. We have designed and implemented more robust financial reporting and management controls for complex and unusual transactions going forward. In connection with the audit of our financial statements for the fiscal year ended December 31, 2017, we did not identify any material weakness in our internal controls and our financial reporting. There can be no assurance, however, that material weaknesses or significant deficiencies in our internal controls over financial reporting will not arise in the future. If material weaknesses or significant deficiencies in our internal controls over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements, and we could be required to restate our audited consolidated financial statements. This could cause investors to lose confidence in our reported financial information, harm our results of operations and lead to a significant decline in the trading price of our ADSs. Furthermore, ineffective internal controls over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and sanctions.

*We may need additional capital and we may not be able to obtain it.*

In order for us to grow, remain competitive, develop new products and services, expand our customer base and carry out acquisitions, we may seek to obtain additional capital in the future through selling additional equity or debt securities or obtaining a credit facility. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- conditions in the United States and other capital markets in which we may seek to raise funds;
- investors' perception of, and demand for, securities of digital television components and related companies; and

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·economic, political and other conditions in the PRC and elsewhere.

We may be unable to obtain additional capital in a timely manner or on acceptable terms or at all. Furthermore, the additional issuances of equity securities may result in significant dilution to our shareholders. The incurrence of debt would result in increased interest expense and could require us to agree to operating and financial covenants that would restrict our operations.

***We believe that we were classified as a passive foreign investment company, or PFIC, in 2017, and we believe we had been classified as a PFIC in certain prior years, which could result in adverse United States federal income tax consequences to U.S. holders of our ADSs and may result in additional adverse United States federal income tax consequences to such holders in subsequent years.***

Based on the market price of our ADSs and the composition of our assets, including the retention of a substantial amount of cash, we believe that we were a PFIC for United States federal income tax purposes for our taxable year ended December 31, 2017, and there is a significant risk that we will be a PFIC for our current taxable year ending December 31, 2018 unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income. In addition, it is possible that one or more of our subsidiaries may be or become classified as a PFIC for United States federal income tax purposes. It should be noted that we believe that we have been treated as a PFIC with respect to certain, but not all, prior taxable years. Unless certain elections are made, a U.S. holder, as defined in "Item 10. Additional Information—E. Taxation—United States Federal Income Taxation", that owns stock in a corporation treated as a PFIC will continue to be treated as owning stock in a PFIC even if the corporation is no longer treated as a PFIC with respect to a particular taxable year. If a U.S. holder acquired ADSs in a year when we were not treated as a PFIC but continues to own such ADSs in a year when we were treated as a PFIC, such U.S. holder would generally be treated as owning stock in a PFIC for such later year and all future years unless certain elections are made.

We will be classified as a PFIC in any taxable year if either: (1) the average percentage value of our gross assets during the taxable year (determined on a quarterly basis) that produce passive income or are held for the production of passive income is at least 50% of the value of our total gross assets; or (2) 75% or more of our gross income for the taxable year is passive income. If we hold substantial cash, cash equivalents and other passive assets, as we currently do, a significant decrease in the market price of our outstanding shares, among other changes, would increase the risk of us becoming a PFIC.

In any taxable year in which we are classified as a PFIC or you are treated as owning stock in a PFIC, and you are a U.S. holder of our ADSs or shares, you will generally be taxed at higher ordinary income rates, rather than lower capital gain rates, if you dispose of our ADSs or shares for a gain, even if we are not a PFIC in the year of disposition. In addition, a portion of the tax imposed on your gain would be increased by an interest charge if you dispose of our ADSs or shares in a year after the first year in which we were treated as a PFIC that you hold our ADSs or shares.

Similar treatment would apply if you receive distributions from us that are characterized as "excess distributions." Moreover, you will not be able to benefit from any preferential tax rate with respect to any dividend distribution that you may receive from us in a year in which we are a PFIC or in the following year. Finally, you will also be subject to special United States federal income tax reporting requirements. For more information on the United States federal income tax consequences to you that would result from our classification as a PFIC, see "Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—PFIC Rules." You should consult your tax advisor regarding the application of the PFIC rules to your investment in our ADSs or shares.

***Our bank accounts are not fully insured or similarly protected against loss.***

As of December 31, 2017, approximately 93.4% of our bank deposits were placed with two commercial banks in the PRC. Applicable PRC laws did not require that banks provide deposit insurance or similar protections to depositors in the PRC until the State Council promulgated the Regulations on Deposit Insurance in February 2015, which became effective on May 1, 2015. The maximum reimbursement limit for all the principal and interest of the deposits in all the insured deposit accounts opened by one depositor with one insured bank is currently set at RMB500,000, which amount may be adjusted by the competent government authorities. As a result, our bank accounts with deposits in excess of RMB500,000 are not fully insured or similarly protected. If a commercial bank with which we have placed our cash deposits becomes insolvent, or if we are otherwise unable to withdraw funds, we may be unable to recover the cash on deposit with that bank for amounts in excess of RMB500,000. As a result, our liquidity and cash flows, as well as financial condition and results of operations, could be materially and adversely affected.

*Certain of our existing shareholders have substantial influence over our company and their interests may not be aligned with the interests of our other shareholders.*

As of March 31, 2018, our largest shareholder, Mr. Jianhua Zhu, beneficially owned approximately 35.64% of our outstanding shares. Accordingly, Mr. Jianhua Zhu will have significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. He will also have the power to prevent or cause a change in control. In addition, without his consent, we could be prevented from entering into transactions that could be beneficial to us. Mr. Jianhua Zhu may cause us to take actions that are opposed by other shareholders as his interest may differ from the interests of our other shareholders. See "Item 7. Major Shareholders and Related Party Transactions" for more information regarding the share ownership of our officers, directors and significant shareholders.

#### **Risks Relating to the People's Republic of China**

*Our operations may be materially and adversely affected by changes in the economic, political and social conditions of the PRC.*

Substantially all of our non-cash assets are located in, and substantially all of our revenue is sourced from, the PRC. Accordingly, our business, financial condition, results of operations and prospects may be influenced to a significant degree by political, economic and social conditions in the PRC generally and by continued economic growth in the PRC as a whole.

The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth over the past three decades, growth has been uneven across different regions and among various economic sectors. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our operating results and financial condition may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. We cannot predict the possible impact of any future economic policies of the PRC government on our business and operations.

The PRC is facing a continued slowdown in economic growth. China's annual gross domestic product growth rate in 2017 was 6.9%, which remained relatively stable compared to 6.7% in 2016 and 6.9% in 2015. This slowdown could

cause a slowdown or decline in investment in cable television networks, which, in turn, may result in a reduction of demand for our products and services and thus materially reduce our revenues.

***Uncertainties in the interpretation and enforcement of PRC laws, rules and regulations could limit the legal protections available to you and us.***

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which legal decisions have limited value as precedents. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in the PRC. Beijing Cyber Cloud Co., Ltd., or Cyber Cloud, is a foreign-invested enterprise, or FIE, and is subject to laws, rules and regulations applicable to foreign investment in the PRC as well as laws, rules and regulations applicable to FIEs. These laws, rules and regulations change frequently, and their interpretation and enforcement involve uncertainties. For example, we may have to resort to administrative and court proceedings to enforce the legal protections that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may also impede our ability to enforce the contracts we have entered into, and materially impair our business and operations.

***The approval of the China Securities Regulatory Commission might be required in connection with our initial public offering under certain PRC regulation; failure to obtain this approval, if required, could have a material adverse effect on our business, financial condition, results of operations and reputation as well as the trading price of our ADSs.***

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, or the MOFCOM, the State-owned Assets Supervision and Administration Commission, or the SASAC, the State Administration for Taxation, or the SAT, the State Administration for Industry and Commerce, or the SAIC, the China Securities Regulatory Commission, or the CSRC, and the State Administration of Foreign Exchange, or the SAFE, jointly adopted the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*, or the M&A Rules, which became effective on September 8, 2006 and were amended on June 22, 2009. The M&A Rules, among other things, include provisions that purport to require that an offshore special purpose vehicle formed for the purpose of an overseas listing of securities in a PRC company obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

We completed the initial listing and trading of our ADSs on the NYSE on October 11, 2007. We did not seek CSRC approval in connection with our initial public offering. Our PRC counsel, Han Kun, advised us that, based on their understanding of the current PRC laws, regulations and rules, because we completed our restructuring in 2004 in connection with an equity investment in our company by a private equity investor more than two years prior to the promulgation of the M&A Rules, we were not and are not required by the M&A Rules to apply to the CSRC for approval of our initial public offering unless we are clearly required to do so by any rules promulgated in the future. See "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations of Overseas Listings." However, the application of the M&A Rules remains unclear. If the CSRC or another PRC regulatory agency subsequently determines that the CSRC's approval was required for our initial public offering, we may face sanctions by the CSRC or another PRC regulatory agency. If this happens, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our privileges in the PRC or take other actions that could have a material adverse effect on our business, financial condition, results of operations and prospects, as well as the trading price of our ADSs.

***PRC regulations relating to offshore investment activities by PRC residents may increase the administrative burden we face and create regulatory uncertainties that could restrict our overseas and cross-border investment activity, and a failure by our shareholders who are PRC residents to make any required applications and filings pursuant to such regulations may prevent us from being able to distribute profits and could expose us and our PRC-resident shareholders to liability under PRC law.***

The SAFE has promulgated several regulations, including the *Notice on Issues Relating to the Administration of Foreign Exchange in Overseas Investment, Fund-Raising and Round-Trip Investment Activities of Domestic Residents via Offshore Special Purpose Vehicles*, or SAFE Notice 37, and its implementation rules and guidance, that require PRC residents (including PRC individuals and corporate entities) to register with and obtain approvals from relevant

PRC government authorities (or qualified banks designated by them) in connection with such PRC residents' direct or indirect offshore investment activities. These regulations may apply to our shareholders who are PRC residents in connection with our prior and any future offshore acquisitions.

Under SAFE Notice 37, a "special purpose vehicle" refers to an offshore entity directly established or indirectly controlled by PRC residents for the purpose of seeking offshore equity financing or making offshore investment, using legitimate domestic or offshore assets or interests owned by such PRC residents, while "round trip investment" refers to the direct investment in China by such PRC residents through the "special purpose vehicles," including, without limitation, establishing FIEs and using such FIEs to purchase or control onshore assets through contractual arrangements. SAFE Notice 37 and the *Notice on Further Simplifying and Improving Foreign Exchange Policy on Direct Investment*, or SAFE Notice 13, effective as of June 1, 2015, require that, before making a contribution into a "special purpose vehicle," PRC residents are required to complete a foreign exchange registration with qualified banks for their overseas investments. In addition, PRC residents are required to update their previously filed registrations with respect to such special purpose vehicles to reflect any material change, such as any change of basic information (including change of such PRC residents, name and operation term), increases or decreases in investment amounts, transfers or exchanges of shares, and mergers or divisions. The qualified banks, under the supervision of the SAFE, will directly examine the applications and conduct the registration. If a PRC resident fails to make the required SAFE registration or update the previously filed registration, the PRC subsidiaries of such offshore parent company may be prohibited from making distributions of profit to the offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion.

We have notified holders of our ordinary shares who we know to be PRC residents to register with the qualified banks and update their registrations as required by the relevant SAFE regulations described above. However, we cannot assure you that all of our shareholders who are PRC residents will comply with our request to make or obtain any registrations or approvals or update their previously filed registrations as required under these regulations or other related legislation. If any existing shareholder transfers any of our shares or ADSs to another PRC resident, it is unclear whether such new shareholder is also required to make the SAFE registration. Furthermore, as the interpretations and practice in implementing these SAFE regulations have been constantly evolving, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. The failure or inability of our PRC resident shareholders to obtain any required approvals or make any required registrations may subject us to fines and legal sanctions, restrict our cross-border investment activities or obtaining of shareholders loans, and prevent us from being able to make distributions or pay dividends, as a result of which our business as well as our ability to distribute profits to you could be materially and adversely affected.

***We may be subject to fines and legal sanctions if we or our employees who are domestic individuals fail to comply with the PRC regulations relating to employee share options granted by overseas-listed companies to domestic individuals.***

In February 2012, the SAFE promulgated the *Notice relating to Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas-Listed Companies*, or SAFE Notice 7, which superseded the *Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plans or Stock Option Plans of Overseas-Listed Companies*, or SAFE Notice 78, promulgated by the SAFE in March 2007. SAFE Notice 7 is applicable to directors, supervisors, senior management personnel and other employees of an overseas-listed company incorporated in the PRC, PRC subsidiaries or branches of an overseas-listed company, and any PRC entities which are directly or indirectly controlled by an overseas-listed company, or, collectively, Domestic Companies, including PRC citizens (including Hong Kong, Macau and Taiwan) and foreign citizens who have resided in the PRC for one year or longer, or, collectively, Domestic Individuals. Under SAFE Notice 7, Domestic Individuals who participate in a stock incentive plan of an overseas-listed company are required, through a Domestic Company or a PRC entity designated by a Domestic Company, or the Domestic Agent, to register with the SAFE or its authorized local counterparts and complete certain other procedures. As we are an overseas-listed company, we and our employees who are Domestic Individuals and have been granted share options or any other share-related rights and benefits under our stock incentive plans are subject to SAFE Notice 7. We have registered ourselves and on behalf of our employees with the relevant local SAFE branch pursuant to SAFE Notice 7. However, there exist significant uncertainties in practice with respect to the interpretation and implementation of SAFE Notice 7 and we cannot assure you that we or our employees who are Domestic Individuals will be in full compliance with SAFE Notice 7. If the SAFE or other PRC government authorities determine that we or our employees who are Domestic Individuals fail to comply with the provisions of SAFE Notice 7, we or they may be subject to fines and legal sanctions. See "Item 4. Information on the Company—B. Business Overview—Regulations—Stock Incentive Plans."

***We may rely on dividends and other distributions on equity paid by our operating subsidiary to fund cash and financing requirements and limitations on the ability of our operating subsidiary to pay dividends to us could materially restrict our ability to conduct our business.***

We, as a holding company, may rely on dividends and other distributions on equity paid by our operating subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay our operating expenses. If our operating subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us. Furthermore, relevant PRC laws, rules and regulations permit payments of dividends by our operating subsidiaries in China only out of their retained earnings, if any, determined in accordance with PRC accounting standards and regulations. Under applicable PRC laws, rules and regulations, each of our PRC subsidiaries is required to set aside 10% of its after-tax profits, if any, each year to fund a statutory reserve until the accumulated amount of such reserve has exceeded 50% of its registered capital. This reserve is not distributable as cash dividends to equity owners. As a result of these PRC laws, rules and regulations, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. Limitations on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

***Restrictions on currency exchange may limit our ability to effectively utilize our revenues as well as the ability of our PRC subsidiaries to obtain debt or equity financing from financial institutions or investors outside the PRC, including us.***

Substantially all of our operating revenues have been denominated in Renminbi. The Renminbi is currently convertible under the "current account," which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account," which includes foreign direct investment and loans. Currently, our subsidiaries in China may purchase foreign exchange for settlement of "current account transactions," including payment of dividends to us, without the approval of the SAFE by complying with certain procedural requirements. However, the relevant PRC government authorities may limit or eliminate our ability to purchase foreign currencies in the future for current account transactions. Since a significant amount of our future revenues will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize revenues generated in Renminbi to fund our business activities outside the PRC denominated in foreign currencies or pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

In addition, certain foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE (or qualified banks designated by it) and other relevant PRC government authorities. In particular, any loans to Cyber Cloud or its subsidiaries are subject to PRC regulations and approvals. For example, loans by us to Cyber Cloud, an FIE, cannot exceed statutory limits and must be registered with the SAFE or its local counterpart.



This could affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

*Fluctuations in exchange rates could result in foreign currency exchange losses.*

Substantially all of our operating revenues are denominated in Renminbi and the net proceeds from our initial public offering are denominated in U.S. dollars, fluctuations in exchange rates between U.S. dollars and Renminbi will affect the relative purchasing power of these proceeds and our balance sheet and earnings per share in U.S. dollars. Appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business, financial condition or results of operations. Since July 2005, the Renminbi is no longer pegged solely to the U.S. dollar. Instead, the Renminbi is reported to be pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.3% each day. This permitted floating range was increased to 0.5% in May 2007 and was further increased to 2.0% in March 2014. The Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of the Renminbi against the U.S. dollar. Fluctuations in the exchange rate will also affect the relative value of dividends, if any, payable on our ordinary shares in U.S. dollar terms and the value of any U.S. dollar-denominated investments we make in the future. In addition, since substantially all of our operating revenues and cost of revenues are denominated in Renminbi, fluctuations in the exchange rate could also impact our financial condition and results of operations.

Very limited hedging transactions are available in the PRC to reduce our exposure to exchange rate fluctuations. We did not enter into any hedging transactions in 2015, 2016 or 2017. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of hedging transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

***The discontinuation of any of the preferential tax treatments or the financial incentives currently available to us in the PRC could materially and adversely affect our business, financial condition, results of operations and prospects.***

The PRC government has provided various incentives to our PRC subsidiaries. These incentives include reduced enterprise income tax rates and value-added tax, or VAT refunds. For example, Cyber Cloud obtained its High-and-New Technology Enterprise, or HNTE certificate and qualified for a preferential tax rate of 15% (against the standard income tax rate of 25%) since 2014. In October 2017, Cyber Cloud renewed its HNTE certificate and was entitled for a preferential tax rate of 15% for another three years from 2017 to 2019. Furthermore, for certain software-related products that are qualified as "software products" by PRC tax authorities, we received tax refunds which effectively reduce the applicable VAT rate from 17% to 3%.

Cyber Cloud must meet a number of financial and non-financial criteria in order to continue to qualify for the above tax incentives. For example, in order to be able to enjoy the preferential income tax rate of 15%, Cyber Cloud must be qualified as "high-and-new technology enterprises strongly supported by the State" under the PRC Enterprise Income Tax Law, or the EIT Law, which took effect on January 1, 2008 and was amended on February 24, 2017. Moreover, the PRC government could determine at any time to eliminate or reduce the scale of such preferential tax policies. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxes and Incentives—PRC."

Any increase in Cyber Cloud's enterprise income tax rate or discontinuation or reduction of any of the preferential tax treatments or financial incentives currently enjoyed by Cyber Cloud could have a material adverse effect on our business, financial condition, results of operations and prospects.

***We may be subject to PRC income tax on our global income, or dividends we receive from our PRC subsidiary may be subject to PRC withholding tax, depending on whether we are recognized as a resident enterprise in the PRC.***

Pursuant to the EIT Law and Enterprise Income Tax Law Implementation Rules, or the Implementation Rules, enacted by the State Council on December 6, 2007 and which became effective on January 1, 2008, an enterprise established under the laws of a foreign country or region whose "de facto management body" is located within the

PRC territory is considered a resident enterprise and will generally be subject to the enterprise income tax at the rate of 25% on its global income as well as PRC enterprise income tax reporting obligations. According to the Implementation Rules, "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the production and business, personnel, accounting and assets of an enterprise. The SAT issued the Notice on Issues Relating to Determination of Chinese-Controlled Offshore Enterprises as PRC Resident Enterprises by Applying the "De Facto Management Body" Test, or SAT Notice 82, on April 22, 2009, which was amended in January 2014 and in December 2017. SAT Notice 82 provides for certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore enterprise is located in the PRC. In addition, on July 27, 2011, the SAT issued the Administrative Measures of Enterprise Income Tax of Chinese-Controlled Offshore Resident Enterprises (Trial), or SAT Bulletin 45, which became effective on September 1, 2011, to provide guidance on the implementation of SAT Notice 82. SAT Bulletin 45 clarifies certain issues relating to: (i) the determination procedures of PRC resident enterprise status; and (ii) tax registration and other related procedures for PRC resident enterprises. SAT Bulletin 45 also provides that if an offshore PRC resident enterprise presents a copy of the PRC tax resident determination certificate issued by the competent tax authorities to a payer of PRC-sourced dividends, interest, royalties and other income, such payer shall not withhold income tax on these payments to the offshore PRC resident enterprise. Although each of SAT Notice 82 and SAT Bulletin 45 provides that it only applies to offshore enterprises controlled by PRC enterprises, not those controlled by PRC individuals, like our company, it is generally believed that the determining criteria set forth therein very likely reflect the SAT's general position as to how the "de facto management body" test should be applied to determine the tax residency of all offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. With reference to the criteria set forth in SAT Notice 82, we believe that we are not a PRC resident enterprise. However, if we were considered a PRC resident enterprise, although dividends we receive from our PRC operating subsidiary would be exempt from PRC withholding tax, we would be subject to the enterprise income tax at the rate of 25% on our global income as well as PRC enterprise income tax reporting obligations. In such case, our profitability and cash flow would be materially reduced as a result of our global income being taxed under the EIT Law.

If we are considered as a non-resident enterprise under the EIT Law, we will not be subject to the enterprise income tax at the rate of 25% on our global income. In such case, however, dividends we receive from our PRC subsidiary will be subject to a PRC withholding tax, the standard rate of which is 10% and may be reduced by an applicable tax treaty, under the 2008 EIT Law. According to the Arrangement for Avoidance of Double Taxation on Income and Prevention of Tax Evasion entered into between the PRC and Hong Kong in August 2006, as amended, dividends paid by a PRC FIE to its shareholder in Hong Kong are generally subject to a 5% PRC withholding tax, subject to satisfaction of certain conditions and requirements, compared to the standard 10% PRC withholding tax under the EIT Law. In February 2018, the SAT issued the *Announcement Regarding Recognition of Beneficial Owners under Tax Treaties*, or the SAT Announcement 9, which will become effective from April 1, 2018 and supersede SAT Notice 601 issued by the SAT on October 27, 2009 and SAT Announcement 30 released by the SAT on June 29, 2012. Pursuant to SAT Announcement 9, non-resident enterprises that cannot provide valid supporting documents as “Beneficial Owners” may not be approved to enjoy tax treaty benefits. “Beneficial Owners” are residents who have ownership and the right to dispose of the income or the rights and properties giving rise to the income. These rules also set forth certain adverse factors against the recognition of a “Beneficial Owner”, such as not carrying out substantive business activities. Whether a non-resident enterprise may obtain tax benefits under the relevant tax treaty will be subject to approval of the relevant PRC tax authority and will be determined by the PRC tax authority on a case-by-case basis. SAT Announcement 9 further provides that a comprehensive analysis should be made when determining the beneficial owner status based on various factors supported by documents including the articles of association, financial statements, records of cash movements, board meeting minutes, board resolutions, staffing and materials, relevant expenditures, functions and risk assumption as well as relevant contracts and other information. Currently we indirectly hold the equity interest of our PRC subsidiaries through China Super Media Holdings Limited, or CSM Holdings, a wholly owned subsidiary incorporated in Hong Kong. As a result, to the extent we are considered as a non-resident enterprise and CSM Holdings is not recognized as a qualified beneficial owner under the relevant tax treaty, dividends we receive from our PRC subsidiaries, if any, will be subject to the standard rate of 10%. Such withholding tax will increase our tax burden and reduced the amount of cash available to our Company.

***Dividends payable by us to our non-PRC shareholders and ADS holders, and gains on the sales of our ordinary shares or ADSs, may be subject to withholding taxes under PRC tax laws, which may materially reduce the value of your investment.***

The EIT Law and the Implementation Rules, both of which became effective on January 1, 2008, provide that an income tax rate of 10% (which may be reduced by the relevant tax treaties between the PRC and other jurisdictions) will generally be applicable to dividends payable to non-resident enterprises, which do not have an establishment or place of business in the PRC or whose establishment or place of business in the PRC has no connection with the dividends, to the extent such dividends are derived from sources within the PRC and paid out of distributable profits accumulated on or after January 1, 2008. In addition, any gain realized on the transfer of shares by non-resident enterprises is also subject to the 10% income tax if such gain is regarded as income derived from sources within the PRC, unless the applicable tax treaties provide for an alternative withholding arrangement. Furthermore, dividends payable to non-PRC individual investors and any gain realized on the transfer of our ADSs or ordinary shares by such non-PRC individual investors may be subject to PRC income tax at a rate of 20% (which may be reduced or exempted by the relevant tax treaties between the PRC and other jurisdictions).

If we are considered as a PRC resident enterprise, our dividends payable to our non-PRC shareholders and ADS holders, and any gain realized from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and would as a result be subject to PRC tax. If dividends payable to our non-PRC shareholders and ADS holders are subject to PRC tax, or if non-PRC shareholders and ADS holders are required to pay PRC tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially reduced.

***We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies. Enhanced scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.***

On February 3, 2015, the State Administration of Tax issued a *Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises*, or Public Notice 7, which partially replaced and supplemented previous rules under the *Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises*, or Circular 698, issued by the State Administration of Taxation on December 10, 2009. Public Notice 7 extends its tax jurisdiction to not only indirect transfers set forth under Circular 698 but also transactions involving transfer of other taxable assets, through the offshore transfer of a foreign intermediate holding company. Public Notice 7 also brings challenges to both the foreign transferor and transferee (or other person who is obligated to pay for the transfer) of the taxable assets. Where a non-resident enterprise conducts an "indirect transfer" by transferring the taxable assets indirectly by disposing of the equity interests of an overseas holding company, the non-resident enterprise being the transferor, or the transferee, or the PRC entity which directly owned the taxable assets may report to the relevant tax authority such indirect transfer. Using a "substance over form" principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes. Nevertheless, Public Notice 7 has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market.

On October 17, 2017, the State Administration of Tax issued the *Announcement on Issues Relating to Withholding at Source of Income Tax of Non-Resident Enterprises*, or SAT Bulletin 37, which came into effect on December 1, 2017 and concurrently abolished Circular 698. The SAT Bulletin 37 further clarifies the practice and procedure of the withholding of non-resident enterprise income tax.

We face uncertainties on the reporting and consequences on future private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. We and our non-resident enterprises may be subject to filing obligations or being taxed if we and our non-resident enterprises are transferors in such transactions, and may be subject to withholding obligations if we and our non-resident enterprises are transferees in such transactions, under Public Notice 7 and/or SAT Bulletin 37. For the transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under Public Notice 7 and/or SAT Bulletin 37. As a result, we may be required to expend valuable resources to comply with Public Notice 7 and/or SAT Bulletin 37. or to request the relevant transferors from whom we purchase taxable assets to comply with these circulars, or to establish that we and our non-resident enterprises should not be taxed under these circulars, which may have a material adverse effect on our financial condition and results of operations.

The PRC tax authorities have the discretion under Public Notice 7 and/or SAT Bulletin 37 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and the cost of investment. If we are considered a non-resident enterprise under the EIT Law and if the PRC tax authorities make adjustments to the taxable income of the transactions under Public Notice 7 and/or SAT Bulletin 37, our income tax costs associated with such potential acquisitions will be increased, which may have an adverse effect on our financial condition and results of operations.

***The M&A Rules and other recent PRC laws, rules and regulations have established more complex procedures for acquisitions conducted by foreign investors, which could make it more difficult for us to pursue growth through acquisitions.***

The M&A Rules established certain procedures and requirements that could make mergers and acquisitions by foreign investors in China more time-consuming and complex. In addition, PRC *national security review rules*, which became effective on September 1, 2011, subject acquisitions by foreign investors of PRC companies that conduct business in military-related or certain other industries that are crucial to national security to a security review before the consummation of any such acquisition. Furthermore, the PRC Anti-Monopoly Law, which became effective on August 1, 2008, requires, among other things, that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor acquires control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds set forth in the *Provisions on Thresholds for Prior Notification of Concentrations of Undertakings* issued by the State Council on August 3, 2008 are triggered.

We may grow our business in part by pursuing potential strategic acquisitions that are complementary to our business and operations. Complying with the requirements of these PRC laws, rules and regulations to complete such acquisitions could be time-consuming, and any required approval procedures, including obtaining approvals from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market position.

***Natural disasters and health hazards in the PRC may severely disrupt our business and operations and may have a material adverse effect on our financial condition and results of operations.***

From time to time, certain parts of China have experienced devastating natural disasters and health hazards causing tens of thousands of deaths and widespread injuries. In addition, parts of Mainland China, in particular its southern, central and eastern regions, have in the past experienced what was reportedly the most severe winter weather in the country in half a century, which resulted in significant and extensive damage to factories, power lines, homes, automobiles, crops and other properties, blackouts, transportation and communications disruptions and other losses in the affected areas. Moreover, certain countries and regions, including China, have encountered incidents of the H5N1 strain of bird flu, or avian flu, as well as severe acute respiratory syndrome, or SARS, and the outbreak of influenza (H7N9). We are unable to predict the effect, if any, that any future natural disasters and health and public security hazards may have on our business. Any future natural disasters and health and public security hazards may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, such natural disasters and health and public security hazards may severely restrict the level of business activity in affected areas, which may, in turn, materially and adversely affect our business and prospects. As a result, any natural disasters or health hazards in China may have a material adverse effect on our financial condition and results of operations.



***The implementation of the PRC Labor Contract Law may increase our operating expenses and adversely affect our business and results of operations.***

The PRC Labor Contract Law, as amended, and its implementation rules formalize workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions and provide for specific standards and procedures for the termination of an employment contract. In addition, the Labor Contract Law requires the payment of a statutory severance pay upon the termination of an employment contract in most cases, including in cases of the expiration of a fixed-term employment contract. As there has been little guidance as to how the Labor Contract Law will be interpreted and enforced by the relevant PRC authorities, there remains substantial uncertainty as to its potential impact on our business and results of operations. The implementation of the Labor Contract Law may increase our operating expenses, in particular our personnel expenses and labor service expenses. In the event that we decide to significantly reduce the number of our employees or otherwise change our employment or labor practices, the Labor Contract Law may also limit our ability to effect these changes in a manner that we believe to be cost-effective or desirable, which could materially and adversely affect our business, financial condition and results of operations.

***Our independent registered public accounting firm may be temporarily suspended from practicing before the SEC if unable to continue to satisfy SEC investigation requests in the future. If a delay in completion of our audit process occurs as a result, we could be unable to timely file certain reports with the SEC.***

We have substantially all of our operations in China and our independent registered public accounting firm is located in China.

On January 22, 2014, Judge Cameron Elliot, an SEC administrative law judge, issued an initial decision suspending the Chinese member firms of the "Big Four" accounting firms, including our independent registered public accounting firm, from practicing before the SEC for six months. In February 2014, the initial decision was appealed. While under appeal and in February 2015, the Chinese member firms of the "Big Four" accounting firms reached a settlement with the SEC. As part of the settlement, each of the Chinese member firms of "Big Four" accounting firms agreed to settlement terms that include a censure, undertakings to make a payment to the SEC, procedures and undertakings as to future requests for documents by the SEC, and possible additional proceedings and remedies should those undertakings not be adhered to.

If the settlement terms are not adhered to, our independent registered public accounting firm may be suspended from practicing before the SEC which could in turn delay the timely filing of our financial statements with the SEC. In addition, it could be difficult for us to timely identify and engage another qualified independent registered public accounting firm to replace our current one. A delinquency in our filings with the SEC may result in SEC initiating procedures, which could adversely harm our reputation and have other material adverse effects on our overall growth and prospects.

***Our independent registered public accounting firm's audit documentation related to its audit report included in our annual report includes audit documentation located in China. The Public Company Accounting Oversight Board currently cannot inspect audit documentation located in China and, as such, you may be deprived of the benefits of such inspection.***

Our independent registered public accounting firm issued an audit opinion on the financial statements included in our annual report filed with the SEC. As an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board, or the PCAOB, our auditor is required by the laws of the United States to undergo regular inspections by the PCAOB. However, work papers located in China are not currently inspected by the PCAOB because the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities.

Inspections of certain other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. However, the PCAOB is currently unable to inspect an auditor's audit work and audit documentation in China. As a result, our investors may be deprived of the benefits of the PCAOB's oversight of auditors that are located in China through such inspections.

The inability of the PCAOB to conduct inspections of an auditor's work papers in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures that are located in China as compared with auditors outside of China that are subject to PCAOB inspections. Investors may consequently lose

confidence in our reported financial information and procedures and the quality of our financial statements.

### **Risks Relating to the ADSs**

*Our ADSs were delisted from the NYSE and are now quoted on the OTC Markets, which have limited the liquidity and price of the ADSs.*

Our ADSs began quotation on the OTC Markets on May 16, 2017, when its trading on NYSE were halted, and were removed from listing on the NYSE on October 25, 2017. Although we remain as an SEC registered company and will continue to file our annual report on Form 20-F, the liquidity of the OTC Markets is very limited and many institutions are prohibited from transacting in securities in the OTC Markets. Volatility in the price of our ADSs may be caused by factors outside of our control and may be unrelated or disproportionate to changes in our results of operation.

***The trading price of our ADSs has been and may continue to be volatile, which could result in substantial losses to you.***

The trading price of our ADSs has been volatile and subject to wide fluctuations. Since October 5, 2007, the closing prices of our ADSs have ranged from US\$0.14 to US\$51.08 per ADS and the last reported sale price of our ADSs on April 19, 2018 was US\$0.14. Our ADSs may continue to fluctuate in response to various factors beyond our control. The financial markets in general, and the market prices for many other PRC companies listed on stock exchanges in the United States in particular, have experienced extreme volatility. These broad market and industry factors may significantly affect the market price and volatility of our ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for specific business reasons. In particular, factors such as variations in our revenues, earnings and cash flow, announcements of new investments and cooperation arrangements, acquisitions or disposition could cause the market price for our ADSs to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our ADSs. In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted securities class action litigation against that company. If we were involved in a class action suit, it could divert the attention of senior management, and, if adversely determined, have a material adverse effect on our financial condition and results of operations.

***Your interest in our ADSs will be diluted as a result of our stock incentive plans or other share option grants.***

As of March 31, 2018, options to purchase an aggregate of 707,405 ordinary shares had been granted and were outstanding under the 2005 Stock Incentive Plan, the 2008 Stock Incentive Plan, the 2010 Stock Incentive Plan and the 2012 Stock Incentive Plan. For a description of these plans, see "Item 6. Directors, Senior Management and Employees—B. Compensation of Directors and Senior Officers—Share Options." The exercise of those options would result in a reduction in the percentage of ownership of the holders of ordinary shares and of ADSs, and therefore would result in a dilution in the earnings per ordinary share and per ADS.

***You may face difficulties in protecting your interest, and your ability to protect your rights through the United States federal courts may be limited, because we are incorporated under Cayman Islands law.***

Our corporate affairs are governed by our Second Amended and Restated Memorandum and Articles of Association, as amended, the Cayman Islands Companies Act and the common law of the Cayman Islands. The rights of shareholders to take action against the directors and actions by minority shareholders are to a large extent governed by the common law of the Cayman Islands. Cayman Islands law in this area may not be as established and may differ

from provisions under statutes or judicial precedent in existence in the United States. As a result, our public shareholders may face different considerations in protecting their interests in actions against our management or directors than would shareholders of a corporation incorporated in a jurisdiction within the United States.

The rights of shareholders and the responsibilities of management and members of the board of directors under Cayman Islands law, such as in the areas of fiduciary duties, are different from those applicable to a company incorporated in a jurisdiction of the United States. For example, the Cayman Islands courts are unlikely:

- to recognize or enforce against us judgments of courts of the United States based on the civil liability provisions of United States federal securities laws; and

- in original actions brought in the Cayman Islands, to impose liabilities against us based on the civil liability provisions of United States federal securities laws that are penal in nature.

As a result, our public shareholders may have more difficulty in protecting their interests in connection with actions taken by our management or members of our board of directors than they would as public shareholders of a company incorporated in the United States.

***Certain judgments obtained against us by our shareholders may not be enforceable.***

We are a Cayman Islands company and substantially all of our assets are located outside the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the United States federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

***Your voting rights as a holder of our ADSs are limited by the terms of the deposit agreement.***

You may exercise your voting rights with respect to the ordinary shares underlying your ADSs only in accordance with the provisions of the deposit agreement. Upon receipt of voting instructions from you in the manner set forth in the deposit agreement, the depositary for our ADSs will endeavor to vote your underlying ordinary shares in accordance with these instructions. Under our Second Amended and Restated Memorandum and Articles of Association and Cayman Islands law, the minimum notice period required for convening a general meeting is 15 days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter at the meeting. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but you may not receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ordinary shares are not voted as you requested.

***The depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, except in limited circumstances, which could adversely affect your interests.***

Under the deposit agreement for our ADSs, the depositary will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders' meetings if you do not vote, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that you cannot prevent our ordinary shares underlying your ADSs from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence the management of our company.

***You may not receive distributions on our ordinary shares or any value for them if it is illegal or impractical to make them available to you.***

The depositary of our ADSs has agreed to pay you the cash dividends or other distributions it or the custodian for our ADSs receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of our ordinary shares that your ADSs represent. However, the depositary is not responsible if it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of ADSs if any government approval or registration required for such distribution cannot be obtained after reasonable efforts made by the depositary. We have no obligation to take any other action to permit the distribution of our ADSs, ordinary shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material and adverse effect on the value of your ADSs.

*You may not be able to participate in rights offerings and may experience dilution of your holdings.*

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. The depositary may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

*You may be subject to limitations on transfer of your ADSs.*

Your ADSs represented by ADRs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

#### **Item 4. Information on the Company**

##### **A. History and Development of the Company**

Our holding company, China Digital TV Holding Co., Ltd., was incorporated as an exempted limited liability company on April 19, 2007 under the laws of the Cayman Islands. We are headquartered in Beijing, China, and provide cloud platforms, with gaming and other applications embedded, to PRC digital television and telecommunication network operators, enabling them to bring these applications to household television sets and other mobile devices.



Our principal executive office is located at Jingmeng High-Tech Building B, 4th Floor, No. 5 Shangdi East Road, Haidian District, Beijing 100085, PRC. Our telephone number is (8610) 6297 1199. Information contained on our website does not constitute a part of this annual report. Our agent for service of process is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011, U.S.A.

In March 2004, China Digital TV Technology Co., Ltd., or CDTV BVI, was incorporated as a holding company in the British Virgin Islands, or BVI. Following the establishment of CDTV BVI, we restructured our operations by establishing Beijing Super TV, a limited liability company under the PRC law and a wholly owned subsidiary of CDTV BVI, on May 31, 2004. In April 2007, a new holding company, CDTV Holding, was established in the Cayman Islands. In May 2007, CDTV BVI executed a 40-for-1 share split of its ordinary shares and Series A preferred shares. Following this share split, the shareholders of CDTV BVI exchanged all of their shares of CDTV BVI for shares of CDTV Holding in proportion to their percentage interest in CDTV BVI, as a result of which CDTV BVI became a wholly owned subsidiary of CDTV Holding.

In October 2007, we completed the initial public offering of our ADSs representing our ordinary shares and listed the ADSs on the NYSE.

In order to benefit from certain beneficial tax arrangements between the PRC and Hong Kong, in December 2007, CDTV BVI acquired Golden Benefit Technology Limited, or Golden Benefit, a company incorporated in Hong Kong, for a nominal consideration, and transferred its 100% equity interest in Beijing Super TV to Golden Benefit. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—We may be subject to PRC income tax on our global income, or dividends we receive from our PRC subsidiary may be subject to PRC withholding tax, depending on whether we are recognized as a resident enterprise in the PRC" and "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxes and Incentives—PRC."

Since December 2007, new entities have been established or acquired in the PRC to offer new solutions and products, including Beijing Novel-Super Media Investment Co., Ltd., or N-S Media Investment, Beijing Joysee Technology Co., Ltd., or Joysee, Beijing Xinsi Yijia Technology Co., Ltd., or Xinsi Yijia and Beijing Shibo Qihang Technology Co., Ltd., or Shibo Qihang.

To facilitate the sale of our products in the overseas market, CSM Holdings was established in Hong Kong in February 2008.

N-S Investment Holdings Co., Ltd., or N-S Investment Holdings, and Cyber Cloud were incorporated in the PRC as subsidiaries of our company in July 2010 and January 2011, respectively. In June 2014, N-S Investment Holdings was renamed Beijing N-S Information Technology Co., Ltd., or N-S Information Technology,

In May 2016, certain key employees made a cash investment in Beijing Super TV in return for 9.91% of the outstanding equity interest in Beijing Super TV. As a result, the equity interest of Beijing Super TV held by the Company was diluted to 90.09%.

Beijing Super TV and its wholly owned subsidiary, Beijing Novel-Super Digital TV Technology Co., Ltd., or N-S Digital TV, or collectively Super TV, which operate our discontinued CA and CA-related businesses, represented a substantial portion of our business until the sale of all the equity interest in Beijing Super TV by Golden Benefit, for RMB610 million, or the Super TV Disposition, under a definitive equity transfer agreement, or the Equity Transfer Agreement, entered into between Golden Benefit and Changxing Bao Li Rui Xin Technology Co., Limited, or Bao Li, in December 2016, as followed by a supplemental agreement on December 26, 2016. Bao Li paid the consideration in Renminbi to a PRC subsidiary of the Company on December 27, 2016 and Beijing Super TV completed the legal registration update of its shareholder information with the relevant PRC governmental authorities on December 29, 2016. As a result, from December 29, 2016, the Company no longer retained power of control over Beijing Super TV.

In April 2017, Nanjing Yunyao Shibo Information Technology Co., Ltd., or Nanjing Yunyao, was incorporated in the PRC as a wholly owned subsidiary of Cyber Cloud.

Our ADSs were removed from listing on NYSE on October 25, 2017 because, in the opinion of NYSE, our ADSs are no longer suitable for continued listing and trading on NYSE. NYSE took this action pursuant to Section 802.01D of the NYSE Listed Company Manual which states, in part, that NYSE may commence delisting proceedings when a company has sold or otherwise disposed of its principal operating assets or has ceased to be an operating company. Our ADSs are quoted on the OTC Markets under the symbol "STVVY" as of the date of this annual report.

### *Capital Expenditures and Divestitures*

See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures" for information concerning our principal capital expenditures for the previous three years and those currently in progress. See "Item 4. Information on the Company—A. History and Development of the Company" for information concerning our divestitures.

## **B. Business Overview**

### **Overview**

We are a leading provider of cloud platforms, with gaming and other applications embedded, to PRC digital television and telecommunication network operators, enabling them to bring these applications to household television sets and other mobile devices.

Our cloud platforms provide cloud computing technology-based digital video delivery solutions to television and telecommunication network operators. Through the platforms, end users' requests are processed on centralized cloud servers. The cloud servers will then deliver content and solutions corresponding to such requests through the network in the form of audio and video streams which are in turn decoded and presented by the terminal to the end users.

Our cloud platforms enable television and telecommunication network operators to use their two-way set-top boxes that have already been installed to run a large number of value-added applications, such as video games, 3D games, educational applications and business service applications, which are accessible on smart phones, tablet computers, personal computers, Internet TVs and other devices.

As of December 31, 2017, we have entered into partnership agreements with more than 30 television and telecommunication network operators in Beijing, Shanghai, Guangdong, Jiangsu, Chongqing, Sichuan, Hebei, Xinjiang, Shandong and other provinces. Our cloud platforms cover more than 160 million users, with more than 120 million digital TV users and 40 million IPTV users. We continue to focus on marketing and promotional efforts for our products and services to increase our cloud platform user base. For content offered through our cloud platform, we continue to explore applications outside of games, in fields such as education, online shopping and other forms of entertainment.

In December 2016, we disposed our CA and CA-related business. Accordingly, the relevant operating results have been reclassified as discontinued operations in the consolidated financial statements for all periods presented. The disclosure in this annual report focuses on our continuing operations which consist mainly of cloud platform services, unless otherwise specified.

### **Our Products and Services**

Our core products and services from continuing operations include the following:

- Cloud platforms
- Other products and services

### *Cloud Platforms*

Key features of our cloud platforms include:

**Uniform dissemination:** The cross-version compatibility of the platforms preserves the value of past investment into platform development and helps the user base grow rapidly.

**Uniform media:** Different terminals and terminals of different regions can share access to uniform content.

**Expeditious introduction of new services:** The platforms are open-sourced and hence new services can be introduced expeditiously at a lower cost, since there is no need for secondary development.

**Linear investment input:** Level of investment can be increased gradually as the platform coverage expands, thereby reducing the risk of investment.

**Multi-platform compatibility:** The platforms are compatible with smart phones, tablet computers, personal computers, Internet TVs and other devices, facilitating the growth of the platforms' market share.

We provide a wide spectrum of value-added services through our cloud platforms and applications available on the platforms include cloud gaming and cloud education. We also provide operational strategies and customer service systems to operators.

**Cloud gaming:** Our cloud platforms focus on the development of cloud gaming with a vision to render users an instantaneous gaming experience without being limited to the device. Our cloud platforms operate a new service branded "1+ Cloud Gaming", through which it provides 2D games, 3D games, motion-sensing games and customized games. Our cloud platform cooperates broadly with a number of game developers.

**Cloud education:** We have launched the interactive education application on the cloud platform, mainly through cloud television programs, for children of age 2 to 10. The content of our programs primarily relates to nursery rhymes, early education, English language education and online drawing.

**Cloud VR:** Virtual reality, or VR, is a computer-generated scenario that simulates a realistic experience. A person using VR equipment is able to "look around" the artificial world, move around it, and interact with virtual features or items. We provide comprehensive cloud VR services through Cyber Cloud, enabling users to access our cloud server and use various VR applications including VR games, VR education and VR media players, with most of the data processing carried out on the cloud server instead of the user-end. Such technology significantly lowers the user-end hardware and bandwidth requirements, optimizes user experience, promotes the value of cloud VR platform and reduces costs. In 2017, we launched the world's first operator-class cloud VR platform together with our cooperators to provide cloud VR server solutions to network operators.

**Operational strategies and customer service systems:** We provide operators with a full range of professional operational strategies and a complete system of customer services based on the cloud platform. We perform content integration, data analysis, operation designs, promotion and customer services on the cloud platform.

#### *Other Products and Services*

We also provide other products and services to customers, including products and services related to the VR technology and our other newly developed business.

## **Technical Support and Services**

We offer technical support and services for our cloud platform, and other products and services.

As of December 31, 2017, we have a specialized technical support team responsible for technical issues and customer complaints, providing services for both network operators and end users. Our technical service center is located in Beijing to respond to customer requests for information and assistance, provide remote assistance and on-site visits.

## **Sales and Marketing**

As of December 31, 2017, we had 59 full-time sales personnel. We maintain regular contact with our customer base through contacts at industry forums, sales visits and use these opportunities to educate them about digital television systems and cloud platforms. We target operators planning to launch new cloud platform with more frequent contact from our sales and technical personnel. We compensate our sales personnel by means of base salaries and performance bonuses.

## **Customers**

Our primary customers are television and telecommunication network operators. Our top three customers in 2017 were Beijing Gehua CATV Network Co., Ltd., or Gehua, Dawning Information Industry (Beijing) Co., Ltd. and Chongqing Cable TV Network Co., Ltd., which contributed 31.9%, 14.7% and 8.3%, respectively, to our total revenues for that year.

We currently derive, and we expect to continue to derive, a significant portion of our revenues each period from a limited number of large customers, although the particular customers may vary from period to period. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—We depend, and expect to continue to depend, on a limited number of customers for a significant portion of our revenues in any single period. If one customer defers or cancels its orders, our revenues and net income could decline significantly."

More than 30 television network and telecommunication operators in the PRC, including operators located in Beijing, Shanghai, Guangdong, Jiangsu, Chongqing, Sichuan, Hebei, Xinjiang and Shandong, have utilized our cloud technologies.

### **Suppliers**

Our primary suppliers are game developers. We have arrangements with more than 70 game developers, including Shanghai Holyblade Network Technology Co., Ltd and Shanghai Transmension Technology Co., Ltd., to obtain games for our cloud platform.

For information about risks relating to our relationships with our suppliers, see "Item 3. Key Information—D. Risk Factors—We may be exposed to infringement or misappropriation claims by our suppliers and third parties that, if determined adversely to us, could require us to pay significant damage awards."

### **Competition**

Currently, as the only major cloud platform provider for television operators and telecommunication operators in China, we do not have significant competitor in this market. We compete on the basis of customer service and technical support, brand name, track record and market recognition, technologies and price. On macro level, cloud platform services can be viewed as in competition with smart terminal solutions, since these two types of services are normally interchangeable and mutually exclusive. In order to enhance our ability to capture a wider customer base, we are in the process of combining cloud services with smart terminal solutions.

We believe that we can continue to compete successfully because of our advanced technology, our local knowledge and relationships and our more extensive customer support and service network.



## Research and Development

Our success to date has in large part resulted from our strong research and development capabilities. As of December 31, 2017, our research and development team consisted of 54 employees, decreased from 66 as of December 31, 2016, as a result of adjustment and integration of our overall business. Our research and development expenses for continuing operations decreased from US\$8.8 million in 2015 to US\$5.7 million in 2016, and decreased to US\$4.0 million in 2017.

Our business and the market in which we operate are characterized by rapid technological development, evolving market demand and frequent product upgrades. As cloud platforms and related products become more popular in the PRC, users are likely to seek more sophisticated applications that offer them greater reliability, flexibility and functionality. Our continued success will depend, in part, on our ability to continue developing and marketing products and services that respond to technological changes and evolving market demand in a timely and cost-effective manner.

Many of our current research and development staff are graduates of the PRC's top science and engineering universities, including Tsinghua University, and have extensive experience in cloud technologies.

Our research and development personnel focus our research on further developing (1) streaming-based cloud computing technology, including the development of streaming technologies based on the Android system and multi-screen compatibility, (2) the cloud plus terminal technologies, including the management and monitoring platforms, metadata analysis platforms and other systems, and (3) the cloud VR technology solutions.

## **Intellectual Property**

We develop all of our software internally, and our proprietary intellectual property is critical to our success. We rely primarily on a combination of patent, trademark and copyright laws, trade secrets, licenses and employee and third-party confidentiality agreements to safeguard our intellectual property. We generally enter into confidentiality and non-disclosure agreements with our employees, customers and suppliers.

As of December 31, 2017, we had a total of 26 patents issued and 10 pending patent applications in the PRC. Our issued patents and pending patent applications relate primarily to cloud computing technologies, encryption and decryption technologies and technologies relating to video processing. We have also completed copyright registration of 35 software programs relating to application of cloud platforms in the PRC.

As of December 31, 2017, we owned 9 trademarks, all of which are registered trademarks. We have seven registered domain names, one of which was filed with the Ministry of Industry and Information Technology, or MIIT, which is cybercloud.com.cn. For information about risks relating to our intellectual property rights, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry."

## **Insurance**

We do not maintain any business insurance or key-man insurance for continuing operations. Insurance companies in the PRC offer limited business insurance products and, to our knowledge, offer limited business liability insurance. While business disruption insurance is available to a limited extent in the PRC, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations in the PRC. We also generally do not maintain property insurance, except for insurance that covers the company's automobiles.

## **Employees**

As of December 31, 2017, 131 employees were engaged in our continuing operations. We have no part-time employees. Substantially all of our employees are located in the PRC.

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The table below shows the number of employees categorized by business area and as a percentage of our workforce as of December 31, 2015, 2016 and 2017:

	As of December 31, 2015		%	As of December 31, 2016		%	As of December 31, 2017		%
	Number	%		Number	%		Number	%	
Research and development	300	49.2	%	66	46.8	%	54	41.2	%
Technical service	51	8.4		-	-		-	-	
Sales and marketing	158	25.9		55	39.0		59	45.0	
General and administration	71	11.7		20	14.2		18	13.8	
Smart card production	29	4.8		-	-		-	-	
Total	609	100.0	%	141	100.0	%	131	100.0	%

As required by applicable PRC regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans. We are required under PRC law to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. Members of the retirement plan are entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. The total contributions made to employee benefit plans for both continuing and discontinued operations in 2015, 2016 and 2017 were approximately US\$5.5 million, US\$5.0 million and US\$1.3 million, respectively. Our employees are not represented by any collective bargaining agreements or labor unions. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes.

We typically enter into a standard confidentiality agreement with our employees. We also enter into an agreement with each of our employees giving us full rights to any inventions developed by such persons during the course of their employment by us. In addition, we enter into a non-competition agreement with each of our executive officers and key research and development personnel. These agreements include a covenant that prohibits each of them from engaging in any activities that directly or indirectly compete with our business during, and for one year after, the period of their employment with us.

## **Regulations**

We operate substantially all of our business in the PRC and various aspects of our business activities are subject to the laws, rules and regulations of the PRC, including laws, rules and regulations relating to the cloud computing industry, the software industry and the cable television industry. These laws, rules and regulations require us to obtain certain licenses and certificates for our products. In addition, certain laws, rules and regulations of the PRC also affect the rights of our shareholders to receive dividends and other distributions from us. This section summarizes the principal regulations relevant to our lines of business.

### ***Software Products Registrations***

The Computer Software Copyright Registration Measures promulgated by the China Copyright Office on February 20, 2002 regulates software copyright registration, exclusive licensing contracts of software copyright and transfer agreements. Although such registration is not mandatory under PRC law, software copyright owners are encouraged to go through the registration process and registered software may receive better protection. As of December 31, 2017, we had 9 registered software products.

### ***Taxes***

See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxes and Incentives—PRC."

### ***Foreign Currency Exchange***

Foreign currency exchange in the PRC is primarily governed by the following regulations:

Explanation of Responses:

·*Foreign Exchange Administration Rules* (1996), as amended in 2008; and

·*Regulations of Settlement, Sale and Payment of Foreign Exchange* (1996).

Under the *Foreign Exchange Administration Rules*, the Renminbi is freely convertible for current account items, including the distribution of dividends, payment of interest, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loans, securities investment and repatriation of investment, however, is still generally subject to the approval or verification of the SAFE.

Under the *Regulations of Settlement, Sale and Payment of Foreign Exchange*, FIEs may only buy, sell or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE. Capital investments by FIEs outside the PRC are also subject to limitations, which include approvals by the MOFCOM, the SAFE and the National Development and Reform Commission.

On February 13, 2015, the SAFE promulgated the SAFE Notice 13, which became effective on June 1, 2015. Pursuant to SAFE Notice 13, instead of applying for approvals regarding foreign exchange registrations of foreign direct investment and overseas direct investment from the SAFE as required under current laws, entities and individuals will be required to apply for such foreign exchange registrations from qualified banks. The qualified banks, under the supervision of the SAFE, will directly examine the applications and conduct the registration.

On March 30, 2015, the SAFE promulgated the *Circular on Reforming Administration of Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises*, or Circular 19, which took effect on June 1, 2015. Circular 19 prohibits FIEs from, among other things, using the Renminbi converted from its foreign exchange capital for expenditure outside of its business scope, providing entrusted loans or repaying loans between non-financial enterprises. Any violation of Circular 19 may result in severe penalties, including substantial fines.

### ***Stock Incentive Plans***

On December 25, 2006, the People's Bank of China issued the *Administrative Measures on Individual Foreign Exchange Control*, and on January 5, 2007, the SAFE issued the *Implementation Rules of the Administrative Measures on Individual Foreign Exchange Control*, both of which became effective on February 1, 2007. Under these regulations, all foreign exchange matters involved in employee share ownership plans, share option plans and other equity incentive plans participated in by PRC individuals are to be transacted upon the approval of the SAFE or its authorized branches.

On February 15, 2012, the SAFE promulgated SAFE Notice 7, which superseded SAFE Notice 78. Under SAFE Notice 7, Domestic Individuals who are granted stock options or any other stock-related rights and benefits under a stock incentive plan by an overseas-listed company are required, through a Domestic Agent, to register with the SAFE or its authorized local counterparts and complete certain other procedures. The Domestic Agent is required to submit information relating to a stock incentive plan with the authorized local counterparts of the SAFE within three business days of each quarter and complete foreign exchange cancellation procedures within 20 business days after the termination of a stock incentive plan.

### ***Dividend Distribution***

The principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include:

- *Wholly Foreign-Owned Enterprise Law* (1986), as amended in 2000 and 2016; and
- *Wholly Foreign-Owned Enterprise Law Implementation Rules* (1990), as amended in 2001 and 2014.

Under these regulations, wholly foreign-owned enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition,

according to the *PRC Company Law*, wholly foreign-owned enterprises in the PRC, like other PRC companies, are required to set aside to fund a statutory reserve each year at least 10% of their after-tax profit, based on PRC accounting standards, until the cumulative total of such reserve reaches 50% of its registered capital. This reserve is not distributable as cash dividends to equity owners.

### ***Regulations of Foreign Exchange in Certain Onshore and Offshore Transactions***

In July 2014, the SAFE issued SAFE Notice 37, to replace the *Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles*, or SAFE Notice 75. SAFE Notice 37 provides that PRC residents, whether natural or legal persons, must register with the relevant local SAFE branch in connection with establishing or taking control of an offshore entity established for the purpose of overseas equity financing involving legitimate onshore or offshore assets or equity interests held by them. The term "PRC legal person residents" as used in the SAFE regulations refers to those entities with legal person status or other economic organizations established within the territory of the PRC. The term "PRC natural person residents" as used in the SAFE regulations includes all PRC citizens and all other natural persons, including foreigners, who habitually reside in the PRC for economic benefit.

On February 13, 2015, the SAFE promulgated the SAFE Notice 13, which became effective on June 1, 2015. Pursuant to SAFE Notice 37 and SAFE Notice 13, PRC residents are also required to complete amended registrations or filing with qualified banks after any material change in the shareholding or capital of the offshore entity, such as changes of basic information, increases or decreases in investment amount, share transfers or exchanges, and mergers or divisions. The qualified banks, under the supervision of the SAFE, will directly examine the applications and conduct the registration.

The registration and filing procedures under the SAFE regulations are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholders loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction.

### ***Regulations of Overseas Listings***

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the SASAC, the SAT, the SAIC, the CSRC and the SAFE, jointly adopted the M&A Rules, which became effective on September 8, 2006 and were amended on June 22, 2009. The M&A Rules, among other things, include provisions that purport to require that an offshore special purpose vehicle formed for the purpose of an overseas listing of securities in a PRC company and controlled directly or indirectly by PRC companies or individuals obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

We completed the initial listing and trading of our ADSs on the NYSE on October 11, 2007. We did not seek CSRC approval in connection with our initial public offering, as we were advised by our PRC counsel that, based on their understanding of the current PRC laws, regulations and rules, because we completed our restructuring before September 8, 2006, the effective date of the M&A Rules, we were not required by the M&A Rules to apply to the CSRC for approval of the listing and trading of our ADSs on a U.S. stock exchange, unless we were clearly required to do so by any rules promulgated in the future. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—The approval of the China Securities Regulatory Commission might be required in connection with our initial public offering under certain PRC regulation; failure to obtain this approval, if required, could have a material adverse effect on our business, financial condition, results of operations and reputation as well as the trading price of our ADSs."

### ***Regulations on PRC Foreign Investment***

The MOFCOM published the draft Foreign Investment Law in January 2015, aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the *Sino-foreign Equity Joint Venture Enterprise Law*, the *Sino-foreign Cooperative Joint Venture Enterprise Law* and the *Wholly Foreign-invested Enterprise Law*, together with their implementation rules and ancillary regulations. The draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The MOFCOM is currently soliciting comments on this draft and substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.



Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of "actual control" in determining whether an entity should be treated as an FIE. According to the definition set forth in the draft Foreign Investment Law, FIEs shall refer to enterprises established in China pursuant to PRC laws that are solely or partially invested by foreign investors. The draft Foreign Investment Law specifically provides that entities established in China (without direct foreign share ownership) but "controlled" by foreign investors, via contracts or trust, for example, will be treated as FIEs. Once an entity falls within the definition of FIE, it may be subject to foreign investment restrictions or prohibitions set forth in a "negative list" to be separately issued by the State Council at a later date. If the underlying business of an FIE is subject to foreign investment restrictions, it needs to go through a market entry clearance process carried out by the MOFCOM before the FIE can be established. If the underlying business of the FIE is subject to foreign investment prohibitions, it may not enter such business in China. However, an FIE, during the market entry clearance process, may apply in writing to be treated as a PRC domestic enterprise if its foreign investor(s) is/are "controlled" by PRC government authorities and its affiliates and/or PRC citizens. In this connection, "control" is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% or more of the voting rights of the subject entity; (ii) holding less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision-making bodies, or having the voting power to exert material influence on the board, the shareholders' meeting or other equivalent decision-making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations.

The draft also emphasizes the security review requirements, whereby all foreign investments concerning national security must be reviewed and approved in accordance with the security review procedure. In addition, the draft imposes stringent ad hoc and periodic information reporting requirements on foreign investors and applicable FIEs. In addition to investment implementation reports and investment amendment reports, which are required for each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.

The draft is now open for public review and comments. It is still uncertain when the draft would be signed into law and whether the final version would have any substantial changes from the draft. When the Foreign Investment Law becomes effective, the trio of existing laws regulating foreign investment in China, namely, the *Sino-foreign Equity Joint Venture Enterprise Law*, the *Sino-foreign Cooperative Joint Venture Enterprise Law* and the *Wholly Foreign-invested Enterprise Law*, together with their implementation rules and ancillary regulations, will be abolished.

### **C. Organizational Structure**

We are a Cayman Islands holding company and conduct substantially all of our business through our operating subsidiaries in the PRC. We own 100% of the equity interest of CDTV BVI, a BVI holding company, that directly owns 100% of the equity interest of Golden Benefit and CSM Holdings, each a Hong Kong holding company. CSM Holdings directly owns a 100%, 80% and 57.7% equity interest in N-S Information Technology, Shibo Qihang and Cyber Cloud, respectively. N-S Information Technology holds a 76.9%, 100% and 20% equity interest in Joysee, N-S Media Investment and Shibo Qihang, respectively, and Cyber Cloud holds 100% equity interest in Xinsi Yijia and Nanjing Yunyao.

The following diagram illustrates our key corporate structure as of the date of this annual report:

In March 2004, CDTV BVI, was incorporated as a holding company in the BVI. Following the establishment of CDTV BVI, we restructured our operations by establishing Beijing Super TV, a limited liability company under the PRC law and a wholly owned subsidiary of CDTV BVI, on May 31, 2004. In April 2007, a new holding company, CDTV Holding, was established in the Cayman Islands. In May 2007, CDTV BVI executed a 40-for-1 share split of its ordinary shares and Series A preferred shares. Following this share split, the shareholders of CDTV BVI exchanged all of their shares of CDTV BVI for shares of CDTV Holding in proportion to their percentage interest in CDTV BVI, as a result of which CDTV BVI became a wholly owned subsidiary of CDTV Holding.

In order to benefit from the tax arrangement between the PRC and Hong Kong, in December 2007, CDTV BVI acquired Golden Benefit, a company incorporated in Hong Kong, for a nominal consideration, and transferred its 100% equity interest in Beijing Super TV to Golden Benefit. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—We may be subject to PRC income tax on our global income, or dividends we receive from our PRC subsidiary may be subject to PRC withholding tax, depending on whether we are recognized as a resident enterprise in the PRC" and "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxes and Incentives—Tax Arrangement between the PRC and Hong Kong."

In December 2007, Beijing Super TV established a wholly owned subsidiary, N-S Media Investment, and transferred the equity interest of N-S Media Investment to N-S Information Technology in June 2014. In February 2008, CDTV BVI established a wholly owned subsidiary, CSM Holdings, in Hong Kong. In July 2010, we established N-S Investment Holdings, a wholly owned subsidiary of Beijing Super TV, in the PRC. In June 2014, N-S Investment Holdings was renamed N-S Information Technology, and Beijing Super TV transferred its 100% equity interest in N-S Information Technology to CSM Holdings.

In December 2010, Beijing Super TV and Beijing Yuewu Yuntian Software Technology Ltd., or Yuewu Yuntian, agreed to establish Cyber Cloud in Beijing, which mainly engages in research and development of cloud computing technology based digital video delivery solutions. Beijing Super TV and Yuewu Yuntian contributed RMB45.0 million (US\$6.8 million) and RMB5.0 million (US\$0.8 million) in cash, representing 90% and 10% of the equity interest in Cyber Cloud, respectively. Cyber Cloud was formally established on January 19, 2011. Pursuant to a series of agreements dated April 30, 2014, Cyber Cloud acquired a 100% equity interest in Xinsi Yijia from Yuewu Yuntian and Beijing Holch Capital Investment Center, or Holch Capital, and in exchange, Yuewu Yuntian and Holch Capital obtained certain non-controlling interests in Cyber Cloud. Moreover, Beijing Super TV transferred its remaining equity interest in Cyber Cloud to CSM Holdings. As a result of these transactions, CSM Holdings, Yuewu Yuntian and Holch Capital held 75%, 15% and 10% of the equity interest in Cyber Cloud, respectively. Xinsi Yijia became a wholly owned subsidiary of Cyber Cloud. Beijing Dingyuan Technology Co., Ltd., or Dingyuan, is controlled by Xinsi Yijia through a series of contractual arrangements. Dingyuan is immaterial from a financial perspective. In December, 2014, Gehua injected capital into Cyber Cloud in exchange of a 10% equity interest in Cyber Cloud. The approval for the capital injection was obtained from the relevant PRC governmental authority in June 2015. As a result, CSM Holdings, Yuewu Yuntian, Gehua and Holch Capital held 67.5%, 13.5%, 10% and 9% of the equity interest in Cyber Cloud, respectively. In May and June 2016, the shareholders of Cyber Cloud made a supplemental cash contribution proportionally to Cyber Cloud. In October 2016, Tianjin Xuanwutianxia Network Technology Center, or Xuanwutianxia, an entity owned by two employees of Cyber Cloud, entered into a share contribution agreement to make a cash contribution to Cyber Cloud. Further in December 2016, Ningbo Meishan Free Trade Port Area Jinxinronghui Investment Partnership, or Jinxinronghui, a third-party investor, contributed RMB33.0 million to Cyber Cloud. As a result, CSM Holdings, Yuewu Yuntian, Jinxinronghui, Gehua, Holch Capital and Xuanwutianxia will hold 57.7%, 11.5%, 10.0%, 8.6%, 7.7% and 4.5% of the equity interest in Cyber Cloud, respectively.

Joysee was established in May 2011, and as a result of a series of equity transactions, N-S Information Technology held a 76.9% equity interest in Joysee.

In February 2016, CSM Holdings contributed RMB20.0 million (US\$3.1 million) in cash to Beijing Dagong Technology Co. Ltd., or Dagong Technology, which was renamed Shibo Qihang in February 2017, representing 80% of the equity interest in Dagong Technology, which mainly engages in the research and development of unmanned aerial vehicle, or UAV technology. In December 2016, N-S Information Technology purchased the remaining 20% equity interest in Shibo Qihang.

In April 2017, Nanjing Yunyao was incorporated in the PRC as a wholly owned subsidiary of Cyber Cloud.

#### **D. Property, Plants and Equipment**

We currently maintain our headquarters and most of our operations at Jingmeng High-Tech Building B, 4th Floor, No. 5 Shangdi East Road, Haidian District, Beijing 100085, PRC, where we lease 1,283 square meters of office space pursuant to two short-term lease agreements with the same landlord for separate portions of the total space. The lease agreements are: (1) a lease agreement of N-S Information Technology with respect to an area of 333 square meters for its operational use; and (2) a lease agreement of Cyber Cloud with respect to an area of 950 square meters for its operational use. Both lease agreements expired in April 2018. We intend to continue leasing the forgoing space and are currently in the process of finalizing the relevant lease arrangements with the landlord.

#### **Item 4A. Unresolved Staff Comments**

Not applicable.

## **Item 5. Operating and Financial Review and Prospects**

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. Our audited consolidated financial statements have been prepared in accordance with U.S. GAAP. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information provided in "Item 3. Key Information—D. Risk Factors."

### **A. Operating Results**

#### **Overview**

We are a leading provider of cloud platforms, with gaming and other applications embedded, to PRC digital television and telecommunication network operators, enabling them to bring these applications to household television sets and mobile devices.

Our cloud platforms provide cloud computing technology-based digital video delivery solutions to television and telecommunication network operators. Through the platforms, end users' requests are processed on centralized cloud servers. The cloud servers will then deliver content and solutions corresponding to such requests through the network in the form of audio and video streams which are in turn decoded and presented by the terminal to the end users.

Our cloud platforms enable television and telecommunication network operators to use their two-way set-top boxes that have already been installed to run a large number of value-added applications, such as video games, 3D games, educational applications and business service applications, which are accessible on smart phones, tablet computers, personal computers, Internet TVs and other devices.

As of December 31, 2017, we have entered into partnership agreements with more than 30 television and telecommunication network operators in Beijing, Shanghai, Guangdong, Jiangsu, Chongqing, Sichuan, Hebei, Xinjiang, Shandong, and other provinces. Our cloud platforms cover more than 160 million users, with more than 120 million digital TV users and 40 million IPTV users. We continue to focus on marketing and promotional efforts for our products and services to increase our cloud platform user base. For content offered through our cloud platform, we continue to explore applications outside of games, in fields such as education, online shopping and other forms of entertainment.

In December 2016, we disposed our CA and CA-related business through the Super TV Disposition. Accordingly, the operating results of Super TV have been reclassified as discontinued operations in the financial data for all periods presented.

Among the most significant factors affecting our business, financial condition and results of operations are:

***Purchasing patterns of our customers.*** The revenue we generate from television and telecommunication network operators depends on the spending of end users on the cloud platforms. The uncertainty of the spending habits of end users will cause our revenue to fluctuate.

***Ability to respond effectively to technological and commercial changes.*** Our business and the market in which we operate are characterized by rapid commercial and technological change, evolving market demand and frequent product enhancements. Our continued success will depend, in part, on our ability to continue developing and marketing products and services that respond to technological changes and evolving market demand in a timely and cost-effective manner.

***Cost structure.*** Our profitability also depends on the cost structure of our operations, including, among other things, whether the revenue sharing model with game developers is on a pro rata basis or on a fixed amount basis.

In addition to the factors discussed above, our reported results are also affected by the fluctuations in the value of the Renminbi against the U.S. dollar, as our reporting currency is the U.S. dollar while the functional currency of our subsidiaries and variable interest entity in China, which operate substantially all of our business, is the Renminbi. In 2015 and 2016, the Renminbi depreciated against the U.S. dollar by approximately 4.4%, 7.2%, respectively. In 2017, the Renminbi appreciated against the U.S. dollar by approximately 6.3%. The depreciation of the Renminbi against the U.S. dollar contributed to the decrease in our net income reported in U.S. dollar terms in 2015 and 2016 when we translate our net income to U.S. dollar, and there was an appreciation of the Renminbi against the U.S. dollar in 2017. For additional information relating to the fluctuations in the value of the Renminbi against the U.S. dollar, see "Item 3. Key Information—A. Selected Financial Data—Exchange Rate Information", "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—Fluctuations in exchange rates could result in foreign currency exchange losses" and "Item 11. Quantitative and Qualitative Disclosures About Market Risks—Foreign Currency Risk."

Our business is managed as a single operating segment. Our management reviews our consolidated results of operations prepared in accordance with U.S. GAAP when making decisions about allocating our resources and assessing our performance.

## Revenues

Our continuing operations derive revenues primarily from the following two sources:

**Products.** In 2015, 2016 and 2017, we derived revenues from sales of hardware related to the application of cloud platform and other newly developed products.

**Services.** We derive revenue from providing operating services, system integration services and system development services based on the cloud platform for television and telecommunication network operators. For operating services, we cooperate with the operators by providing the cloud platform, including games embedded in the platform, conducting daily operational management and performing customer services. Our cloud platform system integration services involve providing cloud computing software, hardware, related system integration services and post-contract customer support, or PCS, to our customers. Our system development services involve the development of customized cloud-based software applications for our customers.

Revenues from the sales of our products and services accounted for 12.7% and 87.3%, respectively, of our total revenues in 2017, compared with 14.6% and 85.4%, respectively, of our total revenues in 2016.



Our net revenues represent total revenues less PRC VAT surcharge taxes and fees.

### **Cost of Revenues**

Cost of revenues primarily includes: costs of hardware purchased from third-party suppliers as parts of our products sold or services provided, content fees paid to third-party developers for games embedded in the cloud platform, and other miscellaneous costs. Cost of revenues increased by 4.0% to US\$1.6 million in 2017 from US\$1.5 million in 2016. Cost of revenues related to the sales of our products and to the sales of our services accounted for 32.4% and 67.6%, respectively, of our total cost of revenues in 2017, compared with 33.4% and 66.6%, respectively, of our total cost of revenues in 2016. As a percentage of our net revenues, cost of revenues decreased from 35.9% in 2016 to 25.6% in 2017.

### **Gross Profit and Gross Margin**

Gross profit is equal to net revenues less cost of revenues. Gross margin is equal to gross profit divided by net revenues. Our gross margin was 28.1%, 64.1% and 74.4% in 2015, 2016 and 2017, respectively. The increase in our gross margin from 2016 to 2017 was primarily due to an expansion in our system integration and system development services, which have relatively higher gross margin than our product sales.

## Operating Expenses

Our operating expenses consist of research and development expenses, selling and marketing expenses, general and administrative expenses, impairment of long-lived assets and impairment of goodwill, and offset by gain from disposal of assets. Some of these components of our operating expenses include a portion of our total share-based compensation expenses, which are generally allocated according to the functions of those individuals who received share-based awards.

**Research and Development Expenses.** Research and development expenses consist primarily of costs associated with the design, development and testing of our products and technologies. Among other things, these costs include compensation and benefits for our research and development staff, rental for our office premises used for research and development activities, depreciation expenses related to equipment used in research and development activities, expenditures for purchases of supplies and other relevant costs. Compensation and benefits for our research and development staff accounted for the majority of our research and development expenses. Research and development expenses as a percentage of our net revenues were 133.8% and 64.7% in 2016 and 2017, respectively.

**Selling and Marketing Expenses.** Selling and marketing expenses consist primarily of compensation and benefits for our sales and marketing staff, expenses for travel and entertainment activities, expenditures for purchases of supplies and amortization of intangible assets. Selling and marketing expenses as a percentage of our net revenues were 65.0% and 28.5% in 2016 and 2017, respectively.

**General and Administrative Expenses.** General and administrative expenses consist primarily of compensation and benefits for our general management, finance and administrative staff, professional advisory fees, depreciation and amortization with respect to equipment used for general corporate purposes, rental costs for our office premises used by general management, finance and administrative staff, and other expenses incurred in connection with general corporate purposes. General and administrative expenses as a percentage of our net revenues were 88.4% and 58.7% in 2016 and 2017, respectively.

**Impairment of Long-lived Assets and Impairment of Goodwill.** In 2017, we recognized impairment loss of US\$0.7 million on goodwill for the reporting unit of cloud computing-based services due to negative estimated future cash flows. And we recognized impairment loss of US\$0.6 million on long-lived assets based on the evaluation of the recoverability of long-lived assets. We had no impairment loss of goodwill or long-lived assets in 2015 or 2016.

**Gain from Disposal of Assets.** Gain from disposal of assets represents gain recognized on the sale of long-lived assets. In 2017, we disposed our assets including property, equipment and intangible assets related to UAV

technology, and a gain of US\$0.8 million was recognized.

***Share-Based Compensation Expenses.*** We account for share-based compensation expenses based on the fair value of share option grants at the date of grant.

We adopted our 2005, 2008, 2010 and 2012 Stock Incentive Plans in February 2005, September 2007, November 2010 and May 2012, respectively, and options to purchase an aggregate of 707,405 ordinary shares have been granted and were outstanding under the plans as of March 31, 2018. We also recognized immediately vested share-based compensation in connection with capital injection by employees in 2016. We incurred share-based compensation expenses of US\$0.1million, US\$0.9million and US\$0.6 million for continuing operations and nil, USD\$4.0 million and USD\$0.4 million for discontinued operations in 2015, 2016 and 2017, respectively. For additional information regarding our share-based compensation expenses, see Note 17 to our consolidated financial statements included elsewhere in this annual report.

The table below shows the allocation of share-based compensation from continuing operations charges to cost of revenues and our operating expense line items for the periods indicated:

Share-Based Compensation Related to:	For the years ended December 31,		
	2015	2016	2017
	(in thousands of U.S. dollars)		
Cost of revenues	US\$ 3	US\$ -	US\$ -
Research and development expenses	49	463	463
Selling and marketing expenses	30	447	152
General and administrative expenses	36	2	21
Total	US\$ 118	US\$ 912	US\$ 636

### Loss from Operations

Loss from operations represents gross profit less operating expenses.

### Non-operating Income/(Expenses)

Non-operating income/(expenses) includes interest income/(expense), gain from disposal of equity method investment and other income/(expense), each as presented in our consolidated statements of comprehensive income (loss). Our interest income was US\$0.1 million, US\$0.1 million and US\$1.2 million in 2015, 2016 and 2017, respectively. We had no interest expense these years. We recorded gain from disposal of an equity method investment in Sinoscreeens of US\$0.1 million in 2016. We also had other income of US\$0.4 million, US\$1.1 million and US\$0.7 million in 2015, 2016 and 2017, respectively.

### Critical Accounting Policies

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect our reporting of, among other things, assets and liabilities, contingent assets and liabilities and revenues and expenses. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and other factors that we believe to be relevant under the circumstances. Since our financial reporting process inherently relies on the use of estimates and assumptions, our actual results could differ from what we expect. This is especially true with some accounting policies that require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding

Explanation of Responses:

of our consolidated financial statements because they involve the greatest reliance on our management's judgment.

### ***Revenue Recognition***

We historically derived revenues primarily from two sources: (1) sales of products, including smart cards and other products sourced from third-party suppliers; and (2) provision of services, including cloud platform operating services, head-end system integration services, head-end system development services, and CA system terminal-end technology that generate licensing income and royalty income.

All the revenues from sales of smart cards, licensing and royalty income and substantially all of system integration service and system development service were derived from the CA business from the operation of Super TV. Since Super TV was disposed by the Company in December 2016, the related revenues are included in income from operations of discontinued operations for all periods presented.

For sales of our products, we recognize revenue when the products are delivered to and received by customers.

Our cloud platforms provide cloud gaming with a vision to render end users an instantaneous gaming service.

We enter into agreements with cable TV network operators and publishes games developed by third-party game developers onto the cloud game platforms embedded in cable TV. The cloud game platforms enable the end users to purchase in-game virtual items by converting virtual currencies, which is purchased in the uniform platform virtual currency system. The cable TV network operators receive the service fees paid by end users and they will pay us a pre-agreed portion of the cash received.

We view cable TV network operators as our customers. In the arrangements with cable TV network operators, cable TV network operators enter into agreements with end users and are in the role of operating the cable TV network system. Our cloud platform service is one of the value added services embedded in the cable TV network system.

We are not able to estimate accurately the amount of revenue before billing statements are mutually agreed with cable TV network operators. Amount of revenue earned is only determinable, when we have received mutually agreed billing statements from cable TV network operators.

We consider ourselves as the primary obligor, as we operate the cloud platforms, including initiating promotion activities, providing bug fixing and upgrades services of the platforms, maintaining virtual currency system, managing interfaces of the platform, and maintaining the servers, as needed. In addition, we have the discretion in supplier selection and the latitude in establishing price. As such, we recognize such revenue on a gross basis.

Once the end users convert the platform virtual currency to in-game virtual items, the in-game virtual items will be used by the end users in a very short period of time. In addition, substantially most of the in-game virtual items can be used only once and provide immediate advantages to the end users in the game without further substantial benefits.

At each period end, we summarize consumed virtual currencies and the balance of unconsumed virtual currencies. We recognize revenue for consumed virtual currencies based on the billing statements mutually agreed with cable TV network operators, and defer revenue for unconsumed balance as of each period end.

Our cloud platform and CA system integration services primarily involve provision of our software, third-party hardware and software, related installation and integration services and PCS, including telephone support and bug-fixing. Our head-end system development services involve the development of customized software applications related to cloud platform and digital TV technology.

For multi-element arrangements of our system integration services, we allocate revenue to all deliverables based on their relative selling prices. In such circumstances, we use the following hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value, or VSOE; (ii) third-party evidence of selling price, or TPE; and (iii) best estimate of selling price, or ESP. VSOE generally exists only when we sell the deliverable separately and is the price actually charged by us for that deliverable. ESPs reflect our best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

When we deliver the hardware and software to, and install and integrate them for, our customers, our customers sign the preliminary acceptance. The final acceptance is typically signed six months to one year after the issuance of the preliminary acceptance if no major technical problems are discovered. Hardware, software, integration, and installation are considered delivered to customers when the preliminary acceptance is signed because only at that time are customers able to use the integrated system. Therefore, revenue for the system integration services, except PCS, is recognized when the installation and integration of software is completed, which is indicated by obtaining the preliminary acceptance from customers. We defer the revenue for PCS and recognize it over the free PCS term.

With respect to our system development services, we use the completed-contract method to recognize revenue when the software application development is finished and accepted by customers, as a system development arrangement requires significant production, modification, or customization of software and is generally completed within several weeks or months.

We receive licensing fees from set-top box manufacturers who license our CA systems terminal-end technology, and we are also entitled to receive royalties from them based on the quantity of set-top boxes manufactured under such licenses. Royalty revenue is recognized when both of the following criteria are met: (1) sales reports are received from set-top box manufacturers; and (2) payments are received. Licensing income is recognized when we receive acceptance note of license issued by the set-top box manufacturers.

### *Goodwill*

The excess of the purchase price over the fair value of identifiable net assets acquired in a business combination is recorded on the consolidated balance sheet as goodwill. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the stock prices, business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. Estimating fair value is performed by utilizing various valuation techniques, with a primary technique being a discounted cash flow which requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the Company's business, estimation of the useful life over which cash flows will be generated, and determination of the Company's weighted average cost of capital.

In the evaluation of the goodwill for impairment, we may first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, goodwill is then tested following a two-step process. The first step compares the fair value of each reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill with the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. We have determined to perform the annual impairment test on December 31 of each year. We did not recognize any impairment loss on goodwill for the years ended December 31, 2015 or 2016. We recognized impairment loss on goodwill of US\$0.7 million for the year ended December 31, 2017.

### *Income Taxes*

Explanation of Responses:



Deferred income taxes are provided using the asset and liability method. Under this method, deferred income taxes are recognized based on net operating losses available for carry-forwards and temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis using enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to reduce the amount of deferred income tax assets if it is considered more likely than not that some portion of, or all of the deferred income tax assets will not be realized.

Income taxes are provided for in accordance with the laws, rules and regulations applicable to the relevant companies as enacted by the relevant tax authorities. The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more likely than not to be sustained upon audit of the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Group records interest and penalties related to unrecognized tax benefits (if any) in interest expenses and general and administrative expenses, respectively.

#### **Recently Issued Accounting Pronouncements Not Yet Adopted**

See Note 2(ff) to our consolidated financial statements included elsewhere in this annual report for recently issued accounting standards that we believe may have implications on our consolidated financial statements for future periods.

## Taxes and Incentives

### *Cayman Islands, British Virgin Islands and Hong Kong*

Our company, as an exempted company incorporated in the Cayman Islands, and CDTV BVI, our wholly owned subsidiary incorporated in BVI, are not subject to any income or capital gains tax under the current laws of the Cayman Islands and BVI. Golden Benefit and CSM Holdings, our indirectly wholly owned subsidiaries incorporated in Hong Kong, were subject to 16.5% Hong Kong profits tax in 2015, 2016 and 2017 on their activities conducted in Hong Kong.

### *PRC*

Our subsidiaries and VIE operating in the PRC are subject to PRC taxes as described below:

**Enterprise Income Tax.** Effective from January 1, 2008, the PRC statutory income tax rate is 25% according to the EIT Law. N-S Media Investment, N-S Information Technology, Joysee, Cyber Cloud, Xinsi Yijia, Dingyuan, Nanjing Yunyao and Shibo Qihang are registered in the PRC and are subject to PRC EIT on the taxable income in accordance with the relevant PRC income tax laws.

In October 2014, Cyber Cloud obtained the HNTE certificate for the tax years from 2014 to 2016, and was entitled to a preferential income tax rate of 15% for a three year period. In October 2017, Cyber Cloud successfully renewed its HNTE qualification and qualified for a preferential tax rate of 15% from 2017 to 2019.

In addition, under the EIT Law, an enterprise established under the laws of a foreign country or region whose "de facto management body" is located within the PRC territory is considered a resident enterprise and will generally be subject to the enterprise income tax at the rate of 25% on its global income as well as PRC enterprise income tax reporting obligations. According to the Implementation Rules, "de facto management body" refers to a managing body that exercises, in substance, overall management and control over the production and business, personnel, accounting and assets of an enterprise. SAT Notice 82 provides for certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore enterprise is located in the PRC. In addition, SAT Bulletin 45, which became effective on September 1, 2011, provides guidance on the implementation of SAT Notice 82. SAT Bulletin 45 clarifies certain issues relating to: (i) the determination procedures of PRC resident enterprise status; and (ii) tax registration and other related procedures for PRC resident enterprises. SAT Bulletin 45 also provides that if an

offshore PRC resident enterprise presents a copy of the Chinese tax resident determination certificate issued by the competent tax authorities to a payer of PRC-sourced dividends, interest, royalties and other income, such payer shall not withhold income tax on these payments to the offshore PRC resident enterprise. We believe that we are not a PRC resident enterprise with reference to the criteria set forth in SAT Notice 82. However, if we were to be considered as a PRC resident enterprise, we would be subject to the enterprise income tax at the rate of 25% on our global income as well as PRC enterprise income tax reporting obligations. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—We may be subject to PRC income tax on our global income, or dividends we receive from our PRC subsidiary may be subject to PRC withholding tax, depending on whether we are recognized as a resident enterprise in the PRC." In addition, the EIT Law and the Implementation Rules provide that a withholding tax of 10% (which may be reduced by the relevant tax treaties between the PRC and other jurisdictions) will generally be applicable to dividends payable to non-resident enterprises, and, unlike the prior tax law, does not specifically exempt corporations that pay dividends from withholding all or part of such income tax when they pay dividends to their non-resident investors. To the extent we are not considered as a PRC resident enterprise or dividends paid from our PRC operating subsidiary are not deemed as "dividends among qualified PRC resident enterprises", the dividends our PRC subsidiary pays to us will be subject to this withholding tax. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—We may be subject to PRC income tax on our global income, or dividends we receive from our PRC subsidiary may be subject to PRC withholding tax, depending on whether we are recognized as a resident enterprise in the PRC." In addition, this withholding tax may also apply to dividends we pay to our non-PRC individual shareholders if we were to be considered as a PRC resident enterprise. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—Dividends payable by us to our non-PRC shareholders and ADS holders, and gains on the sales of our ordinary shares or ADSs, may be subject to withholding taxes under PRC tax laws, which may materially reduce the value of your investment."

**Value-Added Tax.** We are subject to VAT at the rate of 17% and 6% on the sales of our products and rendering our services, respectively. Pursuant to a PRC tax policy intended to encourage the development of software and integrated circuit industries and a notice jointly issued by the PRC Ministry of Finance and the SAT in October 2011, Cyber Cloud is entitled to a refund of VAT paid at a rate of 14% (i.e., the excess of the effective VAT rate over 3%) of the sale value of some of our software products. The amount of VAT refund included in our total revenues from continuing operations was US\$9.4 thousand, US\$57.0 thousand and US\$92.0 thousand in 2015, 2016 and 2017, respectively, accounting for 0.5%, 1.3% and 1.5%, respectively, of our total revenues in the corresponding periods. We include such refunds in the total revenues in our consolidated statements of comprehensive income (loss) included elsewhere in this annual report.

### ***Tax Arrangement between the PRC and Hong Kong***

The Hong Kong government and the PRC government entered into the *Arrangement for Avoidance of Double Taxation on Income and Prevention of Tax Evasion* on August 21, 2006, which took effect on January 1, 2007 and April 1, 2007 in the PRC and Hong Kong, respectively. This arrangement provides certain tax incentives to use a Hong Kong company as an intermediate holding company for holding investments in the PRC. The withholding tax rate applicable to dividends received by a Hong Kong resident enterprise from its investments in the PRC is 5% compared with the 10% withholding tax rate applicable to dividends received by a company incorporated in a jurisdiction where there is no similar tax treaty or arrangement with the PRC, provided, among other things, that the Hong Kong resident enterprise owns at least 25% of the shareholding of the PRC company at all times within the 12-month period immediately preceding the distribution of dividends. In addition, a full tax exemption in the PRC is available on a capital gain derived by a Hong Kong resident enterprise from the disposal of its shares in a PRC company, provided that the Hong Kong resident enterprise owns less than 25% of the shareholding of the PRC company at all times within the 12-month period immediately preceding the distribution of dividends and the assets of the PRC company do not consist mainly of real property situated in the PRC.

The SAT issued SAT Announcement 9 on February 3, 2018, which will become effective from April 1, 2018 and supersedes SAT Notice 601 and SAT Announcement 30, which is applicable to the tax arrangements between the PRC and Hong Kong. Pursuant to SAT Announcement 9, non-resident enterprises that cannot provide valid supporting documents as “beneficial owners” may not be approved to enjoy tax treaty benefits. “Beneficial owners” are residents who have ownership and the right to dispose of the income or the rights and properties giving rise to the income. These rules also set forth certain adverse factors against the recognition of a “beneficial owner”, such as not carrying out substantive business activities. Whether a non-resident enterprise may obtain tax benefits under the relevant tax treaty will be subject to approval of the relevant PRC tax authority and will be determined by the PRC tax authority on a case-by-case basis. SAT Announcement 9 further provides that a comprehensive analysis should be made when determining the beneficial owner status based on various factors supported by documents including the articles of association, financial statements, records of cash movements, board meeting minutes, board resolutions, staffing and materials, relevant expenditures, functions and risk assumption as well as relevant contracts and other information. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—We may be subject to PRC income tax on our global income, or dividends we receive from our PRC subsidiary may be subject to PRC withholding tax, depending on whether we are recognized as a resident enterprise in the PRC."

## **Recent Acquisitions**

See "Item 4. Information on the Company—A. History and Development of the Company."

## **Discontinued operations**

In December 2016, Bao Li acquired all of the 90.09% equity interest in Beijing Super TV held by Golden Benefit. As a result, we deconsolidated Beijing Super TV and its wholly owned subsidiary, N-S Digital TV, from our consolidated financial statements. Retrospective adjustments to the historical consolidated statements of comprehensive income (loss) have also been made to provide a consistent basis of comparison for the financial results. Specifically, Super TV's operational results have been excluded from our financial results from continuing operations and have been reclassified to income from operations of discontinued operations.

## Results of Operations

The following table sets forth our condensed consolidated statements of operations by amount and as a percentage of our net revenues for the periods indicated:

	For the years ended December 31, 2015		2016		2017			
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues		
	(In thousands of U.S. dollars, except percentages)							
<b>Revenues:</b>								
Products	US\$248	12.9	% US\$618	14.6	% US\$790	12.8	%	
Services	1,674	87.2	3,622	85.7	5,411	87.8		
Total revenues	1,922	100.1	4,240	100.3	6,201	100.6		
Tax and surcharges	(2 )	(0.1 )	(12 )	(0.3 )	(41 )	(0.6 )		
Net revenues	1,920	100.0	4,228	100.0	6,160	100.0		
<b>Cost of revenues:<sup>(1)</sup></b>								
Products	143	7.4	506	12.0	511	8.3		
Services	1,237	64.4	1,011	23.9	1,067	17.3		
Total cost of revenues	1,380	71.8	1,517	35.9	1,578	25.6		
Gross profit	540	28.2	2,711	64.1	4,582	74.4		
<b>Operating expenses:</b>								
Research and development <sup>(1)</sup>	8,798	458.2	5,655	133.8	3,985	64.7		
Selling and marketing <sup>(1)</sup>	4,114	214.3	2,747	65.0	1,758	28.5		
General and administrative <sup>(1)</sup>	3,220	167.7	3,739	88.4	3,618	58.7		
Impairment of goodwill	-		-		690	11.2		
Impairment of property and equipment	-		-		425	6.9		
Impairment of intangible assets	-		-		217	3.5		
Gain from disposal of assets	-		-		(822 )	(13.3 )		
Total operating expenses	16,132	840.2	12,141	287.2	9,871	160.2		
Operating loss from continuing operations	(15,592)	(812.0 )	(9,430 )	(223.1 )	(5,289)	(85.8 )		
Interest income	104	5.4	105	2.5	1,206	19.6		
Gain from disposal of an equity method investment	-		95	2.3	-			
Other income, net	354	18.4	1,088	25.7	710	11.5		
Loss from continuing operations before income tax expenses	(15,134)	(788.2 )	(8,142 )	(192.6 )	(3,373)	(54.8 )		
Income tax expenses	292	15.2	114	2.7	337	5.5		
Net loss from continuing operations before share of loss on an equity method investment	(15,426)	(803.4 )	(8,256 )	(195.3 )	(3,710)	(60.2 )		

Explanation of Responses:

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Share of loss on an equity method investment, net of nil income taxes	(101 )	(5.3 )	-	-	-	-
Net loss from continuing operations	(15,527)	(808.7 )	(8,256 )	(195.3 )	(3,710)	(60.2 )
Discontinued operations						
Income/(loss) from the operations of discontinued operations, net of income tax expenses	16,155	841.4	10,445	247.0	(389 )	(6.3 )
Gain from disposal of discontinued operations, net of income tax expenses	-		43,190	1,021.5	-	
Income/(loss) from discontinued operations, net of income tax expenses	16,155	841.4	53,635	1,268.5	(389 )	(6.3 )
Net income/(loss)	628	32.7	45,379	1,073.2	(4,099)	(66.5 )
Less: Net loss attributable to noncontrolling interest	(900 )	(46.9 )	(39 )	(0.9 )	(1,031)	(16.7 )
Net loss from continuing operations attributable to China Digital TV Holding Co., Ltd	(14,627)	(761.8 )	(7,226 )	(170.9 )	(2,679)	(43.5 )
Net income/(loss) from discontinued operations attributable to China Digital TV Holding Co., Ltd	16,155	841.4	52,644	1,245.0	(389 )	(6.3 )
Net income/(loss) attributable to China Digital TV Holding Co., Ltd	US\$1,528	79.6	% US\$45,418	1,074.1	% US\$(3,068)	(49.8 )%

(1) Share-based compensation charges incurred during the period related to:

	For the years ended December 31, 2015		2016		2017			
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues		
(In thousands of U.S. dollars, except percentages)								
Cost of revenues	US\$ 3	0.2	% US\$ -	0.0	% US\$ -	0.0		%
Research and development expenses	49	2.6	463	11.0	463	7.5		
Selling and marketing expenses	30	1.6	447	10.6	152	2.5		
General and administrative expenses	US\$36	1.9	% US\$2	0.0	% US\$21	0.3		%

### Comparison of Years Ended December 31, 2017 and December 31, 2016

**Revenues.** The following table sets forth revenues by sources and the percentage of our total revenues for the periods indicated:

	For the years ended December 31, 2016		2017			
	Amount	% of Total Revenues	Amount	% of Total Revenues		
(In thousands of U.S. dollars, except percentages)						
Products	US\$ 618	14.6	% US\$ 790	12.7		%
Services						
Cloud platform operations	2,019	47.6	2,341	37.8		
Head-end system integration	708	16.7	1,846	29.8		
Head-end system development	895	21.1	1,224	19.7		
Subtotal	3,622	85.4	5,411	87.3		
Total revenues	US\$ 4,240	100.0	% US\$ 6,201	100.0		%

Our total revenues increased by 46.3% from US\$4.2 million in 2016 to US\$6.2 million in 2017, mainly due to the increase in revenues from both head-end system integration and head-end system development as a result of the cooperation with a broader scope of digital television and telecommunication network operators.

Revenues from the sales of our products increased by 27.8% from US\$0.6 million in 2016 to US\$0.8 million in 2017, mainly due to an increase in the sales of products related to UAV technology.



Revenues from the sales of our services increased by 49.4% from US\$3.6 million in 2016 to US\$5.4 million in 2017, primarily due to the increase in revenues from head-end system integration and head-end system development.

**Net Revenues.** Our net revenues increased by 45.7% from US\$4.2 million in 2016 to US\$6.2 million in 2017.

**Cost of Revenues.** The following table sets forth cost of revenues by sources of revenues by amount and as a percentage of net revenues for the periods indicated:

	Years ended December 31, 2016		2017		
	Amount	% of Net Revenues	Amount	% of Net Revenues	
	(In thousands of U.S. dollars, except percentages)				
Products	US\$ 506	12.0	% US\$ 511	8.3	%
Services	1,011	23.9	1,067	17.3	
Total cost of revenues	US\$ 1,517	35.9	% US\$ 1,578	25.6	%

Cost of revenues increased by 4.0% to US\$1.6 million in 2017 from US\$1.5 million in 2016, mainly due to the increase in cost of revenues relating to head-end system integration. Cost of revenues relating to our products remained stable as compared to 2016. Cost of revenues relating to our services increased by 5.5% to US\$ 1.07 million in 2017 from US\$1.01 million in 2016, mainly due to an increase in cost for purchase of the hardware related to the cloud platform system integration services we provided.

**Gross Profit and Gross Margin.** Gross profit increased by 69.0% from US\$2.7 million in 2016 to US\$4.6 million in 2017. Our gross margin increased from 64.1% in 2016 to 74.4% in 2017, primarily due to an expansion in our system integration and system development services which have relative higher gross margin than our product sales.

**Operating Expenses.** Our operating expenses decreased by 18.7% to US\$9.9 million in 2017 from US\$12.1 million in 2016. This reflected the recognition of gain from disposal of assets and decreases in research and development expenses, selling and marketing expenses and general and administrative expenses, which is partially offset by the impairment loss of goodwill and long-lived assets incurred in 2017. Operating expenses, as a percentage of net revenues, decreased to 160.2% in 2017 from 287.2% in 2016.

**Research and Development Expenses.** Our research and development expenses decreased by 29.5% to US\$4.0 million in 2017 from US\$5.7 million in 2016. This was mainly due to a decrease in personnel related expenses resulting from fewer headcount. Our research and development expenses, as a percentage of net revenues, decreased to 64.7% in 2017 from 133.8% in 2016.

***Selling and Marketing Expenses.*** Our selling and marketing expenses decreased by 36.0% to US\$1.8 million in 2017 from US\$2.7 million in 2016. This was primarily due to a decrease in personnel related expenses as well as decreased share-based compensation expenses. Our selling and marketing expenses, as a percentage of net revenues, decreased to 28.5% in 2017 from 65.0% in 2016.

***General and Administrative Expenses.*** Our general and administrative expenses decreased by 3.2% to US\$3.6 million in 2017 from US\$3.7 million in 2016, primarily due to a decrease in depreciation, supplies and rental expense, which was partially offset by an increase in professional fees.

***Impairment of Long-lived Assets and Impairment of Goodwill.*** In 2017, we recognized impairment loss of US\$0.7 million on goodwill for the reporting unit of cloud computing-based services due to negative estimated future cash flows. And we recognized impairment loss of US\$0.6 million on long-lived assets based on the evaluation of the recoverability of long-lived assets. We had no impairment loss of goodwill or long-lived assets in 2015 or 2016.

***Gain from Disposal of Assets.*** Gain from disposal of assets represents gain recognized on the sale of long-lived assets. In 2017, we disposed assets related to UAV technology, and a gain of US\$0.8 million was recognized.

**Loss from Operations.** As a result of the foregoing, our loss from operations decreased by 43.9% to US\$5.3 million in 2017 from US\$9.4 million in 2016.

**Non-Operating Income.** We had non-operating income of US\$1.9 million in 2017, compared with US\$1.3 million in 2016. Our non-operating income in 2017 primarily consisted of interest income of US\$1.2 million and other income of US\$0.7 million. Our interest income increased from US\$0.1 million in 2016 to US\$1.2 million in 2017. Our other income decreased from US\$1.1 million in 2016 to US\$0.7 million in 2017, primarily due to a decrease in government subsidy income.

**Income Tax Expenses.** Our income tax expenses increased from US\$0.1 million in 2016 to US\$0.3 million in 2017. The increase in our income tax expenses was primarily due to an increase in withholding income tax for reimbursements to our expenses incurred as a registrant from Deutsche Bank Trust Company Americas, or DBTCA.

**Net Loss Attributable to Non-controlling Interest.** Net loss attributable to non-controlling interest increased from US\$39.0 thousand in 2016 to US\$1.0 million in 2017. Net loss attributable to non-controlling interest represents the proportional share of net loss of our consolidated, but not wholly owned, subsidiaries that are attributable to the other shareholders of such subsidiaries. The change was primarily due to share of net income of Beijing Super TV, which was profitable in 2016 and changed from our wholly-owned subsidiary to majority-owned subsidiary and was subsequently disposed of in 2016.

**Net Loss from Continuing Operations Attributable to Holders of Ordinary Shares.** As a result of the foregoing, net loss from continuing operations attributable to holders of ordinary shares decreased by 62.9% from US\$7.2 million in 2016 to US\$2.7 million in 2017. Our basic and diluted loss per ordinary share from continuing operations in 2017 were US\$0.04 and US\$0.04, respectively.

#### Comparison of Years Ended December 31, 2016 and December 31, 2015

**Revenues.** The following table sets forth revenues by sources and the percentage of our total revenues for the periods indicated:

For the years ended December 31,	
2015	2016
Amount	Amount

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	% of Total Revenues			% of Total Revenues		
	(In thousands of U.S. dollars, except percentages)					
Products	US\$ 248	12.9	%	US\$ 618	14.6	%
Services						
Cloud platform operations	412	21.4		2,019	47.6	
Head-end system integration	527	27.4		708	16.7	
Head-end system development	735	38.3		895	21.1	
Subtotal	1,674	87.1		3,622	85.4	
Total revenues	US\$ 1,922	100.0	%	US\$ 4,240	100.0	%

Our total revenues increased by 120.6% from US\$1.9 million in 2015 to US\$4.2 million in 2016, reflecting an increase in revenues from the cloud platform operations.

Revenues from the sales of our products increased by 149.2% from US\$0.2 million in 2015 to US\$0.6 million in 2016, mainly due to an increase in the sales of our newly developed products.

Revenues from the sales of our services increased by 116.4% from US\$1.7 million in 2015 to US\$3.6 million in 2016, primarily due to the increase in revenues from the cloud platform operations.

**Net Revenues.** Our net revenues increased by 120.2% from US\$1.9 million in 2015 to US\$4.2 million in 2016.

**Cost of Revenues.** The following table sets forth cost of revenues by sources of revenues by amount and as a percentage of net revenues for the periods indicated:

	Years ended December 31, 2015		2016		
	Amount	% of Net Revenues	Amount	% of Net Revenues	
(In thousands of U.S. dollars, except percentages)					
Products	US\$ 143	7.4	% US\$ 506	12.0	%
Services	1,237	64.4	1011	23.9	
Total cost of revenues	US\$ 1,380	71.8	% US\$ 1517	35.9	%

Cost of revenues increased by 9.9% to US\$1.5 million in 2016 from US\$1.4 million in 2015, reflecting an increase in cost of revenues relating to our products. Cost of revenues relating to our products increased by 253.8% to US\$0.5 million in 2016 from US\$0.1 million in 2015, mainly due to an increase in cost of revenues from our newly developed products. Cost of revenues relating to our services decreased by 18.3% to US\$ 1.0 million in 2016 from US\$1.2 million in 2015, mainly due to a decrease in cost for purchase of hardware related to cloud platform system integration provided in 2016.

**Gross Profit and Gross Margin.** Gross profit increased by 402.0% from US\$0.5 million in 2015 to US\$2.7 million in 2016. Our gross margin increased from 28.2% in 2015 to 64.1% in 2016, primarily due to an increase in the cloud platform operations, which have a higher margin than the Company's other continuing operations, such as system integration and system development.

**Operating Expenses.** Our operating expenses decreased by 24.7% to US\$12.1 million in 2016 from US\$16.1 million in 2015. This reflected decreases in research and development expenses, selling and marketing expenses, which was partially offset by an increase in general and administrative expenses. Operating expenses, as a percentage of net revenues, decreased to 287.2% in 2016 from 840.2% in 2015.

**Research and Development Expenses.** Our research and development expenses decreased by 35.7% to US\$5.7 million in 2016 from US\$8.8 million in 2015. This was mainly due to a decrease in personnel related expenses resulting from lower headcount. Our research and development expenses, as a percentage of net revenues, decreased to 133.8% in 2016 from 458.2% in 2015.

***Selling and Marketing Expenses.*** Our selling and marketing expenses decreased by 33.2% to US\$2.7 million in 2016 from US\$4.1 million in 2015. This was primarily due to a decrease in personnel related expenses resulting from lower headcount, as well as decreased marketing expenses. Our selling and marketing expenses, as a percentage of net revenues, decreased to 65.0% in 2016 from 214.3% in 2015.

***General and Administrative Expenses.*** Our general and administrative expenses increased by 16.1% to US\$3.7 million in 2016 from US\$3.2 million in 2015, primarily due to an increase in professional fees.

***Loss from Operations.*** As a result of the foregoing, our loss from operations decreased by 39.5% to US\$9.4 million in 2016 from US\$15.6 million in 2015.

***Non-Operating Income (Expenses).*** We had non-operating income of US\$1.3 million in 2016, compared with US\$0.5 million in 2015. Our non-operating income in 2016 primarily consisted of interest income of US\$0.1 million, gain from disposal of an equity method investment of US\$0.1 million and other income of US\$1.1 million. Our interest income remained relatively stable as compared with 2015. Our other income increased from US\$0.4 million in 2015 to US\$1.1 million in 2016, primarily due to an increase in government subsidy income.

**Income Tax Expenses.** Our income tax expenses decreased from US\$0.3 million in 2015 to US\$0.1 million in 2016. The decrease in our income tax expenses was primarily due to a decrease in withholding income tax for reimbursements to our expenses incurred as a registrant from DBTCA.

**Share of Loss on an Equity Method Investment, Net of Income Taxes.** Our share of loss on an equity method investment decreased from US\$0.1 million in 2015 to nil in 2016. Our share of loss on an equity method investment in 2015 was attributable to the share of loss from our equity investment in Sinoscreens, which was disposed of in 2016.

**Net Loss Attributable to Non-controlling Interest.** Net loss attributable to non-controlling interest decreased from US\$0.9 million in 2015 to US\$39.0 thousand in 2016. Net loss attributable to non-controlling interest represents the proportional share of net loss of our consolidated, but not wholly owned, subsidiaries that are attributable to the other shareholders of such subsidiaries. The change was primarily due to share of net income of Beijing Super TV, which was profitable and changed from our wholly-owned subsidiary to majority-owned subsidiary in 2016.

**Net Loss from Continuing Operations Attributable to Holders of Ordinary Shares.** As a result of the foregoing, net loss from continuing operations attributable to holders of ordinary shares decreased by 50.6% from US\$14.6 million in 2015 to US\$7.2 million in 2016. Our basic and diluted loss per ordinary share from continuing operations in 2016 were US\$0.12 and US\$0.12, respectively.

## B. Liquidity and Capital Resources

### Liquidity

	For the years ended December 31,		
	2015	2016	2017
	(In thousands of U.S. dollars)		
Cash and cash equivalents, including those recorded in current assets of Super TV, at the end of the year	US\$70,138	US\$117,292	US\$24,425
Net cash provided by/(used in) operating activities	7,468	4,444	(3,589 )
Net cash provided by/(used in) investing activities	2,108	51,326	(3,043 )
Net cash provided by/(used in) financing activities	653	(5,489 )	(86,734)
Effect of exchange rate changes on cash and cash equivalents	US\$(2,133 )	US\$(3,127 )	US\$499

**Operating Activities.** Net cash used in operating activities was US\$3.6 million in 2017, which was primarily derived from our net loss of US\$4.1 million, adjusted to reflect the adding back of US\$1.0 million share-based compensation



charges, US\$0.3 million depreciation and amortization, US\$1.3 million impairment loss on goodwill and long-lived assets and US\$0.2 million unrealized exchange losses. Cash used in operating activities in 2017 was also adjusted by gain from disposal of assets of US\$0.8 million and a decrease in cash from working capital items of US\$1.5 million.

Net cash provided by operating activities was US\$4.4 million in 2016, which was primarily derived from our net income of US\$45.4 million, adjusted to reflect the adding back of US\$4.9 million share-based compensation charges, US\$1.7 million increase in allowance for doubtful accounts and US\$0.7 million depreciation and amortization. Cash provided by operating activities in 2016 was partially offset by gain from the Super TV Disposition of US\$43.2 million and a decrease in cash from working capital items of US\$4.8 million.

Net cash provided by operating activities was US\$7.5 million in 2015, which was primarily derived from our net income of US\$0.6 million, adjusted to reflect the adding back of US\$2.8 million increase in allowance for doubtful accounts, US\$1.1 million increase in write down for inventory, US\$0.6 million depreciation and amortization, and US\$2.4 million increase in cash from working capital items.

**Investing Activities.** Net cash used in investing activities was US\$3.2 million in 2017, primarily consisting of US\$8.4 million cash outflow for an increase in short-term investments and US\$0.3 million purchase of property and equipment, which was partially offset by US\$0.8 million proceeds from the disposal of assets and US\$4.8 million proceeds from maturity of short-term investments.

Net cash provided by investing activities was US\$51.3 million in 2016, primarily consisting of US\$54.7 million net proceeds from the Super TV Disposition, which was partially offset by US\$2.3 million cash outflow for an increase in term deposits and US\$0.7 million purchase of property and equipment.

Net cash provided by investing activities was US\$2.1 million in 2015, primarily consisting of US\$2.8 million proceeds from disposal of property and equipment, which was partially offset by US\$0.5 million cash outflow for equity method investment and US\$ 0.2 million purchase of property and equipment.

**Financing Activities.** Net cash used in financing activities was US\$86.7 million in 2017, primarily consisting of the US\$95.2 million special cash dividend paid to our shareholders and US\$0.3 million cash outflow for acquisition of non-controlling interests, which was partially offset by capital contribution of US\$5.4 million from non-controlling shareholders in our subsidiary and US\$3.4 million proceeds from stock option exercise.

Net cash used in financing activities was US\$5.5 million in 2016, primarily consisting of the US\$12.0 million special cash dividend paid to our shareholders, which was partially offset by capital contribution of US\$6.8 million from non-controlling shareholders in our subsidiaries.

Net cash used in financing activities was US\$0.7 million in 2015, primarily consisting of proceeds from stock option exercise.

According to the amended *PRC Company Law*, which took effect on March 1, 2014, and its predecessor law, our subsidiaries and variable interest entity in the PRC are required to make appropriations to the statutory surplus reserve which are still required to be made at the rate of 10% of profits after tax as determined under PRC GAAP until the balance of such reserve fund reaches 50% of the entities' registered capital.

Our subsidiaries and our variable interest entity in the PRC may, upon a resolution passed by their respective shareholders, convert the statutory surplus reserve into capital. The statutory reserve represents appropriations of retained earnings determined according to PRC law and may not be distributed. As a result of these laws, US\$0.1

million and US\$0.1 million of our retained earnings were not available for distribution as of December 31, 2016 and December 31, 2017, respectively.

As a holding company, our ability to pay dividends and other cash distributions to our shareholders depends in part upon dividends and other distributions paid to us by our PRC subsidiaries. As of December 31, 2017, the amount of cash held by our PRC subsidiaries was RMB 47.4 million (or US\$7.3 million), and the amount of cash held by entities outside the PRC was US\$17.1 million. There is a risk that any existing or future restrictions under the applicable PRC laws, rules or regulations on currency exchange may limit our ability to utilize the cash held by entities inside the PRC. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—Restrictions on currency exchange may limit our ability to effectively utilize our revenues as well as the ability of our PRC subsidiaries to obtain debt or equity financing from financial institutions or investors outside the PRC, including us" for more information.

### **Capital Expenditures**

In 2015, 2016 and 2017, our capital expenditures totaled US\$0.7 million, US\$0.7 million and US\$0.3 million, respectively. Our capital expenditures in 2017 were attributable to the purchase of computers and other electronic equipment.

We believe that our current levels of cash and cash equivalents, and cash flows from operations in the near future, will be sufficient to meet our anticipated capital expenditure and other cash needs for at least the next 12 months. However, we may need additional cash resources in the future if we experience changed business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If we ever determine that our cash requirements exceed our amounts of cash and cash equivalents on hand, we may seek to issue debt or equity securities or obtain a credit facility. Any issuance of equity securities could cause dilution for our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. It is possible that, when we need additional cash resources, financing will be available to us only in amounts or on terms that would not be acceptable to us or financing will not be available at all.

### **C. Research and Development, Patents and Licenses, etc.**

See "Item 4. Information on the Company—B. Business Overview—Research and Development" for information relating to our research and development.

See "Item 4. Information on the Company—B. Business Overview—Intellectual Property" for information relating to our intellectual property.

### **D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2017 to December 31, 2017 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

### **E. Off-Balance Sheet Arrangements**

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

**F. Tabular Disclosure of Contractual Obligations**

The following table sets forth our contractual obligations as of December 31, 2017:

	Contractual Obligations				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
	(In thousands of U.S. dollars)				
Operating lease obligations <sup>(1)</sup>	\$ 68	\$ -	\$ -	\$ -	\$ 68
Purchase obligations	625	-	-	-	625
Total	\$ 693	\$ -	\$ -	\$ -	\$ 693

<sup>(1)</sup> Operating leases generally relate to the lease of our office premises.

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

Our board of directors consists of two directors. The following table sets forth certain information concerning our directors and executive officers as of April 20, 2018:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Jianhua ZHU	48	Chief Executive Officer and Chairman
Zhenwen LIANG	44	Chief Financial Officer and Director

*Mr. Jianhua ZHU*, one of our founders, resumed his role as chief executive officer and chairman in June 2015. He has been a board member since 2004. He was the chairman of our board of directors from 2004 to December 2006, and from November 2008 to June 2014, and chief executive officer of our company from December 2006 to June 2014. From 2001 until 2004, Mr. Zhu was general manager of N-T Information Engineering. From 1998 until 2001, he was deputy general manager of N-T Information Engineering. He has also been the supervisor of N-T Information Engineering since 2006. Mr. Zhu was the executive director of Guangdong R&D prior to April 2010. He worked at the China Technology Import and Export Corp. from 1994 until 1997. Mr. Zhu holds a bachelor's degree and a master's degree in precision instrumentation from Tsinghua University.

*Mr. Zhenwen LIANG* resumed his role as our chief financial officer in May 2016 and was appointed as director in March 2018. Mr Liang served as the chief financial officer of our company from November 2010 to June 2014. Mr. Liang has served as general manager of the Company's new business unit, responsible for developing value-added services since 2006. From 2004 to 2006, Mr. Liang was responsible for overseeing our entire financial operations. From 1998 to 2004, Mr. Liang headed the finance team at N-T Information Engineering. Mr. Liang has a bachelor's degree in accounting from the Central University of Finance and Economics and a master's degree in business administration from Renmin University of China. Mr. Liang is a member of the Chinese Institute of Certified Public Accountants

At our annual general meeting held on December 29, 2017, our shareholders approved the re-election of Mr. Jianhua Zhu as Class I Directors of the Company's Board of Directors. On March 8, 2018, the Board of Directors of the Company appointed Mr. Zhenwen Liang as Class II Director as an addition to the existing Board, effective March 16, 2018.

There is no family relationship among any of our directors or executive officers. There is no shareholding qualification for directors.

Explanation of Responses:

## **B. Compensation of Directors and Senior Officers**

Our executive officers receive compensation in the form of salaries, annual bonuses and share options. Some of our current and former directors have received compensation in the form of share options. We do not provide any benefits to our non-executive directors upon retirement. In 2017, the aggregate cash compensation to our directors and executive officers was US\$0.7 million.

### **Share Options**

Our Amended and Restated China Digital TV Holding Co., Ltd. 2005 Stock Incentive Plan, or the 2005 Stock Incentive Plan, China Digital TV Holding Co., Ltd. 2008 Stock Incentive Plan, or the 2008 Stock Incentive Plan, China Digital TV Holding Co., Ltd. 2010 Stock Incentive Plan, or the 2010 Stock Incentive Plan, and China Digital TV Holding Co., Ltd. 2012 Stock Incentive Plan, or the 2012 Stock Incentive Plan, are intended to provide incentives to our directors, officers and employees as well as consultants and advisors of our company and its present or future parent company or subsidiaries, or related corporations.

#### *The 2005 Stock Incentive Plan*

The 2005 Stock Incentive Plan was adopted by the board of directors of CDTV BVI on February 3, 2005 and the Amended and Restated 2005 Stock Incentive Plan was adopted by our board of directors and approved by our shareholders on September 13, 2007 to amend and restate the 2005 Stock Incentive Plan. In 2005, CDTV BVI was the ultimate holding company of our business. As a result of our restructuring in May 2007, CDTV BVI became our wholly owned subsidiary and the options already granted under the 2005 Stock Incentive Plan were converted to options for the ordinary shares of our company. Pursuant to the 2005 Stock Incentive Plan, we may issue share options, stock appreciation rights, share bonuses, restricted shares, performance shares, share units, phantom shares, dividend equivalents or similar rights to purchase or acquire shares.

We reserved a total of 4,444,440 ordinary shares for issuance under the 2005 Stock Incentive Plan, subject to any adjustments as contemplated by the plan. We granted share options to purchase 3,067,498, 47,918, 543,674, 620,212 and 53,280 ordinary shares pursuant to the 2005 Stock Incentive Plan on February 3, 2005, April 13, 2006, September 22, 2006, December 5, 2006 and October 5, 2008, respectively. On November 19, 2010, the number of ordinary shares reserved for issuance under the 2005 Stock Incentive Plan was cancelled to the extent the corresponding options had not been awarded as of that date. There were no share options remaining outstanding as of March 31, 2018 under the 2005 Stock Incentive Plan.

With respect to the share options that we granted on February 3, 2005, two vesting schedules apply. The first vesting schedule is as follows: 50% vest at the end of the six-month period after the award date, and the remaining 50% vest in 42 equal monthly installments, beginning from the end of the six-month period after the award date. The second vesting schedule is as follows: 25% vest on the first anniversary of the award date and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price for all share options granted on this date was US\$0.543 per share.

With respect to the share options that we granted on April 13, 2006, the vesting schedule is as follows: 50% vest at the end of the six-month period after the award date, and the remaining 50% vest in 42 equal monthly installments, beginning from the end of the six-month period after the award date. The original exercise price for all share options granted on this date was US\$0.543 per share.

With respect to the share options that we granted on September 22, 2006, the vesting schedule is as follows: 25% vest on the first anniversary of the award date and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price was US\$1.771 per share.

With respect to the share options that we granted on December 5, 2006, with the exception of share options that we granted to one of our executive officers, the vesting schedule is as follows: 25% vest on the first anniversary of the award date, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The executive officer's share options vest according to the following schedule: 25% of 320,000 options vest upon the closing of our initial public offering; 75% of 320,000 options vest in 36 substantially equal monthly installments, with the first installment vesting on the last day of the month following the month in which the executive officer took office; and 32,000 options vest upon the achievement of certain financial targets. In July 2010, these 32,000 shares were forfeited as the financial targets were not met. The original exercise price for all share options granted on this date was US\$4.172 per share.



With respect to the share options that we granted on October 5, 2008, the vesting schedule is as follows: 25% vest on the first anniversary of the award date and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price was US\$0.543 per share.

*The 2008 Stock Incentive Plan*

The 2008 Stock Incentive Plan was adopted by our board of directors and approved by our shareholders on September 13, 2007. Pursuant to the 2008 Stock Incentive Plan, we may issue share options, share appreciation rights, share bonuses, restricted shares and restricted share units, performance shares, share units, phantom shares, dividend equivalents or similar rights to purchase or acquire shares.

We reserved a total of 1,200,000 ordinary shares for issuance under the 2008 Stock Incentive Plan, subject to any adjustments as contemplated by the plan. The plan also provides for an annual increase, beginning in 2009, in the number of ordinary shares that may be delivered pursuant to awards under the plan, totaling 2% of our issued and outstanding shares as of the first business day of the relevant calendar year. The maximum number of shares subject to awards that may be granted during any single calendar year is such number as equals 2% of our issued and outstanding shares as of the first business day of that calendar year. We granted share options to purchase 406,776, 357,548, 42,880 and 50,000 ordinary shares on October 5, 2008, June 2, 2009, February 10, 2010 and November 15, 2010, respectively. On November 19, 2010, the number of ordinary shares that had been reserved for issuance under the 2008 Stock Incentive Plan was cancelled to the extent the corresponding options had not been awarded as of that date. Options to purchase 490,022 ordinary shares remained outstanding as of March 31, 2018 under the 2008 Stock Incentive Plan.

With respect to the share options that we granted on October 5, 2008, the vesting schedule is as follows: 25% vest on the first anniversary of the award date, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price was US\$7.89 per share. On February 10, 2010, we accelerated the vesting schedule of a total of 29,480 share options to purchase 29,480 ordinary shares so that all these share options were vested on February 20, 2010.

With respect to the share options that we granted on June 2, 2009, the vesting schedule is as follows: 25% vest on the first anniversary of the award date, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price was US\$9.09 per share.

With respect to the share options that we granted on February 10, 2010, all these share options were vested on the grant date. The original exercise price was US\$0.543 per share.

With respect to the share options that we granted on November 15, 2010, the vesting of these options is conditional upon the fulfillment of certain performance targets by the optionees in the four years following the grant date. The original exercise price was US\$6.96 per share.

#### *The 2010 Stock Incentive Plan*

The 2010 Stock Incentive Plan was adopted by our board of directors on November 19, 2010. Pursuant to the 2010 Stock Incentive Plan, we may issue share options, share appreciation rights, share bonuses, restricted shares,

performance shares, share units, phantom shares, dividend equivalents or similar rights to purchase or acquire shares.

We reserved a total of 3,600,000 ordinary shares for issuance under the 2010 Stock Incentive Plan, subject to adjustments as contemplated by the plan. We granted share options to purchase 1,000,000, 1,600,000, 700,000 and 300,000 ordinary shares on November 19, 2010, May 16, 2011, September 30, 2011 and November 19, 2011, respectively. Options to purchase 210,404 ordinary shares remained outstanding as of March 31, 2018 under the 2010 Stock Incentive Plan.

With respect to the share options that we granted on November 19, 2010, the vesting schedule is as follows: 25% vest on the first anniversary of the award date, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on the last day of the month following the month in which the first anniversary of the award date occurs. The original exercise price was US\$6.90 per share.

With respect to the share options that we granted on May 16, 2011, two vesting schedules apply. The first vesting schedule is as follows: 25% vest on November 19, 2011, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on December 31, 2011 and then on the last day of the month following thereafter. The second vesting schedule is as follows: the vesting of the options is conditioned upon the fulfillment of certain performance targets by the optionees on April 1, 2012. The original exercise price was US\$4.90 per share.

With respect to the share options that we granted on September 30, 2011, the vesting schedule is as follows: 25% vest on November 19, 2011, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on December 31, 2011 and then on the last day of the month following thereafter. The original exercise price is US\$4.34 per share.

With respect to the share options that we granted on November 19, 2011, the vesting schedule is as follows: 25% vest on November 19, 2011, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on December 31, 2011 and then on the last day of the month following thereafter. The original exercise price is US\$4.34 per share.

*The 2012 Stock Incentive Plan*

The 2012 Stock Incentive Plan was adopted by our board of directors on May 1, 2012. Pursuant to the 2012 Stock Incentive Plan, we may issue share options, share appreciation rights, share bonuses, restricted shares, performance shares, share units, phantom shares, dividend equivalents or similar rights to purchase or acquire shares.

We reserved a total of 1,200,000 ordinary shares for issuance under the 2012 Stock Incentive Plan, subject to adjustments as contemplated by the plan. We granted share options to purchase 1,200,000 ordinary shares on January 8, 2013. Options to purchase 6,979 ordinary shares remained outstanding as of March 31, 2018 under the 2012 Stock Incentive Plan.

With respect to the share options that we granted on January 8, 2013, the vesting schedule is as follows: 25% vest on January 8, 2013, and the remaining 75% vest in 36 substantially equal monthly installments, beginning on February 28, 2013 and then on the last day of the month following thereafter. The original exercise price is US\$1.18 per share.

*The 2005, 2008, 2010 and 2012 Stock Incentive Plans*

Our board of directors administers the 2005 and 2008 Stock Incentive Plans and Mr. Jianhua Zhu administers the 2010 and 2012 Stock Incentive Plans. The administrator of each plan has wide discretion in determining who will receive awards, the type and timing of awards, the vesting schedule and other terms and conditions of the awards, including the exercise price of share option grants. Generally, if an outstanding share option grant made under the plans has not vested by the date of termination of the recipient's employment with us, no further installments of the recipient's grant will become exercisable following the date of termination of employment, and the recipient will have 30 days from such date to exercise any share options that had already vested but not yet been exercised. If any ordinary shares subject to a restricted share award remain subject to restrictions by the date of termination of employment, no additional ordinary shares will vest following the date of termination of employment.

The 2005 and 2008 Stock Incentive Plans terminated on February 2, 2015 and September 12, 2017, respectively. Our board of directors may amend or terminate the 2008, 2010 and 2012 Stock Incentive Plans at any time; provided, however, that our board of directors must seek the recipients' approval with respect to any amendment or termination that would adversely affect the rights of such recipients under any award already made. Without further action by our board of directors, the 2010 and 2012 Stock Incentive Plans will terminate on November 18, 2020 and April 30, 2022, respectively.

In addition to the options granted pursuant to the 2005, 2008, 2010 and 2012 Stock Incentive Plans, on May 15, 2007, we granted options to purchase 40,000 ordinary shares to Louis T. Hsieh, who became an independent director of our company upon the completion of our initial public offering, at an exercise price of US\$4.172 per share. Mr. Hsieh retired from our board of directors in December 2009, following which 33,889 of his options were exercised with the remainder being forfeited.

On November 19, 2010, our board of directors approved an adjustment to the exercise price of all options granted prior to, but remained outstanding as of, December 23, 2010 under the 2005 Stock Incentive Plan, the 2008 Stock Incentive Plan and the 2010 Stock Incentive Plan, or the Adjusted Options. The per share exercise price of all Adjusted Options with a per share exercise price higher than US\$2.00 was reduced by US\$2.00 on December 23, 2010, and the per share exercise price of all Adjusted Options with a per share exercise price no more than US\$2.00 was reduced to US\$0.01. Our board of directors also resolved that if any future dividend is declared, the per share exercise price of all options granted prior to and outstanding as of the date of record of such dividend shall be reduced by an amount equal to the dividend payable on each ordinary share, provided that the per share exercise price after adjustment shall not be less than US\$0.01. Due to special cash dividends of US\$0.56, US\$2.30, US\$0.50, US\$0.20 and US\$1.50 per ordinary share declared in May 2011, November 2012, April 2014, April 2016 and April 2017, respectively, the per share exercise prices of all of the options granted prior to and remaining outstanding as of June 20, 2011, November 26, 2012, April 14, 2014, April 29, 2016, and June 15, 2017, each a record date, were reduced by US\$0.56, US\$2.30, US\$0.50, US\$0.20 and US\$ 1.50 pursuant to such resolution of our board of directors referenced above, respectively, provided that the per share exercise prices after adjustment shall not be less than US\$0.01.

The following table sets forth information on share options that have been granted and were outstanding as of March 31, 2018 pursuant to the 2005, 2008, 2010 and 2012 Stock Incentive Plans:

	Number of Ordinary Shares Underlying Outstanding Options	Exercise Price per Ordinary Share*	Date of Grant	Date of Expiration
Directors and Executive Officers				
Jianhua ZHU	nil	—	—	—
Zhenwen LIANG	nil	—	—	—
Other grantees as a group (comprising 55 individuals)	707,405	—	—	—

\*The exercise price per Ordinary Share has reflected the impact of the exercise price modifications in December 2010, June 2011, November 2012, April 2014, April 2016 and June 2017, respectively.

Employees will need to comply with our plan and policies. Section 6.3 of the Stock Incentive Plans provides that "if an entity ceases to be a Subsidiary of the Corporation, a termination of employment or service shall be deemed to have occurred with respect to each Eligible Person in respect of such Subsidiary who does not continue as an Eligible Person in respect of another member of us after giving effect to the Subsidiary's change in status." However, in light of the Super TV Disposition, in January 2017, we extended the period for the exercise of options held by employees of Beijing Super TV and N-S Digital TV from 30 days after Beijing Super TV and N-S Digital TV ceased to be subsidiaries of the Company to the end of the contractual life of each stock option agreement under the Stock Incentive Plans.

## C. Board Practices

### General

The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- implementing shareholders' resolutions;

Explanation of Responses:

- determining our business plans and investment proposals;
- declaring dividends and distributions;
- exercising the borrowing powers of our company and mortgaging the property of our company;
- approving the transfer of shares of our company, including the registering of such shares in our share register; and
- exercising any other powers conferred by the shareholders' meetings or under our Second Amended and Restated Memorandum and Articles of Association.

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## **Terms of Directors**

The terms of our directors are three years, according to our Second Amended and Restated Memorandum and Articles of Association. Any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of shareholders and then shall be eligible for re-election. The term of Mr. Jianhua Zhu, will expire upon the annual general meeting of shareholders to be held in 2020, while the term of Mr. Zhenwen Liang will expire upon the annual general meeting of shareholders to be held in 2018..

## **Employment Agreements**

We have entered into service contracts with our directors. The service contracts do not provide any benefits to our directors upon termination of service.

We have entered into an employment agreement with each of our executive officers. Under these agreements, we may terminate an executive officer's employment for cause at any time, without notice or remuneration, for certain acts of the executive officer, including but not limited to material acts of fraud, material violations of our terms of employment, material dereliction of duty or engaging in graft to the material harm of the company. An executive officer may terminate employment if a government regulatory agency determines that working conditions are extremely deficient and injurious to health, if the executive has been subject to violence, threats or illegal constraints upon his liberty, or if we have failed to pay compensation on time. We and each executive officer may also decide to terminate such executive officer's employment for other reasons or no reason after providing written notice at least 30 days in advance and after we have made arrangements for a successor. Our employment agreements do not provide any benefits to any of our executive officers upon termination.

Each executive officer who has executed an employment agreement with us has agreed to hold in confidence and not to use, both during and after such executive officer's term of employment, any of our confidential information, including but not limited to information relating to important company policies, technological secrets, commercial secrets, company processes and any intellectual property discovered, invented or created by such executive officer during his or her term of employment. In addition, each of our executive officers has agreed to give us full rights to any work-related patents, inventions or achievements.

Each executive officer has also agreed that for one year after terminating employment with us, such executive officer will not, without our consent, accept employment by any of our competitors or engage in any activities that, directly or indirectly, compete with us. In addition, each executive officer has agreed that he or she will not, without our consent, induce any of our employees to terminate employment with us.



#### **D. Employees**

See "Item 4. Information on the Company—B. Business Overview—Employees."

#### **E. Share Ownership**

Under the Exchange Act Rule 13d-3, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be the beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of securities as to which such person has no economic interest.

The following table sets forth certain information with respect to the directors, officers and each of the persons known to us who own beneficially 5% or more of our ordinary shares as of March 31, 2018 unless otherwise indicated. The number of ordinary shares outstanding in calculating the percentages for each listed person includes the ordinary shares underlying share options held by such person. The percentage of beneficial ownership of each listed person is based on 63,508,656 ordinary shares outstanding (excluding the 3,382,769 ordinary shares that were issued and held for the Company's account in preparation for exercise of share options by option holders under our employee stock incentive plans), as well as the ordinary shares underlying share options exercisable by such person within 60 days of March 31, 2018.

	Shares beneficially owned	
	Number	Percent
Directors and Executive Officers		
Jianhua ZHU <sup>(1)</sup>	22,634,270	35.64 %
Zhenwen LIANG <sup>(2)</sup>	2,030,359	3.20 %
Zengxiang LU <sup>(3)</sup>	2,040,085	3.21 %
Michael ELYAKIM <sup>(4)</sup>	*	*
Songzuo XIANG <sup>(5)</sup>	-	-
Jianyue PAN <sup>(6)</sup>	*	*
Directors and executive officers as a group <sup>(7)</sup>	27,233,418	42.88 %

\*Beneficially owns less than 1% of our ordinary shares.

Represents: (i) the 20,846,786 ordinary shares and 1,709,775 ADSs held by Smart Live Group Limited, which is wholly owned by Mr. Jianhua Zhu and (ii) the 155,418 ordinary shares held by China Cast Investment Holdings (1) Limited, or China Cast. Mr. Jianhua Zhu, together with Dr. Zengxiang Lu, exercises investment and voting powers over the shares held by China Cast. Mr. Jianhua Zhu owns 50% of the equity interest of China Cast and disclaims beneficial ownership of those shares held by China Cast except to the extent of his pecuniary interest therein.

(2) Represents the sum of ordinary shares and ADSs owned by Mr. Zhenwen Liang.

Represents: (i) the 1,962,376 ADSs held by Polar Light Group Limited, which is wholly owned by Dr. Zengxiang Lu and (ii) the 155,418 ordinary shares held by China Cast. Dr. Zengxiang Lu, together with Mr. Jianhua Zhu, exercises investment and voting powers over the shares held by China Cast. Dr. Zengxiang Lu owns 50% of the equity interest of China Cast and disclaims beneficial ownership of those shares held by China Cast except to the extent of his pecuniary interest therein. Effective from March 23, 2018, Dr. Zengxiang Lu resigned from his position as our director.

(4) Effective from March 19, 2018, Mr. Michael Elyakim resigned from his position as our director.

(5) Effective from March 19, 2018, Mr. Songzuo Xiang resigned from his position as our director.

(6) Effective from March 19, 2018, Mr. Jianyue Pan resigned from his position as our director.

Represents 100% of the 155,418 ordinary shares held by China Cast (Dr. Zengxiang Lu and Mr. Jianhua Zhu jointly exercise investment and voting powers over the shares held by China Cast), ordinary shares and ADSs held (7) by Mr. Jianhua Zhu (other than those ordinary shares held through China Cast), Mr. Zhenwen Liang, Dr. Zengxiang Lu (other than those ordinary shares held through China Cast), Mr. Michael Elyakim and Mr. Jianyue Pan.

**Item 7. Major Shareholders and Related Party Transactions**

**A. Major Shareholders**

Please refer to "Item 6. Directors, Senior Management and Employees—E. Share Ownership" in this annual report.

None of our major shareholders has voting rights different from those of our other shareholders. To the best of our knowledge, we are not directly or indirectly controlled by another corporation, by any foreign government or by any other natural or legal person severally or jointly.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

For information regarding our shares held or beneficially owned by persons in the United States, see "Item 9. The Offer and Listing—A. Offering and Listing Details—Market and Share Price Information" in this annual report.

## **B. Related Party Transactions**

### *Shareholders Agreement*

Pursuant to the First Amended and Restated Shareholders Agreement of China Digital TV Holding Co., Ltd., or the Shareholders Agreement, dated September 13, 2007, among N-T Information Engineering, N-S Digital TV, CDTV BVI, China Capital, China Cast, SAIF, Capital Funds and certain other shareholders, as amended by an agreement, dated June 14, 2011, among us, N-S Digital TV, China Cast, SAIF, Capital Funds and certain other shareholders, at any time beginning six months after the closing of our initial public offering, each of SAIF, Capital Funds and China Capital may, on three occasions only, require us to effect the registration on a form other than Form F-3 of all or part of the registrable securities then outstanding. In addition, any holder of registrable securities may require us to effect a registration statement on Form F-3 (or any successor form or any comparable form for a registration in a jurisdiction other than the United States) for a public offering of registrable securities so long as we are entitled to use Form F-3 (or a comparable form) for such offering. Demand for a registration on Form F-3 may be made on unlimited occasions, although we are not obligated to effect more than one such registration per shareholder in any six-month period.

Registrable securities are ordinary shares not previously sold to the public and issued or issuable or sold to SAIF, Capital Funds and China Capital, including: (a) ordinary shares issuable upon conversion or exercise of either (i) any of the Series A preferred shares, or (ii) any options or warrants to purchase ordinary shares or the Series A preferred shares of our company; (b) ordinary shares held by Capital Funds and China Capital; (c) ordinary shares issued pursuant to share splits, share dividends, and similar distributions to SAIF, Capital Funds and China Capital; and (d) any other securities of our company granted with registration rights pursuant to the Shareholders Agreement.

Holders of registrable securities also have "piggyback" registration rights, which may require us to register all or any part of the registrable securities then held by such holders when we register any of our ordinary shares.

We are generally required to bear all of the registration expenses incurred in connection with three demand registrations on a form other than Form F-3 for each of SAIF, Capital Funds and China Capital, unlimited Form F-3

and piggyback registrations, except underwriting discounts and selling commissions, but including reasonable expenses of one counsel for the party exercising the registration right. The registration right under the Shareholders Agreement has been terminated on June 14, 2015.

*Equity Transfer Agreement (Super TV)*

Pursuant to a definitive equity transfer agreement, dated November 7, 2016, and a supplemental agreement thereto, dated December 26, 2016, between Golden Benefit, our wholly-owned subsidiary, and Bao Li, a limited liability company then collectively owned by several buyer parties, including Mr. Jianhua Zhu, our Chief Executive Officer and director, Golden Benefit transferred all the equity interest then held by it in Beijing Super TV to Bao Li for a consideration of RMB610 million.

**C. Interests of Experts and Counsel**

Not Applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

#### **Consolidated Statements**

See "Item 18. Financial Statements."

#### **Legal Proceedings**

We are not currently a party to any material legal proceeding and, to our knowledge, there are no material legal proceedings threatened against us. From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business.

#### **Dividend Policy**

In April 2016, our board of directors declared a special cash dividend of US\$0.20 per ordinary share. US\$12,034,386 was paid in August 2016 with US\$3,600 remaining payable as of December 31, 2017.

In April 2017, our board of directors declared a special cash dividend of US\$1.50 per ordinary share. US\$95,235,984 was paid in June 2017 with US\$27,000 remaining payable as of December 31, 2017.

Our board of directors has the discretion to determine the payment of any dividends. As a matter of company policy, our board of directors will consider declaring and paying dividends for a given period, subject to the board of directors' determination that (i) we have sufficient profit attributable to shareholders for such period and (ii) our funding requirements can be fully satisfied if a proposed dividend is declared and paid. Our board of directors will review and decide whether to revise our dividend policy, from time to time, in light of our future operations and earnings, capital requirements and surplus, financial condition, contractual restrictions, general business conditions and other factors as the board of directors may deem relevant.

Holders of ADSs will be entitled to receive dividends, subject to the terms of the deposit agreement, less the fees and expenses payable under the deposit agreement. Cash dividends will be paid by the depositary to holders of ADSs in U.S. dollars. Other distributions, if any, will be paid by the depositary to holders of our ADSs by any means it deems legal, fair and practical.

## **B. Significant Changes**

There have been no significant changes since December 31, 2017, the date of the annual financial statements in this annual report.

## **Item 9. The Offer and Listing**

### **A. Offering and Listing Details**

#### **Market and Share Price Information**

Our ADSs, each representing one ordinary share, had been listed on the NYSE since October 5, 2007 and traded under the symbol "STV" until the removal from listing on NYSE on October 25, 2017. Our ADSs are quoted on the OTC Markets under the symbol "STVVY" as of the date of this annual report.

The high and low closing prices of our ADSs on the NYSE since listing until May 16, 2017, when the trading in our ADSs was halted, and on the OTC Markets are as follows:

	Price per ADS (US\$)*	
	High	Low
Yearly:		
2013	2.27	1.36
2014	4.94	1.81
2015	5.08	1.50
2016	1.73	1.12
2017 <sup>(1)</sup>	1.75	0.12
Quarterly:		
First Quarter, 2016	1.72	1.40
Second Quarter, 2016	1.73	1.13
Third Quarter, 2016	1.39	1.12
Fourth Quarter, 2016	1.61	1.15
First Quarter, 2017	1.48	1.25
Second Quarter, 2017 <sup>(1)</sup>	1.78	0.31
Third Quarter, 2017	0.34	0.22
Fourth Quarter, 2017	0.25	0.16
First Quarter, 2018	0.24	0.16
Monthly:		
October 2017	0.25	0.20
November 2017	0.23	0.20
December 2017	0.21	0.16
January 2018	0.24	0.16
February 2018	0.20	0.16
March 2018	0.18	0.16
April 2018 (through April 19)	0.18	0.14

\* Trading in our ADSs was halted on May 16, 2017, since when the prices of our ADSs were recorded on the OTC Markets.

(1) The high point was recorded on the NYSE while the low point was recorded on the OTC Markets.

As of March 31, 2018, a total of 40,376,226 ADSs were outstanding, excluding the 3,382,769 ADSs that were held for our account in preparation for exercise of share options by option holders under our employee stock incentive plans. As of March 31, 2018, 40,376,226 ordinary shares were registered in the name of DBTCA, the depositary under the deposit agreement, excluding 3,382,769 ordinary shares that were issued and held for our account in preparation for exercise of share options by option holders under our employee stock incentive plans.



**B. Plan of Distribution**

Not Applicable.

**C. Markets**

Our ADSs, each representing one ordinary share, had been listed on the NYSE since October 5, 2007 and traded under the symbol "STV" until the removal from listing on NYSE on October 25, 2017. Our ADSs were quoted on the OTC Markets under the symbol "STVVY" as of the date of this annual report.

**D. Selling Shareholders**

Not Applicable.

**E. Dilution**

Not Applicable.

**F. Expenses of the Issue**

Not Applicable.

## **Item 10. Additional Information**

### **A. Share Capital**

Not Applicable.

### **B. Memorandum and Articles of Association**

We incorporate by reference into this annual report the description of our Second Amended and Restated Memorandum and Articles of Association contained in our registration statement on Form F-1 (File No. 333-146072) filed with the SEC on September 14, 2007. Our shareholders adopted our Second Amended and Restated Memorandum and Articles of Association on September 13, 2007.

Through a special resolution passed at the extraordinary general meeting of the Company held on March 2, 2018, we amended our Second Amended and Restated Articles of Association. We have filed the amendment and the Second Amended and Restated Articles of Association, as amended, as exhibits of this annual report.

### **C. Material Contracts**

Other than the contracts described elsewhere in this annual report, we and our operating companies have not entered into any material contracts that are not in the ordinary course of business within the two years preceding the date of this annual report.

### **D. Exchange Controls**

The Cayman Islands currently have no exchange control restrictions. See also "Item 4. Information on the Company—B. Business Overview—Regulations—Foreign Currency Exchange" and "Item 4. Information on the Company—B. Business Overview—Regulations—Regulations of Foreign Exchange in Certain Onshore and Offshore Transactions" for information on foreign currency exchange in the PRC.

### **E. Taxation**

Explanation of Responses:

The following discussion of the material Cayman Islands and United States federal income tax consequences of an investment in the ADSs is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in the ADSs, such as the tax consequences under state, local and other tax laws.

### **Cayman Islands Taxation**

To the extent the following discussion relates to Cayman Islands law with respect to the income tax consequence of an investment in our ADSs, it represents the opinion of Conyers Dill & Pearman.

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of ADSs or ordinary shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands is a party to a double tax treaty entered into with the United Kingdom in 2010 but is otherwise not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet:

that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and

that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for us is for a period of 20 years from May 1, 2007.

### **United States Federal Income Taxation**

This section describes the material United States federal income tax consequences of owning ADSs. It applies to you only if you are a U.S. holder, as defined below, and you hold your ADSs as capital assets for United States federal income tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a tax-exempt organization;
- a life insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of our stock by vote or value;
- a person that holds ADSs as part of a straddle or a hedging or conversion transaction;

- a person that purchases or sells ADSs as part of a wash sale for tax purposes; or
- a person whose functional currency is not the U.S. dollar.

U.S. holders are urged to consult their tax advisors about the application of the United States federal tax rules to their particular circumstances as well as the state, local and non-United States tax consequences to them of the purchase, ownership and disposition of our ADSs or ordinary shares.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed Treasury regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

If a partnership holds the ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the ADSs should consult its tax advisor with respect to the United States federal income tax treatment of an investment in the ADSs.

You are a U.S. holder if you are a beneficial owner of ADSs for United States federal income tax purposes and you are:

- an individual that is a citizen or resident of the United States;

a corporation (or other entity taxable as a corporation for United States federal income tax purposes) organized under the laws of the United States, any State or the District of Columbia;

· an estate whose income is subject to United States federal income tax regardless of its source; or

· a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to United States federal income tax. Unless noted otherwise, the United States federal income tax treatment of holding shares is generally the same as that of holding ADSs that represent such shares.

#### *Taxation of Dividends*

Under the United States federal income tax laws, and subject to the PFIC rules discussed below, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. Because we do not intend to determine our earnings and profits on the basis of United States federal income tax principles, any distribution paid by us with respect to our ADSs is generally expected to be reported as a "dividend" for United States federal income tax purposes. Dividends we pay with respect to the ADSs generally will not be eligible for the preferential dividend rate currently applicable to certain "qualified dividend income" received by noncorporate shareholders. As discussed below, we believe that we were treated as a PFIC for the taxable year ended December 31, 2017.

You must include any foreign tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when the depositary receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. holders that are United States corporations in respect of dividends received from other United States corporations.

Subject to certain limitations, in the event that PRC tax is withheld and paid over to the PRC with regard to the dividend payments, the PRC tax may in certain circumstances be creditable or deductible against your United States federal income tax liability. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—Dividends payable by us to our non-PRC shareholders and ADS holders, and gains on the sales of our ordinary shares or ADSs, may be subject to withholding taxes under PRC tax laws, which may materially reduce the value of your investment." Special rules apply in determining the foreign tax credit limitation with respect to dividends that are

subject to the preferential tax rates. To the extent a refund of the tax withheld is available under PRC law, the amount of tax withheld that is refundable will not be creditable against your United States federal income tax liability. The rules governing foreign tax credits are complex and, therefore, U.S. holders should consult their tax advisors regarding the availability of a foreign tax credit or deduction in respect thereof in such U.S. holders' particular circumstances.

Dividends will generally be treated as income from sources outside the United States, and, depending on your circumstances, will be either "passive" or "general" category income for purposes of computing the foreign tax credit allowable to you.

You should consult your own tax advisor regarding how to account for dividends paid in a currency other than the U.S. dollar.

#### *Taxation of Capital Gains*

Subject to the PFIC rules discussed below, a U.S. holder will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS equal to the difference between the U.S. dollar value of the amount realized for the ADS and the U.S. holder's U.S. dollar tax basis in the ADS. The gain or loss will be capital gain or loss. A non-corporate U.S. holder, including an individual U.S. holder, who has held the ADSs for more than one year will be eligible for reduced capital gains tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that a U.S. holder recognizes will generally be treated as United States source income (or loss, in the case of losses, subject to certain limitations).

Any gain or loss that you recognize on a disposition of our ADSs generally will be treated as United States source income or loss for foreign tax credit limitation purposes. In the event that any gain from the disposition of our ADSs is subject to PRC withholding tax, a U.S. holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may be able to elect to treat the gain as PRC source income for foreign tax credit purposes. U.S. holders should consult their tax advisors regarding their eligibility for benefits under the income tax treaty between the United States and the PRC and their ability to credit any PRC tax withheld in respect of a sale of our ADSs or Class A ordinary shares against their United States federal income tax liability.

U.S. holders should consult their tax advisors regarding how to account for amounts received in a currency other than the U.S. dollar.

#### *PFIC Rules*

Based on analyses of our income and the value of our assets, we believe we were a PFIC for the taxable years ended December 31, 2017 and December 31, 2016. In addition, although we believe we were not treated as a PFIC for our taxable years ended December 31, 2015 and December 31, 2014, we believe that we have been treated as a PFIC in prior taxable years before the taxable year ended December 31, 2014. The conclusion as to our PFIC status is a factual determination that is made annually and thus we may or may not be a PFIC for the taxable year ending December 31, 2018 or subsequent taxable years. In addition, because PFIC status is determined based on complex rules that may not be entirely clear, and based on the value of assets that cannot in certain circumstances be known for certain, no guarantee regarding our PFIC status can be made for any particular year. To the extent that we hold a significant amount of cash or other passive assets in the future, as a general matter, it is more likely that we would be treated as a PFIC in such future taxable years. You will generally be treated as holding stock of a PFIC in the first taxable year of your holding period in which we became a PFIC and subsequent taxable years even if we cease to satisfy the tests to be classified as a PFIC in subsequent taxable years, unless you make certain elections.

In general, we will be a PFIC if for any taxable year in which you held our ADSs:

at least 75% of our gross income for the taxable year is passive income;  
or

at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.



Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. In general, if a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

Because we believe that we likely were classified as a PFIC for our immediately prior taxable year, for the taxable year ended December 31, 2016 and before the taxable year ended December 31, 2014, you will generally be subject to the special PFIC tax rules if you held our ADSs in a taxable year while we were treated as a PFIC with respect to you.

If we are a PFIC with respect to a U.S. holder for any taxable years during which a U.S. holder holds our ADSs and any of our subsidiaries (including any entities treated as being owned by us for United States federal income tax purposes) is also a PFIC, such U.S. holder would be treated as owning a proportionate amount (by value) of the shares of each such subsidiary classified as a PFIC for purposes of the application of these rules.

If we are treated as a PFIC, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your ADSs; and

- any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the ADSs during the three preceding taxable years or, if shorter, your holding period for the ADSs).

Under these rules:

- the gain or excess distribution (collectively, an "excess distribution") will be allocated ratably over your holding period for the ADSs;

- the amount allocated to the taxable year in which you realized excess distribution will be taxed as ordinary income;

- the amount allocated to each prior year generally will be taxed at the highest tax rate in effect for that year; and

- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Moreover, your ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your ADSs, even if we are not currently a PFIC at the time of a distribution or recognition of gain, unless certain elections are made.

The adverse tax consequences mentioned above may be mitigated if a U.S. holder is eligible and does elect to annually mark-to-market the ADSs; however, the mark-to-market election is available only for "marketable stock," which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable Treasury regulations. Our ADSs were delisted from the NYSE and are now quoted on the OTC Markets. Accordingly, our stock will no longer qualify as "marketable stock" for the purpose of the mark-to-market election, U.S. holders of our stock will no longer be eligible to make a mark-to-market election with respect to our stock, and U.S. holders of our stock that had made mark-to-market elections with respect to our stock in the past will be subject to the special PFIC rules for the taxable year ended December 31, 2017 and for future taxable years.

If we are or were a PFIC for any taxable year during which you hold or held our ADSs, we will continue to be treated as a PFIC with respect to you for all subsequent years during which you hold the ADSs, unless we have ceased to be classified as a PFIC under the tests described above and you make a "deemed sale" election. If you make a deemed sale election, you will be deemed to have sold your ADSs at their fair market value on the last day of the last taxable year in which we qualified as a PFIC and any gain from such deemed sale would be subject to the excess distribution rules described above. After the deemed sale election, so long as we do not become a PFIC in a subsequent taxable year, your ADSs with respect to which a deemed sale election was made will not be treated as equity interests in a PFIC. However, as discussed above, even if we cease to be treated as a PFIC, we may be treated as a PFIC in subsequent taxable years, in which case you would be subject to the excess distribution rules discussed above with respect to such subsequent taxable years.

In certain circumstances, a U.S. holder of stock in a PFIC may avoid the adverse tax and interest charge regime applicable to excess distributions described above by making a "qualified electing fund" election. U.S holders of our ADSs are not expected to be able to make this election.

If you own ADSs during any year that we are a PFIC with respect to you, you generally must file Internal Revenue Service Form 8621 with your U.S. federal income tax return. You should discuss this filing requirement with your tax advisor.

You should consult your own tax advisor regarding the application of the PFIC rules to your ownership and disposition of the ADSs or shares, the effect of our not being treated as a PFIC for the taxable year ended December 31, 2017 and the availability, application and consequences of the elections discussed above.

### *Information Reporting and Backup Withholding*

Dividend payments with respect to ADSs and proceeds from the sale, exchange or redemption of ADSs may be subject to information reporting to the Internal Revenue Service and possible United States backup withholding. Backup withholding will not apply, however, to a U.S. holder who furnishes a correct taxpayer identification number and makes any other required certifications or who is otherwise exempt from backup withholding, and demonstrates such exemption when requested. U.S. holders can generally avoid being subject to backup withholding by providing a properly completed Internal Revenue Service form W-9. U.S. holders should consult their tax advisors regarding the application of the United States information reporting and backup withholding rules. Backup withholding is not an additional tax. Amounts withheld as backup withholding generally are allowed as a credit against your United States federal income tax liability, and you may be entitled to obtain a refund of any excess amounts withheld under the backup withholding rules if you file an appropriate claim for refund with the IRS and furnish any required information in a timely manner. U.S. holders should consult their tax advisors regarding the application of the information reporting and backup withholding rules.

Individual U.S. holders, and certain entities, that own "specified foreign financial assets" with an aggregate value in excess of \$50,000 are generally required to file an information statement along with their tax returns, currently on Internal Revenue Service Form 8938, with respect to such assets. "Specified foreign financial assets" generally include financial accounts held at non-U.S. financial institutions, as well as securities issued by a non-U.S. issuer (which would include our ADSs) that are not held in accounts maintained by certain financial institutions. Higher reporting thresholds apply, including to certain individuals living abroad and to certain married individuals. Regulations have been issued extending this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets. U.S. holders who fail to report the required information could be subject to substantial penalties. U.S. holders should consult their own tax advisors concerning the application of these rules to their investment in our ADSs in their particular circumstances.

U.S. holders of ADSs should consult their own tax advisors regarding the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences resulting from purchasing, holding or disposing of our ADSs, including the applicability and effect of the tax laws of any state, local or non-U.S. jurisdiction.

### **F. Dividends and Paying Agents**

Not Applicable.

**G. Statement by Experts**

Not Applicable.

**H. Documents on Display**

You can read and copy documents referred to in this annual report that have been filed with the SEC at the SEC's public reference room located at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

**I. Subsidiary Information**

Not Applicable.

## **Item 11. Quantitative and Qualitative Disclosures About Market Risks**

### **Interest Rate Risk**

As of December 31, 2017, we had no short-term or long-term borrowings. Our exposure to market risk for changes in interest rates relates primarily to the interest income generated by our cash deposits with the banks. We have not used any derivative financial instruments in our investment portfolio. Interest earning instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. However, our future interest income may fall short of expectations due to changes in interest rates. In addition, we may borrow loans in the future and changes in interest rates may affect our finance cost.

### **Foreign Currency Risk**

Although the conversion of the Renminbi is highly regulated in the PRC, the value of the Renminbi against the value of the U.S. dollar (or any other currency) nonetheless may fluctuate and be affected by, among other things, changes in the political and economic conditions in the PRC. Under the currency policy in effect in the PRC today, the Renminbi is permitted to fluctuate in value within a narrow band against a basket of certain foreign currencies. The PRC is currently under significant international pressures to liberalize this government currency policy, and if such liberalization were to occur, the value of the Renminbi could appreciate or depreciate against the U.S. dollar.

In 2017, substantially all of our revenues and cost of revenues of our continuing operations are generated from our PRC subsidiaries and are denominated in Renminbi. However, fluctuations in exchange rates may affect our revenues, costs, profit margins and net income (loss), when they are reported in U.S. dollar.

Fluctuations in exchange rates may also affect our balance sheet. For example, to the extent that we need to convert U.S. dollars received in our initial public offering into the Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount that we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. Considering the amount of our cash and cash equivalents as of December 31, 2017, a 1.0% appreciation of the Renminbi against the U.S. dollar will result in an estimated increase of approximately US\$0.1 million in our total amount of cash and cash equivalents, and a 1.0% appreciation of the U.S. dollar against the Renminbi will result in a decrease of approximately US\$0.1 million in our total cash and cash equivalents.

See also "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Public of China—Fluctuations in exchange rates could result in foreign currency exchange losses."

In April and May 2011, we entered into foreign currency forward contracts to facilitate the payment of a special cash dividend declared in November 2010, in an effort to reduce our exposure to foreign currency exchange risk. These foreign currency forward contracts expired in the second quarter of 2012.

## **Inflation**

In recent years, inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in the PRC was 1.4%, 2.0% and 1.6% in 2015, 2016 and 2017, respectively. Although we have not been materially affected by inflation since our inception, we cannot assure you that we will not be affected in the future by higher rates of inflation in the PRC.

## **Item 12. Description of Securities Other than Equity Securities**

### **A. Debt Securities**

Not Applicable.

## **B. Warrants and Rights**

Not Applicable.

## **C. Other Securities**

Not Applicable.

## **D. American Depositary Shares**

### **Fees and Charges for Holders of American Depositary Receipts**

Our American Depositary Receipt, or ADR, facility is maintained by DBTCA, pursuant to a deposit agreement dated as of October 11, 2007, or the Deposit Agreement, by and among us, DBTCA, and holders and beneficial owners of ADSs evidenced by ADRs issued thereunder. We use the term "holder" in this discussion to refer to the person in whose name an ADR is registered.

In accordance with the terms of the Deposit Agreement, DBTCA may charge holders of our ADSs, either directly or indirectly, fees or charges up to the amounts described below.

· US\$5.00 for each 100 ADSs, or any portion thereof, issued or surrendered, for:

· each issuance of ADSs, including upon the deposit of shares or to any person to whom an ADS distribution is made pursuant to share dividends or other free distributions of shares, bonus distributions, share splits or other distributions (except where converted to cash); and

· each surrender of ADSs for cancellation and withdrawal of deposited securities, including cash distributions made pursuant to a cancellation or withdrawal;



US\$2.00 per 100 ADSs for distribution of cash proceeds pursuant to a cash distribution (so long as the charging of such fee is not prohibited by any exchange upon which the ADSs are listed), sale of rights and other entitlements, not made pursuant to a cancellation or withdrawal;

·US\$5.00 per 100 ADSs, or any portion thereof, issued upon the exercise of rights;

·an annual fee of US\$0.02 per ADS for the operation and maintenance costs in administering the facility; and

in connection with inspections of the relevant share register maintained by the local registrar, if applicable, undertaken by DBTCA, its custodian or their respective agents: an annual fee of US\$0.01 per ADS (such fee to be assessed against holders of record as of the date or dates set by DBTCA as it sees fit and collected at the sole discretion of DBTCA by billing such holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions).

In addition, holders or beneficial owners of our ADSs, persons depositing shares for deposit and persons surrendering ADSs for cancellation and withdrawal of deposited securities may be required to pay DBTCA the following charges:

· taxes, including applicable interest and penalties, and other governmental charges;

· transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities, including those of a central depository for securities (where applicable);

- certain cable, telex, facsimile and electronic transmission and delivery expenses;
- expenses incurred by DBTCA in connection with the conversion of foreign currency into U.S. dollars;
- fees and expenses incurred by DBTCA in connection with compliance with exchange control regulations and other regulatory requirements applicable to the shares, deposited securities and ADSs; and
- any additional fees, charges, costs or expenses that may be incurred by DBTCA from time to time.

The fees charged upon issuance of ADSs are imposed on the person to whom ADSs are issued, and in the case of withdrawals and cancellations, on the person surrendering the ADSs. In the case of cash distributions, service fees are generally deducted from the cash being distributed. In the case of distributions other than cash, such as stock dividends and rights, the depositary charges the applicable ADS record date holder concurrent with the distribution. Annual fees may be collected from holders of ADSs in a manner determined by DBTCA. In the case of ADSs registered in the name of the investor (whether certificated or in book-entry form), DBTCA sends invoices to holders of our ADSs as of the applicable record date. In the case of ADSs being held in brokerage and custodian accounts (via The Depository Trust and Clearing Corporation, or DTCC), DBTCA may, if permitted by the settlement systems provided by DTCC, collect the fees through such settlement systems (whose nominee is the registered holder of the ADSs held in DTCC) from the brokers and custodians holding the ADSs in their DTCC accounts. The brokers and custodians who hold their clients' ADSs in DTCC accounts in such case may, in turn, charge their clients' accounts the amount of the service fees paid to DBTCA.

The ADS holders are responsible for any taxes or other governmental charges payable on their ADSs or on the deposited securities underlying their ADSs. The custodian of DBTCA may refuse to deposit shares and DBTCA may refuse to issue ADSs, deliver ADRs, register the transfer, split up or combination of ADRs, or allow the relevant ADS holder to withdraw the deposited securities underlying the ADSs until such taxes or other charges, including any applicable interest and penalty, are paid. DBTCA may apply payments owed to the relevant ADS holder or sell deposited securities underlying the ADSs to pay any taxes, including interest and penalty owed, and the relevant ADS holder will remain liable for any deficiency. If DBTCA sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to the relevant ADS holder any proceeds, or send to the relevant ADS holder any property remaining after it has paid the taxes.

#### **Payment Made by DBTCA to Our Company**

For the year ended December 31, 2017, DBTCA reimbursed us US\$0.7 million for contributions towards our investor relations activities and other miscellaneous expenses related to the listing of our ADSs on the NYSE. In addition, DBTCA paid an aggregate of US\$13,293 on our behalf for organizing our annual general shareholders' meeting for

the year 2017.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

#### **Material Modifications to the Rights of Security Holders**

See "Item 10. Additional Information" for a description of the rights of securities holders, which remain unchanged.

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## **Use of Proceeds**

Not Applicable.

## **Item 15. Controls and Procedures**

### **Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Exchange Act) as of the end of the period covered by this annual report. Based on this evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the fiscal year covered by this annual report, our disclosure controls and procedures were designed, and were effective to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and were also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Exchange Act, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles, and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Due to its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation, and may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management, with the participation of our chief executive officer and chief financial officer, assessed the effectiveness of the internal control over financial reporting as of December 31, 2017 using criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our evaluation, we have concluded that our internal control over financial reporting was effective as at December 31, 2017.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

#### *Remediation of Prior Year Material Weakness*

We previously disclosed in our annual report on Form 20-F for the fiscal year ended December 31, 2016 that we identified the following control deficiencies that constitute material weakness: insufficient accounting personnel with appropriate U.S. GAAP knowledge for accounting, presentation and disclosure of complex unusual transactions.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We have taken measures to address the material weakness, including designing and implementing more robust financial reporting and management controls for complex and unusual transactions. As of December 31, 2017, we concluded that the material weakness described in our annual report on Form 20-F for the fiscal year ended December 31, 2016 had been remediated.

### **Changes in Internal Control over Financial Reporting**

Other than the implementation and refinement of the controls necessary to remediate the previous year's material weakness, there were no significant changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) under the Exchange Act that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 16.**

#### **Item 16A. Audit Committee Financial Expert**

Not Applicable.

#### **Item 16B. Code of Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to all our directors, officers and employees, including our chief executive officer, chief financial officer and financial controller. We have filed the Code of Business Conduct and Ethics as an exhibit to our registration statement on Form F-1 (No. 333-146072) and have posted the text of such codes on our Internet website at <http://ir.chinadtv.cn>.

#### **Item 16C. Principal Accountant Fees and Services**

Explanation of Responses:

KPMG Huazhen LLP, or KPMG, had served as our independent registered public accounting firm for the fiscal years ended December 31, 2016 and December 31, 2017. KPMG is appointed by our board of directors and will hold office until our board of directors appoints another auditor.

### **Audit Fees**

The aggregate fees paid or accrued in each of 2016 and 2017 for professional services rendered by our principal accountant for the audit of our annual financial statements or services that are normally provided by the accountant in connection with statutory or regulatory filings or engagements were US\$1.0 million and US\$0.6 million, respectively.

### **Audit-Related Fees**

The aggregate fees billed in each of 2016 and 2017 for assurance and related services rendered by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under the caption "Audit Fees" above were nil and nil, respectively.

**Tax Fees**

The aggregate fees billed in each of 2016 and 2017 for professional services relating to tax compliance, tax advice and tax planning rendered by our principal accountant were US\$10 and nil thousand, respectively.

**All Other Fees**

The aggregate fees billed in each of 2016 and 2017 for products and services provided by our principal accountant, other than the services reported above under the captions "Audit Fees," "Audit-Related Fees" and "Tax Fees," were nil and nil, respectively.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not Applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

**Item 16F. Change in Registrant's Certifying Accountant**

None.

**Item 16G. Corporate Governance**

Not Applicable.



**Item 16H. Mine Safety Disclosure**

Not Applicable.

**PART III**

**Item 17. Financial Statements**

We have elected to provide financial statements and related information specified in Item 18.

**Item 18. Financial Statements**

See "Index to Consolidated Financial Statements" for a list of all financial statements filed as part of this annual report.

**Item 19. Exhibits**

**Number Description of Exhibit**

1.1 Second Amended and Restated Memorandum and Articles of Association of China Digital TV Holding Co., Ltd.<sup>(1)</sup> and Notice containing a Special Resolution passed on March 2, 2018, amending the Second Amended and Restated Articles of Association of China Digital TV Holding Co., Ltd.

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**Number Description of Exhibit**

2.1<sup>(1)</sup> Specimen of Share Certificate.

2.2<sup>(1)</sup> Form of Deposit Agreement, including form of American Depository Receipts.

2.3<sup>(1)</sup> First Amended and Restated Shareholders Agreement of China Digital TV Holding Co., Ltd., dated September 13, 2007, among Novel-Tongfang Information Engineering Co., Ltd., Beijing Novel-Tongfang Digital TV Technology Co., Ltd., China Digital TV Technology Co., Ltd., China Capital Investment Holdings Limited, China Cast Investment Holdings Limited, SB Asia Infrastructure Fund L.P., Capital International Private Equity Fund IV, L.P., CGPE IV, L.P. and certain other shareholders.

4.1<sup>(1)</sup> Asset Transfer Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd.

4.2<sup>(1)</sup> Equity Transfer Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd. and related (i) Equity Entrustment Agreement, dated September 10, 2004, and (ii) Equity Purchase Entrustment Agreement, dated April 1, 2004, both between the same parties.

4.3<sup>(1)</sup> Asset Purchase Agreement, dated June 8, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.

4.4<sup>(1)</sup> Equity Transfer Agreement, dated August 4, 2006, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and related Equity Transfer Agreement, dated March 15, 2007, among Novel-Tongfang Information Engineering Co., Ltd., Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Panasonic Corporation of China.

4.5<sup>(1)</sup> Asset Transfer Agreement, dated August 5, 2006, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and the Supplemental Agreement thereto, dated April 6, 2007.

4.6<sup>(1)</sup> Trademark Licensing Agreement entered into in March 2007 between Beijing Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.

4.7<sup>(1)</sup> Equipment Leasing Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.

4.8<sup>(1)</sup> Technical Support and Related Service Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.

4.9<sup>(1)</sup> Technology License Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.

4.10<sup>(1)</sup> Technology Development Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.



Number	Description of Exhibit
4.11 <sup>(1)</sup>	<u>Products and Software Purchase Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.</u>
4.12 <sup>(3)</sup>	<u>Letter of Consent, dated April 30, 2009, issued by Beijing Super TV Co., Ltd. to Beijing Novel-Super Digital TV Technology Co., Ltd.</u>
4.13 <sup>(3)</sup>	<u>Equity Transfer Agreement, dated June 20, 2008 between Wei Gao and Junming Wu for Beijing Novel-Super Digital TV Technology Co., Ltd.</u>
4.14 <sup>(3)</sup>	<u>Equity Transfer Agreement, dated November 24, 2008, between Novel-Tongfang Information Engineering Co., Ltd. and Shizhou Shen for Beijing Novel-Super Digital TV Technology Co., Ltd.</u>
4.15 <sup>(3)</sup>	<u>Equity Transfer Agreement, dated November 24, 2008, between Novel-Tongfang Information Engineering Co., Ltd. and Lei Zhang for Beijing Novel-Super Digital TV Technology Co., Ltd.</u>
4.16	<u>Equity Transfer Option Agreement, dated June 7, 2004, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Li Yang<sup>(1)</sup>; the Supplemental Agreement thereto, dated September 1, 2005, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.<sup>(1)</sup>; the No. 2 Supplemental Agreement thereto, dated August 18, 2007, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang, Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Wei Gao<sup>(1)</sup>; the No. 3 Supplemental Agreement thereto, dated June 20, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Wei Gao and Junming Wu<sup>(3)</sup>; the No. 4 Supplemental Agreement thereto, dated November 24, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Junming Wu, Lei Zhang and Shizhou Shen<sup>(3)</sup>; and the No. 5 Supplemental Agreement thereto, dated July 11, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Junming Wu, Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang<sup>(6)</sup>.</u>
4.17 <sup>(1)</sup>	<u>Share Pledge Agreement, dated September 1, 2005, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Super TV Co., Ltd.</u>
4.18 <sup>(3)</sup>	<u>Termination Agreement of Share Pledge, dated November 24, 2008, between Beijing Super TV Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd.</u>
4.19	<u>Share Pledge Agreement, dated September 1, 2005, between Li Yang and Beijing Super TV Co., Ltd.<sup>(1)</sup>; the Supplemental Agreement thereto, dated August 18, 2007, among Li Yang, Beijing Super TV Co., Ltd. and Wei Gao<sup>(1)</sup>; the No. 2 Supplemental Agreement thereto, dated June 20, 2008, among Beijing Super TV Co., Ltd., Wei Gao and Junming Wu<sup>(3)</sup>; and the Share Pledge Termination Agreement, dated July 11, 2011 between Beijing Super TV Co., Ltd. and Junming Wu<sup>(6)</sup>.</u>

4.20<sup>(3)</sup>

Share Pledge Agreement, dated November 24, 2008, between Shizhou Shen and Beijing Super TV Co., Ltd.

4.21<sup>(3)</sup>

Share Pledge Agreement, dated November 24, 2008, between Lei Zhang and Beijing Super TV Co., Ltd.

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**Number Description of Exhibit**

- 4.22 Business Operating Agreement, dated September 1, 2005, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.<sup>(1)</sup>; the Supplemental Agreement thereto, dated August 18, 2007, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Li Yang, Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Wei Gao<sup>(1)</sup>; the No. 2 Supplemental Agreement thereto, dated June 20, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Wei Gao and Junming Wu<sup>(3)</sup>; the No. 3 Supplemental Agreement thereto, dated November 24, 2008, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd., Junming Wu, Lei Zhang and Shizhou Shen<sup>(3)</sup>; and the No. 4 Supplemental Agreement thereto, dated July 11, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Junming Wu, Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang<sup>(6)</sup>.
- 4.23<sup>(1)</sup> Power of Attorney, dated September 1, 2005, of Novel-Tongfang Information Engineering Co., Ltd.
- 4.24<sup>(1)</sup> Power of Attorney, dated August 18, 2007, of Wei Gao.
- 4.25<sup>(3)</sup> Power of Attorney, dated June 20, 2008, of Junming Wu.
- 4.26<sup>(3)</sup> Power of Attorney, dated November 24, 2008, of Shizhou Shen.
- 4.27<sup>(3)</sup> Power of Attorney, dated November 24, 2008, of Lei Zhang.
- 4.28<sup>(1)</sup> Entrusted Loan Agreement, dated August 23, 2004, among Beijing Super TV Co., Ltd., Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Bank of Beijing, Shangdi Branch.
- 4.29<sup>(1)</sup> Entrusted Loan Agreement, dated July 13, 2004, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Bank of Beijing, Shangdi Branch.
- 4.30<sup>(1)</sup> Entrusted Loan Agreement, dated August 25, 2005, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Bank of Beijing, Shangdi Branch.
- 4.31<sup>(1)</sup> Loan Agreement, dated April 4, 2007, between Beijing Super TV Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd. and the related Entrusted Loan Agreement, dated April 12, 2007, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Bank of Beijing, Shangdi Branch.
- 4.32<sup>(3)</sup> Loan Agreement, dated November 24, 2008, between Shizhou Shen and Beijing Super TV Co., Ltd.
- 4.33<sup>(3)</sup> Loan Agreement, dated November 24, 2008, between Lei Zhang and Beijing Super TV Co., Ltd.
- 4.34<sup>(1)</sup> Service Agreement, dated April 2, 2007, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.
- 4.35<sup>(1)</sup>

Interest Payment Agreement, dated November 30, 2006, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.

4.36<sup>(1)</sup> Form of Property Lease Agreement.

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**Number Description of Exhibit**

- 4.37(1) Fixed Assets Transfer Agreement, dated March 28, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
- 4.38(1) Form of Employment Agreement and related Form of Agreement on Confidentiality and Intellectual Property.
- 4.39(1) Form of Non-Disclosure, Non-Competition, Commitment and Proprietary Information Agreement.
- 4.40(1) Form of Indemnification Agreement for Directors.
- 4.41(1) Amended and Restated 2005 Stock Incentive Plan of China Digital TV Holding Co., Ltd. and form of share option agreement.
- 4.42(1) Cooperation Agreement, dated January 5, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Jiangsu Qingda Science and Technology Industries Co., Ltd.
- 4.43(1) Cooperation Agreement, dated July 18, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and China Electronics Smart Card Co., Ltd.
- 4.44(1) 2008 Stock Incentive Plan of China Digital TV Holding Co., Ltd.
- 4.45(2) Agreement for Equity Transfer of Beijing Novel-Super Digital TV Technology Co., Ltd., dated December 2007, between China Digital TV Technology Co., Ltd. and Golden Benefit Technology Co., Ltd.
- 4.46(3) Intellectual Property Transfer Agreement, dated August 13, 2008, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Super TV Co., Ltd.
- 4.47(3) Equity Transfer Agreement, dated October 5, 2008, between Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
- 4.48(3) Framework Agreement for Purchase of Computer Chips, dated December 12, 2008, between Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
- 4.49(4) Framework Agreement for Sale of Software Products, dated July 14, 2009, between Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
- 4.50(4) Equity Transfer Agreement, dated February 26, 2010, between Beijing Novel-Super Digital TV Technology Co., Ltd. and Beijing Shi Xun Hu Lian Technology Co., Ltd.
- 4.51(5) Shareholders' Agreement, dated December 1, 2010, between Beijing Super TV Co., Ltd. and Beijing Yuewu Yuntian Software Technology Ltd.
- 4.52(5) Shareholders' Agreement, dated April 29, 2011, between Beijing Super TV Co., Ltd. and Beijing Ying Zhi Cheng Technology Co., Ltd.



- 4.53<sup>(5)</sup> 2010 Stock Incentive Plan of China Digital TV Holding Co., Ltd.
- 4.54<sup>(6)</sup> Loan Agreement, dated July 11, 2011, between Lei Zhang and Beijing Super TV Co., Ltd.
- 4.55<sup>(6)</sup> Loan Agreement, dated July 11, 2011, between Tianxing Wang and Beijing Super TV Co., Ltd.
- 4.56<sup>(6)</sup> Loan Agreement, dated July 11, 2011, between Wenjun Wang and Beijing Super TV Co., Ltd.
- 4.57<sup>(6)</sup> Capital Increase and Equity Transfer Agreement, dated July 11, 2011, between Junming Wu, Lei Zhang, Shizhou Shen, Wenjun Wang, Tianxing Wang and Beijing Novel-Super Digital TV Technology Co., Ltd.

**Number Description of Exhibit**

- 4.58<sup>(6)</sup> Power of Attorney, dated July 11, 2011, of Lei Zhang.
- 4.59<sup>(6)</sup> Power of Attorney, dated July 11, 2011, of Shizhou Shen.
- 4.60<sup>(6)</sup> Power of Attorney, dated July 11, 2011, of Tianxing Wang.
- 4.61<sup>(6)</sup> Power of Attorney, dated July 11, 2011, of Wenjun Wang.
- 4.62<sup>(6)</sup> Share Pledge Agreement, dated July 11, 2011, between Lei Zhang and Beijing Super TV Co., Ltd.
- 4.63<sup>(6)</sup> Share Pledge Agreement, dated July 11, 2011, between Shizhou Shen and Beijing Super TV Co., Ltd.
- 4.64<sup>(6)</sup> Share Pledge Agreement, dated July 11, 2011, between Tianxing Wang and Beijing Super TV Co., Ltd.
- 4.65<sup>(6)</sup> Share Pledge Agreement, dated July 11, 2011, between Wenjun Wang and Beijing Super TV Co., Ltd.
- 4.66<sup>(6)</sup> Written Undertaking, dated November 22, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang.
- 4.67<sup>(6)</sup> Power of Attorney, dated January 16, 2012, of Lei Zhang.
- 4.68<sup>(6)</sup> Power of Attorney, dated January 16, 2012, of Shizhou Shen.
- 4.69<sup>(6)</sup> Power of Attorney, dated January 16, 2012, of Tianxing Wang.
- 4.70<sup>(6)</sup> Power of Attorney, dated January 16, 2012, of Wenjun Wang.
- 4.71<sup>(6)</sup> Share Pledge Agreement, dated January 16, 2012, between Lei Zhang and Beijing Super TV Co., Ltd.
- 4.72<sup>(6)</sup> Share Pledge Agreement, dated January 16, 2012, between Shizhou Shen and Beijing Super TV Co., Ltd.
- 4.73<sup>(6)</sup> Share Pledge Agreement, dated January 16, 2012, between Tianxing Wang and Beijing Super TV Co., Ltd.
- 4.74<sup>(6)</sup> Share Pledge Agreement, dated January 16, 2012, between Wenjun Wang and Beijing Super TV Co., Ltd.
- 4.75<sup>(6)</sup> Supplemental Agreement to Loan Agreements, dated January 16, 2012, among Beijing Super TV Co., Ltd., Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang.
- 4.76<sup>(6)</sup> Supplemental Agreement, dated February 9, 2012, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang.
- 4.77<sup>(6)</sup> Cooperation Termination Agreement, dated November 9, 2011, between Dongguan Super TV Video Info Co., Ltd. and the Dongguan branch of the Guangdong Broadcasting TV Network Co., Ltd.
- 4.78<sup>(6)</sup>

Capital Increase Agreement, dated May 24, 2011, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Ying Zhi Cheng Technology Co., Ltd. and Beijing Joysee Technology Co., Ltd.

**Number Description of Exhibit**

- 4.79<sup>(6)</sup> First Amendment to First Amended and Restated Shareholders Agreement of China Digital TV Holding Co., Ltd., dated June 14, 2011, among China Digital TV Technology Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., China Cast Investment Holdings Limited, SB Asia Infrastructure Fund L.P., Capital International Private Equity Fund IV, L.P., CGPE IV, L.P. and certain other shareholders.
- 4.80<sup>(7)</sup> China Digital TV Holding Co., Ltd. 2012 Stock Incentive Plan.
- 4.81<sup>(7)</sup> Second Supplemental Agreement to Loan Agreement, dated April 12, 2013, between Beijing Super TV Co., Ltd. and Tianxing Wang.
- 4.82<sup>(8)</sup> Share Transfer Agreement, dated April 30, 2014, among Beijing Yuewu Yuntian Software Technology Ltd., Beijing Holch Capital Investment Center, Beijing Cyber Cloud Co., Ltd. and Beijing Xinsi Yijia Technology Co., Ltd.
- 4.83<sup>(8)</sup> Share Transfer Agreement, dated April 30, 2014, among Beijing Super TV Co., Ltd., China Super Media Holdings Limited, Beijing Yuewu Yuntian Software Technology Ltd., Beijing Holch Capital Investment Center and Beijing Cyber Cloud Co., Ltd.
- 4.84<sup>(8)</sup> Termination Agreement of Existing Contractual Agreements, dated June 20, 2014, among Beijing Super TV Co., Ltd., Beijing Novel-Super Digital TV Technology Co., Ltd., Lei Zhang, Tianxing Wang, Wenjun Wang and Shizhou Shen.
- 4.85<sup>(8)</sup> Termination Agreement of Existing Contractual Agreements, dated April 14, 2015, among Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
- 4.86<sup>(8)</sup> Share Transfer Agreement, dated June 20, 2014, among Lei Zhang, Tianxing Wang, Wenjun Wang, Shizhou Shen and Beijing Super TV Co., Ltd.
- 4.87<sup>(9)</sup> Framework Agreement, dated June 13, 2014, among China Digital TV Holding Co., Ltd., Golden Benefit Technology Limited and Cinda Investment Co., Ltd.
- 4.88<sup>(9)</sup> Framework Agreement Amendment, dated October 9, 2014, among China Digital TV Holding Co., Ltd., Golden Benefit Technology Limited and Cinda Investment Co., Ltd.
- 4.89<sup>(9)</sup> Share Transfer Agreement, dated October 9, 2014, among China Digital TV Holding Co., Ltd., China Digital TV Technology Co., Ltd., Golden Benefit Technology Limited, Cinda Investment Co., Ltd. and Shanghai Tongda Venture Capital Co., Ltd.
- 4.90<sup>(8)</sup> Supplementary Share Transfer Agreement, dated October 27, 2014, among China Digital TV Holding Co., Ltd., China Digital TV Technology Co., Ltd., Golden Benefit Technology Limited, Cinda Investment Co., Ltd. and Shanghai Tongda Venture Capital Co., Ltd.
- 4.91<sup>(9)</sup> Profit Compensation Agreement, dated October 9, 2014, among Shanghai Tongda Venture Capital Co., Ltd., Golden Benefit Technology Limited, and China Digital TV Holding Co., Ltd.

4.92<sup>(9)</sup> Supplementary Profit Compensation Agreement, dated October 27, 2014, among Shanghai Tongda Venture Capital Co., Ltd., Golden Benefit Technology Limited, and China Digital TV Holding Co., Ltd.

4.93<sup>(9)</sup> Share Subscription Agreement, dated October 9, 2014, between Shanghai Tongda Venture Capital Co., Ltd. and Golden Benefit Technology Limited.

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**Number Description of Exhibit**

- 4.94<sup>(10)</sup> Equity Transfer Agreement, dated November 7, 2016, among Golden Benefit Technology Limited, Beijing Super TV Co., Ltd. and Changxing Bao Li Rui Xin Technology Co., Ltd.
- 4.95<sup>(11)</sup> Supplemental Agreement to the Equity Transfer Agreement, dated December 26, 2016, among Golden Benefit Technology Limited, Beijing Super TV Co., Ltd. and Changxing Bao Li Rui Xin Technology Co., Ltd.
- 4.96<sup>(12)</sup> Loan Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Yang Tingling
- 4.97<sup>(12)</sup> Loan Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Zhang Xi
- 4.98<sup>(12)</sup> Loan Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Liu Yu
- 4.99<sup>(12)</sup> Supplementary Agreement to Loan Agreement dated June, 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Yang Tingling and Wu Zhenhua
- 4.100<sup>(12)</sup> Supplementary Agreement to Loan Agreement dated June, 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Zhang Xi and Hu Yongxin
- 4.101<sup>(12)</sup> Supplementary Agreement to Loan Agreement dated June, 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Liu Yu and Ma Bin
- 4.102<sup>(12)</sup> Equity Pledge Agreement, dated June 23, 2014, between Beijing Xinsi Yijia Technology Co., Ltd. and Wu Zhenhua
- 4.103<sup>(12)</sup> Equity Pledge Agreement, dated June 23, 2014, between Beijing Xinsi Yijia Technology Co., Ltd. and Hu Yongxin
- 4.104<sup>(12)</sup> Equity Pledge Agreement, dated June 23, 2014, between Beijing Xinsi Yijia Technology Co., Ltd. and Ma Bin
- 4.105<sup>(12)</sup> Power of Attorney, dated June 23, 2014, of Wu Zhenhua
- 4.106<sup>(12)</sup> Power of Attorney, dated June 23, 2014, of Hu Yongxin
- 4.107<sup>(12)</sup> Power of Attorney, dated June 23, 2014, of Ma Bin
- 4.108<sup>(12)</sup> Equity Transfer Option Agreement, dated June 23, 2014, among Beijing Xinsi Yijia Technology Co., Ltd., Ma Bin, Hu Yongxin and Wu Zhenhua
- 4.109<sup>(12)</sup> Technical Support and Related Service Agreement, dated October 12, 2013, between Beijing Xinsi Yijia Technology Co., Ltd. and Beijing Dingyuan Technology Co., Ltd.
- 8.1 List of Subsidiaries of China Digital TV Holding Co., Ltd.

11.1<sup>(1)</sup> Code of Business Conduct and Ethics of China Digital TV Holding Co., Ltd.

12.1 CEO Certification pursuant to Rule 13a - 14(a).

12.2 CFO Certification pursuant to Rule 13a - 14(a).

13.1 CEO Certification pursuant to Rule 13a - 14(b).

13.2 CFO Certification pursuant to Rule 13a - 14(b).

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**Number Description of Exhibit**

23.1 Consent of KPMG Huazhen LLP.

23.2 Consent of Han Kun, PRC Lawyers.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Portions of the agreement have been omitted pursuant to a confidential treatment request and have been filed with the SEC separately with a confidential treatment request.

<sup>(1)</sup> Previously filed as an exhibit to the Registration Statement on Form F-1 (File No. 333-146072) of China Digital TV Holding Co., Ltd. and incorporated herein by reference thereto.

<sup>(2)</sup> Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on June 18, 2008 and incorporated herein by reference thereto.

<sup>(3)</sup> Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on May 20, 2009 and incorporated herein by reference thereto.

<sup>(4)</sup> Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 30, 2010 and incorporated herein by reference thereto.

<sup>(5)</sup> Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on May 12, 2011 and incorporated herein by reference thereto.

<sup>(6)</sup> Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 17, 2012 and incorporated herein by reference thereto.

<sup>(7)</sup> Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 16, 2013 and incorporated herein by reference thereto.



<sup>(8)</sup> Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 28, 2015 and incorporated herein by reference thereto.

<sup>(9)</sup> Previously furnished as an exhibit to the report on Form 6-K (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on November 10, 2014 and incorporated herein by reference thereto.

<sup>(10)</sup> Previously furnished as an exhibit to the report on Form 6-K (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on November 7, 2016 and incorporated herein by reference thereto.

<sup>(11)</sup> Previously furnished as an exhibit to the report on Form 6-K (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on December 28, 2016 and incorporated herein by reference thereto.

<sup>(12)</sup> Previously filed as an exhibit to the annual report on Form 20-F (File No. 001-33692) of China Digital TV Holding Co., Ltd. filed with the SEC on April 21, 2017 and incorporated herein by reference thereto.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**CHINA DIGITAL TV HOLDING CO.,  
LTD.**

By: /s/ Jianhua Zhu

Name: Jianhua Zhu

Title: Chief Executive Officer and Chairman

Date: April 20, 2018

**China digital tv holding co., LTD.**

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors

China Digital TV Holding Co., Ltd.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of China Digital TV Holding Co., Ltd. and subsidiaries (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income (loss), change in equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes and financial statement schedule I (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Huazhen LLP

We have served as the  
Company's auditor since  
2015.

**Beijing, China**  
**April 20, 2018**

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**China digital tv holding co., LTD.****CONSOLIDATED BALANCE SHEETS****(U.S. dollars in thousands, except share and per share data)**

	As of December 31,	
	2016	2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 117,292	\$ 24,425
Restricted cash	4,753	-
Term deposits	2,344	2,376
Short-term investments	-	3,783
Notes receivable	81	-
Accounts receivable, net of allowance for doubtful accounts of \$89 and \$110 as of December 31, 2016 and 2017, respectively	500	1,931
Inventories	4	145
Prepaid expenses and other current assets	1,611	1,124
<b>Total current assets</b>	<b>126,585</b>	<b>33,784</b>
Property and equipment, net	421	-
Intangible assets, net	258	-
Goodwill	655	-
Deferred income tax assets	52	-
<b>TOTAL ASSETS</b>	<b>\$ 127,971</b>	<b>\$ 33,784</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable (of which \$115 and \$303 as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)	445	350
Accrued expenses and other current liabilities (of which nil and \$473 as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)	2,557	2,347
Advance from customer, deferred revenue and deferred income-current (of which \$8 and \$29 as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)	1,382	1,526
Government subsidies-current (of which nil and nil as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)	81	70
<b>Total current liabilities</b>	<b>4,465</b>	<b>4,293</b>
	125	248

Explanation of Responses:

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Deferred revenue-non-current (of which nil and nil as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)		
Government subsidies-non-current (of which nil and nil as of December 31, 2016 and 2017 belonging to the consolidated VIE without recourse to the Company, respectively)	310	261
Total liabilities	4,900	4,802
Commitments and Contingencies (Note 19)		
Equity:		
China Digital TV Holding Co., Ltd. shareholders' equity:		
Ordinary shares (\$0.0005 par value; 200,000,000 and 200,000,000 shares authorized, 60,285,087 and 63,508,656 shares issued and outstanding as of December 31, 2016 and 2017, respectively)	30	32
Additional paid-in capital	45,273	29,805
Statutory reserve	88	96
Retained earnings/(accumulated deficit)	75,104	(3,226 )
Subscription receivable	(596 )	(1,001 )
Accumulated other comprehensive (loss)/income	(289 )	430
Total China Digital TV Holding Co., Ltd. shareholders' equity.	119,610	26,136
Noncontrolling interest	3,461	2,846
Total equity	123,071	28,982
TOTAL LIABILITIES AND EQUITY	\$127,971	\$33,784

The accompanying notes are an integral part of these consolidated financial statements.

**China digital tv holding co., LTD.****CONSOLIDATED statements of COMPREHENSIVE INCOME (LOSS)****(U.S. dollars in thousands, except share and per share data)**

	For the years ended December 31,		
	2015	2016	2017
Revenues			
Products	\$ 248	\$ 618	\$ 790
Services	1,674	3,622	5,411
Total revenues	1,922	4,240	6,201
Taxes and surcharges	(2 )	(12 )	(41 )
Net revenues	1,920	4,228	6,160
Cost of revenues (including share-based compensation of \$3, nil and nil for 2015, 2016 and 2017, respectively)			
Products	143	506	511
Services	1,237	1,011	1,067
Total cost of revenues	1,380	1,517	1,578
Gross profit	540	2,711	4,582
Operating expenses:			
Research and development (including share-based compensation of \$49, \$463 and \$463 for 2015, 2016 and 2017, respectively)	8,798	5,655	3,985
Selling and marketing (including share-based compensation of \$30, \$447 and \$152 for 2015, 2016 and 2017, respectively)	4,114	2,747	1,758
General and administrative (including share-based compensation of \$36, \$2 and \$21 for 2015, 2016 and 2017, respectively)	3,220	3,739	3,618
Impairment of goodwill	-	-	690
Impairment of property and equipment	-	-	425
Impairment of intangible assets	-	-	217
Gain from disposal of assets	-	-	(822 )
Total operating expenses	16,132	12,141	9,871
Operating loss from continuing operations	(15,592 )	(9,430 )	(5,289 )
Interest income	104	105	1,206

Explanation of Responses:

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Gain from disposal of an equity method investment	-	95	-
Other income, net	354	1,088	710
Loss from continuing operations before income tax expenses	(15,134 )	(8,142 )	(3,373 )
Income tax expenses/(benefits):			
Income tax-current	293	131	285
Income tax-deferred	(1 )	(17 )	52
Total income tax expenses	292	114	337
Net loss from continuing operations before share of loss on an equity method investment	(15,426 )	(8,256 )	(3,710 )
Share of loss on an equity method investment, net of nil income taxes	(101 )	-	-
Net loss from continuing operations	(15,527 )	(8,256 )	(3,710 )
Discontinued operations (Note 3):			
Income/(loss) from the operations of discontinued operations, net of income tax expenses of \$4,286, \$2,492 and nil for 2015, 2016 and 2017, respectively	16,155	10,445	(389 )
Gain from disposal of discontinued operations, net of income tax expenses of nil, \$8,286 and nil for 2015, 2016 and 2017, respectively (including net gain of \$16,685 from accumulated other comprehensive income reclassification in 2016)	-	43,190	-
Income/(loss) from discontinued operations, net of income tax expenses of \$4,286, \$10,778 and nil for 2015, 2016 and 2017, respectively	16,155	53,635	(389 )
Net income/(loss)	628	45,379	(4,099 )
Less: Net loss attributable to noncontrolling interest	(900 )	(39 )	(1,031 )
Net income/(loss) attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	1,528	45,418	(3,068 )
Amounts attributable to ordinary shareholders of China Digital TV Holding Co., Ltd:			
Net loss from continuing operations	(14,627 )	(7,226 )	(2,679 )
Income/(loss) from discontinued operations, net of income taxes	16,155	52,644	(389 )
Net income/(loss) attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	\$ 1,528	\$ 45,418	\$ (3,068 )

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**China digital tv holding co., LTD.****CONSOLIDATED statements of COMPREHENSIVE INCOME (LOSS) - continued****(U.S. dollars in thousands, except share and per share data)**

	For the years ended December 31,		
	2015	2016	2017
Net income/(loss)	\$628	\$45,379	\$(4,099 )
Other comprehensive (loss)/income, net of nil income taxes:			
Foreign currency translation adjustment	(3,892 )	(5,652 )	866
Reclassification of foreign currency translation adjustment	-	(16,685 )	-
Total other comprehensive (loss)/income, net of nil income taxes	(3,892 )	(22,337 )	866
Comprehensive (loss)/income	(3,264 )	23,042	(3,233 )
Less: Comprehensive loss attributable to noncontrolling interest	(933 )	(437 )	(884 )
Comprehensive (loss)/income attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	\$(2,331 )	\$23,479	\$(2,349 )
Earnings/(loss) per share – basic and diluted:			
Net loss from continuing operations attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	\$(0.24 )	\$(0.12 )	\$(0.04 )
Net income/(loss) from discontinued operations attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	0.27	0.87	(0.01 )
Net income/(loss) attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.	\$0.03	\$0.75	\$(0.05 )
Weighted average shares outstanding, basic and diluted	59,968,346	60,199,096	62,372,111

The accompanying notes are an integral part of these consolidated financial statements.

## China digital tv holding co., LTD.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(U.S. dollars in thousands, except share and per share data)

China Digital TV Holding Co., Ltd. Shareholders										
Ordinary Shares	Accumulated					Subscriptions receivable	Total China Digital TV Holding Co., Ltd Shareholders Equity	Noncontrolling Interest	Total equity	
	Amount	paid-in capital	Additional other comprehensive income (loss)	Statutory reserve	Retained earnings					
Balance at January 1, 2015	59,705,570	\$30	\$35,639	\$25,509	\$17,977	\$22,307	\$-	\$101,462	\$565	\$102,027
Share-based compensation	-	-	106	-	-	-	-	106	12	118
Appropriation for statutory reserve	-	-	-	-	384	(384)	-	-	-	-
Exercise of stock option	468,427	-	700	-	-	-	-	700	-	700
Capital injection by noncontrolling interest (Note 20(a))	-	-	1,531	-	-	-	-	1,531	741	2,272
Acquisition of noncontrolling interest (Note 20(b))	-	-	12	-	-	-	-	12	(59)	(47)
Net income	-	-	-	-	-	1,528	-	1,528	(900)	628
Foreign currency translation adjustment	-	-	-	(3,859)	-	-	-	(3,859)	(33)	(3,892)

Explanation of Responses:

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Balance at December 31, 2015	60,173,997	30	37,988	21,650	18,361	23,451	-	101,480	326	101,806
Share-based compensation	-	-	4,591	-	-	-	-	4,591	295	4,886
Appropriation for statutory reserve	-	-	-	-	1	(1 )	-	-	-	-
Exercise of stock option	111,090	-	68	-	-	-	-	68	-	68
Special cash dividend to shareholders	-	-	-	-	-	(12,038)	-	(12,038 )	-	(12,038 )
Capital injection by noncontrolling interest (Note 20(c))	-	-	2,704	-	-	-	-	2,704	10,028	12,732
Share subscription receivables of Cyber Cloud (Note 20(c))	-	-	-	-	-	-	(596 )	(596 )	-	(596 )
Acquisition of noncontrolling interest (Note 20(d))	-	-	(78 )	-	-	-	-	(78 )	(548 )	(626 )
Disposal of discontinued operations	-	-	-	(16,685)	(18,274)	18,274	-	(16,685 )	(6,203 )	(22,888 )
Net income	-	-	-	-	-	45,418	-	45,418	(39 )	45,379
Foreign currency translation adjustment	-	-	-	(5,254 )	-	-	-	(5,254 )	(398 )	(5,652 )
Balance at December 31, 2016	60,285,087	30	45,273	(289 )	88	75,104	(596 )	119,610	3,461	123,071
Share-based compensation	-	-	756	-	-	-	-	756	269	1,025
Appropriation for statutory reserve	-	-	-	-	8	(8 )	-	-	-	-
Exercise of stock option	3,223,569	2	3,785	-	-	-	-	3,787	-	3,787
Subscription receivable from exercise	-	-	-	-	-	-	(364 )	(364 )	-	(364 )

Explanation of Responses:

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of stock option										
Special cash										
dividend to	-	-	(20,009)	-	-	(75,254)	-	(95,263)	-	(95,263)
shareholders										
Foreign										
currency										
translation										
adjustment of	-	-	-	-	-	-	(41)	(41)	-	(41)
subscription										
receivable of										
Cyber Cloud										
Net loss	-	-	-	-	-	(3,068)	-	(3,068)	(1,031)	(4,099)
Foreign										
currency										
translation	-	-	-	719	-	-	-	719	147	866
adjustment										
Balance at										
December 31,	63,508,656	\$32	\$29,805	\$430	\$96	\$(3,226)	\$(1,001)	\$26,136	\$2,846	\$28,982
2017										

The accompanying notes are an integral part of these consolidated financial statements.

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**China digital tv holding co., LTD.****CONSOLIDATED statements of cash flows****(U.S. dollars in thousands)**

	For the years ended December 31,		
	2015	2016	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income/(loss)	\$ 628	\$ 45,379	\$ (4,099 )
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation and amortization	607	670	326
Share-based compensation	118	4,886	1,025
Gain on disposal of assets	-	-	(822 )
Impairment of goodwill	-	-	690
Impairment of property and equipment	-	-	425
Impairment of intangible assets	-	-	217
Income from short-term investments	-	-	(68 )
Allowance for doubtful accounts	2,771	1,747	15
Write-down of inventory	1,050	219	-
Warranty accrual	50	17	-
Unrealized exchange losses	-	-	199
Share of loss/(income) on equity method investments	47	(195 )	-
Gain from disposal of equity method investments	(184 )	(95 )	-
Gain from disposal of a subsidiary	-	(233 )	-
Gain from disposal of discontinued operations	-	(43,190 )	-
Changes in operating assets and liabilities:			
Accounts receivable and notes receivable	5,566	98	(1,277 )
Inventories	(1,159 )	785	(135 )
Prepaid expenses and other current assets	3,017	(340 )	(94 )
Accounts payable	(639 )	577	(121 )
Income tax payable	(946 )	(860 )	-
Accrued expenses and other current liabilities	(3,083 )	(1,766 )	(6 )
Deferred revenue and deferred income	(1,223 )	195	167
Government subsidies	(538 )	(1,030 )	(83 )
Deferred income taxes	1,170	(2,420 )	52
Other assets	216	-	-
Net cash provided by/(used in) operating activities	7,468	4,444	(3,589 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(167 )	(749 )	(265 )

Explanation of Responses:

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Purchase of term deposits	-	(2,344 )	(32 )
Proceeds from disposal of discontinued operations, net of \$24,822 cash disposed of, net of withholding income tax and stamp duties of \$8,330	-	54,706	-
Payment of costs for disposal of discontinued operations	-	(933 )	-
Proceeds from disposal of a subsidiary, net of \$16 cash disposed of	-	134	-
Purchase of short-term investments	-	-	(8,362 )
Proceeds from maturity of short-term investments	-	-	4,786
Proceeds from disposal of assets	2,816	-	830
Proceeds from disposal of an equity method investment	-	512	-
Purchase of an equity method investment	(541 )	-	-
Net cash provided by/(used in) investing activities	2,108	51,326	(3,043 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from stock option exercise	700	80	3,423
Special cash dividend paid to shareholders	-	(12,034 )	(95,236 )
Capital contribution from noncontrolling interest shareholders	-	6,766	5,421
Acquisition of noncontrolling interests	(47 )	(301 )	(342 )
Net cash provided by /(used in) financing activities	653	(5,489 )	(86,734 )
Effect of exchange rate changes on cash and cash equivalents	(2,133 )	(3,127 )	499
NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS	8,096	47,154	(92,867 )
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	16,610	18,713	117,292
CASH AND CASH EQUIVALENTS RECORDED IN CURRENT ASSETS OF SUPER TV, BEGINNING OF THE YEAR	45,432	51,425	-
LESS: CASH AND CASH EQUIVALENTS BALANCE RECORDED IN CURRENT ASSETS OF SUPER TV, END OF THE YEAR	(51,425 )	-	-
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$ 18,713	\$ 117,292	\$ 24,425
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Income tax paid	\$ 4,472	\$ 5,775	\$ 300
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>			
Receivable from noncontrolling shareholders for capital injection (Note 20(c))	\$ -	\$ 1,213	\$ 576
Payable for acquisition of noncontrolling interest (Note 12)	\$ -	\$ 338	\$ (338 )

The accompany notes are an integral part of these consolidated financial statements.

**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

China Digital TV Holding Co., Ltd. (the "Company" or "CDTV Holding") was incorporated in the Cayman Islands in 2007. The Company, through its subsidiaries and consolidated variable interest entity ("VIE") (collectively, the "Group"), is primarily engaged in providing cable TV value added services which enables cable TV and IPTV network operators to offer diversified TV content services in the People's Republic of China ("PRC").

Prior to December 2016, the Group was also engaged in the installation and integration of conditional access systems ("CA Systems"), subscriber management systems and electronic program guidance systems to cable TV operators and the sale of digital TV intelligent cards ("smart cards") to these operators. These operations were conducted through the Company's subsidiary, Beijing Super TV Co., Ltd ("Beijing Super TV") and Beijing Super TV's wholly owned subsidiary Beijing Novel-Super Digital TV Technology Co., Ltd. ("N-S Digital TV"). Beijing Super TV and N-S Digital TV's (collectively "Super TV") operations and cash flows were clearly distinguished, operationally and for financial reporting, from the rest of the Group.

On November 7, 2016 and December 26, 2016, the Group entered into share transfer agreement and supplemental share transfer agreement to dispose Beijing Super TV, including N-S Digital TV, and the sale closed on December 29, 2016 (see Note 3). The sale of Super TV represented a strategic shift and had a major effect on the Group's result of operations. Accordingly, revenues, costs and expenses related to Super TV have been reclassified in the accompanying consolidated financial statements as discontinued operations for all the periods presented.

***VIE contractual agreements***

Beijing Dingyuan Technology Co., Ltd. ("Dingyuan") is a PRC entity held by several nominee shareholders ("Shareholders"), all of which are employees of the Company. Beijing Xinsi Yijia Technology Co., Ltd. ("Xinsi Yijia"), a majority-owned subsidiary of the Company, has entered into a series of contractual agreements with



Dingyuan, and the Shareholders. As a result of these contractual agreements, since June 2014, when the Company acquired Xinsi Yijia, the Company (1) had the power to direct the activities that most significantly affected the economic performance of Dingyuan, and (2) received the economic benefits of Dingyuan. A summary of the contractual agreements entered into among Xinsi Yijia, Dingyuan, and the Shareholders is as follows:

**Loan Agreements and Supplemental Agreements to Loan Agreements:** Under loan agreements between Xinsi Yijia and the Shareholders, Xinsi Yijia extended loans to the Shareholders for contributing registered capital to Dingyuan. The term of each loan is ten years, which is renewable upon the approval of each party. With consent of Xinsi Yijia, the Shareholders may transfer the equity interests in Dingyuan to any third party, and their obligations under the loan agreements shall be borne by such transferee.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**

*VIE contractual agreements – continued*

**Equity Pledge Agreements:** Pursuant to the equity pledge agreements, each of the Shareholders pledged all of their respective equity interests in Dingyuan to Xinsi Yijia to secure the Shareholders' performance of their respective obligations under the contractual arrangements between the Shareholders and Xinsi Yijia. In addition, each of the Shareholders agreed not to transfer their equity interests in Dingyuan or create, or allow the creation of, any pledge over their respective equity interests in Dingyuan that may affect Xinsi Yijia's interests without Xinsi Yijia's consent. Xinsi Yijia is entitled to receive the dividends on the pledged equity interests during the term of the pledges. The duration of each of the equity pledge agreements is equivalent to the maximum duration of the contractual arrangements between the Shareholders and Xinsi Yijia. The agreements may only be terminated: (i) by Xinsi Yijia in writing; or (ii) upon the fulfillment of the Shareholders' respective obligations under the contractual arrangements between the Shareholders and Xinsi Yijia, which is subject to Xinsi Yijia's written confirmation.

**Powers of Attorney:** Each of the Shareholders has executed an irrevocable power of attorney appointing Xinsi Yijia, or any person designated by Xinsi Yijia, as the attorney-in-fact to vote on their respective behalves on all matters of Dingyuan requiring shareholder approval under PRC laws, rules and regulations and the articles of association of Dingyuan. Each power of attorney has a term of ten years, subject to earlier termination in the event of the termination of the relevant loan agreement. The powers of attorney will be automatically renewed upon the extension of the term of the relevant loan agreement.

**Equity Transfer Option Agreement:** Under this agreement, the Shareholders jointly granted Xinsi Yijia an exclusive and irrevocable option to purchase all of the equity interests held by them in Dingyuan at any time that Xinsi Yijia deems fit. Xinsi Yijia may purchase these equity interests itself or designate another party to purchase the equity interests.

**Exclusive Technical Support and Related Services Agreement:** Dingyuan irrevocably appoints and designates Xinsi Yijia as its exclusive service provider to provide services, including but not limit to technical support,

technical training and personnel services to Dingyuan. Service fees are determined based on the content and quality of the services provided by Xinsi Yijia, which could be up to all of Dingyuan's pre-tax profit. The term of this agreement was 15 years, which is renewable upon the approval of each party.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**

*VIE contractual agreements - continued*

In making the conclusion that Xinsi Yijia was the primary beneficiary of the VIE, the Company believes Xinsi Yijia's rights under the terms of the equity transfer option agreement had provided it with a substantive kick out right. More specifically, the Company believes the terms of the equity transfer option agreement were valid, binding and enforceable under PRC laws and regulations currently in effect. The Company also believes that the minimum amount of consideration permitted by the applicable PRC law to exercise the option did not represent a financial barrier or disincentive for Xinsi Yijia to exercise its rights under the equity transfer option agreement. In addition, the articles of association of Dingyuan provided that the Shareholders of Dingyuan had the power to, in a shareholders' meeting: (i) approve the operating strategy and investment plan; (ii) elect the members of board of directors and approve their compensation; and (iii) review and approve the annual budget and earnings distribution plan. Consequently, Xinsi Yijia's rights under the powers of attorney have reinforced the Company's abilities to direct the activities most significantly impacting Dingyuan's economic performance. The Company also believes that this ability to exercise control ensured that Dingyuan would continue to execute and renew service agreements and pay service fees to Xinsi Yijia. By charging service fees in whatever amounts Xinsi Yijia deemed fit, and by ensuring that service agreements were executed and renewed, Xinsi Yijia had the rights to receive substantially all of the economic benefits from Dingyuan.

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**China digital tv holding co., LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

(U.S. dollars in thousands, except share and per share data)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**

The following financial statement amounts and balances of the Company's consolidated VIE were included in the accompanying consolidated financial statements as of and for the years ended December 31:

	As of December 31,	
	2016	2017
Total current assets	\$ 746	\$ 1,155
Total assets	\$ 746	\$ 1,155
Total current liabilities	123	805
Total liabilities	\$ 123	\$ 805

	For the years ended December 31,		
	2015	2016	2017
Net revenues from continuing operations	\$ 25	\$ 394	\$ 437
Net loss from continuing operations	\$ (137 )	\$ (200 )	\$ (303 )
Net income from discontinued operations	\$ -	\$ -	\$ -

	For the years ended December 31,		
	2015	2016	2017
Net cash provided by /(used in) operating activities	\$ 63	\$ (6 )	\$ 397
Net cash used in investing activities	\$ -	\$ -	\$ (659 )
Net cash provided by financing activities	\$ -	\$ 151	\$ -

Explanation of Responses:

In accordance with the contractual agreements, relevant PRC subsidiary of the Company has the power to direct activities of the consolidated VIE, and can have assets transferred out of the Group's VIE. Therefore, the Company considers that there is no asset in the Group's VIE that can be used only to settle its obligations. None of the assets of the consolidated VIE have been pledged or collateralized. The creditors of the consolidated VIE do not have recourse to the general credit of the Company and its consolidated subsidiary.

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**China digital tv holding co., LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

(U.S. dollars in thousands, except share and per share data)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued**

As of December 31, 2017, the Company's subsidiaries and consolidated variable interest entity consist of the following entities:

<b>Subsidiaries</b>	<b>Date of incorporation</b>	<b>Place of incorporation /establishment</b>	<b>Percentage of economic ownership</b>
China Digital TV Technology Co., Ltd. ("CDTV BVI")	March 9, 2004	BVI	100%
Golden Benefit Technology Limited ("Golden Benefit")	December 6, 2007	Hong Kong	100%
China Super Media Holdings Limited ("CSM Holdings")	February 25, 2008	Hong Kong	100%
Beijing N-S Information Technology Co., Ltd. ("N-S Information Technology")	July 23, 2010	the PRC	100%
Beijing Cyber Cloud Co., Ltd. ("Cyber Cloud")	January 19, 2011	the PRC	57.7%
Beijing Joysee Technology Co., Ltd. ("Joysee")	May 13, 2011	the PRC	76.9%
Xinsi Yijia	December 31, 2012	the PRC	57.7%
Beijing Shibo Movie Technology Co., Ltd. ("Shibo Movie")	February 15, 2012	the PRC	100%
Beijing Shibo Qihang Technology Co., Ltd. ("Shibo Qihang", originally named as Beijing Dagong Technology Co. Ltd.)	December 24, 2015	the PRC	100%
Beijing Novel-Super Media Investment Co., Ltd. ("N-S Media Investment")	December 19, 2007	the PRC	100%
Hubei Shibo Screen Cross Technology Development Co., Ltd. ("Hubei Shibo")	August 12, 2015	the PRC	65.0%
Nanjing Yunyao Shibo Information Technology Co., Ltd. ("Nanjing Yunyao")	April 19, 2017	the PRC	57.7%

Variable interest entity

Dingyuan August 21, 2013 the PRC 57.7%

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***(a)Basis of presentation***

The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP").

***(b)Basis of consolidation***

The consolidated financial statements of the Company include the financial statements of CDTV Holding, its subsidiaries, and consolidated VIE. All inter-company transactions and balances have been eliminated upon consolidation.

***(c)Use of estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues, costs and expenses in the consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Company's consolidated financial statements include the allowance for doubtful accounts, valuation of inventories, valuation allowance for deferred income tax assets, impairment of long-lived assets, impairment of goodwill and fair value of share-based payments. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions.

***(d)Cash and cash equivalents***

Explanation of Responses:

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have maturities of three months or less when purchased.

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**China digital tv holding co., ITD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(e)Accounts receivable and allowance for doubtful accounts***

Accounts receivable are stated at the amount the Group expects to collect. The Group maintains allowances for doubtful accounts for estimated losses. Management considers the following factors when determining the collectability of specific accounts: historical experience, credit worthiness of the clients, aging of the receivables and other specific circumstances related to the accounts. Allowance for doubtful accounts is made and recorded into general and administrative expenses based on aging of accounts receivable and on any specifically identified accounts receivable that may become uncollectible. Accounts receivable which are deemed to be uncollectible are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. There is a time lag between when the Company estimates a portion of or the entire account balances to be uncollectible and when a write off of the account balances is taken. The Company takes a write off of the account balances when the Company can demonstrate all means of collection on the outstanding balances have been exhausted.

From time to time, certain accounts receivable balances are settled in the form of notes receivable. As of December 31, 2016, notes receivable represents bank acceptance drafts that are non-interest bearing and due within six months. Upon maturity of the bank acceptance drafts, the Group collects the face amount from the banks.

***(f)Investment***

*Equity method investments*

Investee companies over which the Group has the ability to exercise significant influence, but does not have a controlling interest are accounted for using the equity method. Significant influence is generally considered to exist

Explanation of Responses:

when the Group has an ownership interest in the voting stock of the investee between 20% and 50%, and other factors, such as representation on the investee's Board of Directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate.

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary. The Group did not incur any impairment loss on equity method investments for the years ended December 31, 2015, 2016 and 2017.

*Cost method investments*

Investee companies over which the Group does not have significant influence or a controlling interest are carried at cost and recognized as income for any dividend received from distribution of the investee's earnings.

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and determined to be other-than-temporary.

**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**(g) *Financial instruments***

Financial instruments of the Group primarily consist of cash and cash equivalents, restricted cash, term deposits, notes receivable, accounts receivable and accounts payable. The carrying values of the Group's financial instruments approximate their fair values, principally because of the short-term maturity of these instruments or their terms.

**(h) *Short-term investments***

As of December 31, 2017, the Company held investments in financial products managed by three PRC financial institutions. The terms of the financial products range between 33 days and 181 days. The financial products matured before March 2018 and provided the Company a return of \$37, of which the Company recognized unrealized holding gain of \$17 as of December 31, 2017.

**(i) *Concentration of credit risk***

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, term deposits, short-term investments, notes receivable and accounts receivable. The Group places their cash and cash equivalents, restricted cash, term deposits and short-term investments in financial institutions with high-credit ratings and quality.

Approximately 93.4% of the Group's cash deposits were placed with two commercial banks in the PRC as of December 31, 2017. The Group takes into account a number of factors, including, among other things, the industry rankings, credit rating and reputation, in determining the creditworthiness and quality of the financial institutions in

the PRC with which it has placed its cash and cash equivalents, restricted cash and term deposits (collectively “cash deposits”). The following table sets forth information relating to the two largest proportions of the Group's cash deposits held by banks as of December 31, 2016 and 2017, respectively.

Details of the banks accounting for 10% or more of total cash deposits are as follows:

Bank	As of December 31,	
	2016	2017
	%	%
Bank A	83.7	69.8
Bank B	10.8	23.6

The Group conducts credit worthiness evaluations of customers and generally does not require collateral or other security from customers. The Group establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors relevant to determining the credit risk of specific customers.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(i) Concentration of credit risk - continued***

Customers accounting for 10% or more of total revenues from continuing operations are as below:

Customer	For years ended December 31,		
	2015	2016	2017
	%	%	%
Customer A	54.8	40.5	31.9
Customer B	*	14.6	*
Customer C	-	-	14.6

Customers accounting for 10% or more of accounts receivable are as below:

Customer	As of December 31,	
	2016	2017
	%	%
Customer B	24.7	*
Customer D	17.3	-
Customer E	11.6	-
Customer C	-	52.1

\*The amount was less than 10%.

Explanation of Responses:

**(j) Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method. The components of inventory cost include raw materials, processing cost of finished goods and purchase cost of products. We routinely evaluate quantities and value of our inventories in light of current market conditions and market trends, and record a write-down against the cost of inventories for net realizable value below cost.

**(k) Property and equipment**

Property and equipment are carried at cost less accumulated depreciation and any recorded impairment. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Computer and electronic equipment	3 years
Furniture and fixture	5 years
Leasehold improvement	Shorter of useful life of the asset or the lease term
Motor vehicles	5 years

Costs of repairs and maintenance are expensed as incurred and asset improvements are capitalized. The cost and related accumulated depreciation of assets disposed of or retired are removed from the accounts, and any resulting gain or loss is reflected in earnings.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(l)Intangible assets***

Intangible assets, other than goodwill, acquired in connection with a business combination are estimated by management with the assistance of a third party valuer based on the fair value of the assets acquired.

Identifiable intangible assets are carried at cost less accumulated amortization. Amortization of intangible assets with finite useful lives is computed using the straight-line method over the following estimated average useful lives, which are as follows:

Core technology	3 years
Customer relationship	9.5 years

***(m)Impairment of long-lived assets other than goodwill***

The Group evaluates the recoverability of long-lived assets, including property and equipment and intangible assets with finite useful lives, whenever events or changes in circumstances indicate that a long-lived asset's carrying amount may not be recoverable. The Group measures the carrying amount of long-lived asset (assets group) against the estimated undiscounted future cash flows associated with the asset (assets group). Impairment exists when the sum of the undiscounted cash flows expected to be generated by that asset is less than the carrying value of the asset (assets group) being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset (assets group) exceeds its fair value. Fair value is estimated based on various techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Group to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**(n) *Goodwill***

The excess of the purchase price over the fair value of identifiable net assets acquired in a business combination is recorded on the consolidated balance sheet as goodwill. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the stock prices, business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. Estimating fair value is performed by utilizing various valuation techniques, with a primary technique being a discounted cash flow which requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long term rate of growth for the Company's business, estimation of the useful life over which cash flows will be generated, and determination of the Company's weighted average cost of capital.

In the evaluation of the goodwill for impairment, the Group first assesses qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, goodwill is then tested following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of

the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. The Group has determined to perform the annual impairment test on December 31 of each year. The Group recognized nil, nil and \$690 impairment loss on goodwill for the years ended December 31, 2015, 2016 or 2017, respectively.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(o)Revenue recognition***

The Group's revenues are derived from sales of products and services, and are recorded net of value added tax ("VAT"). Revenue is recognized when all of the following conditions are met: persuasive evidence of an arrangement exists, delivery of the products has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. These criteria are related to each of the following major revenue generating activities described below.

Specifically, sales of products include:

- (1) Sales of smart cards; and
- (2) Sales of other products.

Sales of services include the following arrangements:

- (1) Cloud-based application platform ("cloud platform") operating services;
- (2) Head-end software, hardware and related system integration service ("SI service");
- (3) Head-end system development service ("SD service");
- (4) Licensing income; and

Explanation of Responses:

(5) Royalty income.

All the revenues from sales of smart cards, licensing and royalty fees and substantially all of SI service and SD service were derived from the operation of Super TV. Since Super TV was disposed by the Company in December 2016, the related revenues are included in income from operations of discontinued operations for the years ended December 31, 2015 and 2016 (see Note 3).

*Sales of smart cards*

Smart cards are manufactured by third-party manufacturers based on the Group's blueprints. When the Group receives these products from the manufacturers, the Group programs each one with a unique security code so that it can communicate with the Group's CA Systems.

For sales to customers in the PRC, revenue is recognized when acceptance of delivery is signed by customers. Whereas sales to customers outside the PRC, revenue is recognized when delivery occurs according to the term in agreements with customers.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(o)Revenue recognition - continued***

*Sales of smart cards - continued*

The Group also offers a certain amount of free cards when the cumulative volume of smart card purchases from the same customer is greater than a set volume during a specific period. The Group accounts for volume based sales incentives as deferred revenue which is deducted against the initial revenue.

The Group generally guarantees the quality of smart cards for periods ranging from one to three years, and if any smart cards are found defective during the warranty period, the Group is obligated to replace them at the Group's cost. Historically, the defect rate of smart cards has been low and the Group accrues warranty liabilities based on historical information.

*Sales of others products*

The Group also derives revenues from the sales other products.

For sales to customers in the PRC, revenue is recognized when acceptance of delivery is signed by customers. Whereas sales to customers outside the PRC, revenue is recognized when delivery occurs according to the term in agreements with customers.

Explanation of Responses:

The Group guarantees the quality of a part of the products for a period after sale, and if any products are found defective during the warranty period, the Group is obligated to replace them at the Group's cost. Historically, the defect rate has been low and the Group accrues warranty liabilities based on historical information.

*Cloud platform operating services*

The Group enters into agreements with cable TV network operators and publishes games developed by third party game developers onto the cloud platforms. The end users are able to access the cloud platforms on cable TV. The cloud platforms enable the end users to purchase in-game virtual items by converting virtual currencies, which is purchased in the uniform platform virtual currency system. The cable TV network operators receive the service fees paid by end users and they will pay the Group a pre-agreed portion of the cash received.

The Group views cable TV network operators as the Group's customers. In the arrangements with cable TV network operators, cable TV network operators enter into agreements with end users and are in the role of operating the cable TV network system. The Group's cloud platform service is one of the value added services embedded in the cable TV network system.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(o)Revenue recognition - continued***

*Cloud platform operating services - continued*

The Group is not able to estimate amount of revenue before billing statements are mutually agreed with cable TV network operators. Amount of revenue earned is only determinable, when the Group receives billing statements from cable TV network operators.

The Group considers itself as the primary obligor, as it operates the cloud platforms, including initiating promotion activities, providing bug fixing and upgrades services of the platforms, maintaining virtual currency system, managing interfaces of the platform, and maintaining the servers, as needed. In addition, the Group has the discretion in supplier selection and the latitude in establishing price. As such, the Group recognizes such revenue on a gross basis.

Once the end users convert the platform virtual currency to in-game virtual items, the in-game virtual items are normally used by the end users in a very short period of time. In addition, substantially most of the in-game virtual items can be used only once and provide one-time advantages to the end users upon usage in the game without further substantial benefits.

At each period end, the Group summarizes consumed virtual currencies and the balance of unconsumed virtual currencies. The Group recognizes revenue for consumed virtual currencies based on the billing statements mutually agreed with cable TV network operators and defers revenue for unconsumed balance as of each period end.

*SI service*

For cloud platform and CA System, the Group signs contracts with cable network operators to install and integrate the Group's software with the hardware and software purchased from third-party suppliers.

Deliverables of SI service include: software, hardware, integration, installation, and post-contract customer support ("PCS").

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(o)Revenue recognition - continued***

*SI service - continued*

For multi-element arrangements of SI service, which include delivery, integration, and installation of hardware products containing software essential to the hardware product's functionality, and provision of PCS. The Group allocates revenue to deliverables based on their relative selling prices. In such circumstances, the Group uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE") and (iii) best estimate of selling price ("ESP"). VSOE generally exists only when the Group sells the deliverable separately and is the price actually charged by the Group for that deliverable. ESPs reflect the Group's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

When the Group delivers the hardware and software, installs and integrates them together to customers, customers sign the preliminary acceptance. Final acceptance is typically signed six months to one year after the issuance of the preliminary acceptance if no major technical problems are discovered. Hardware, software, integration, and installation are considered delivered to customers when preliminary acceptance is signed because only at that time customers are able to use the integrated system. Therefore, revenue for the SI service, except PCS, is recognized when the installation and integration of software is completed, which is indicated by obtaining the preliminary acceptance from customers. The Group defers the revenue for PCS and recognizes it over the period of PCS.

*SD service*

The Group develops head-end system applications relating to cloud platform and digital TV technology for its customers.

Deliverables in SD service include the completed software application. A few arrangements also include free PCS for a period, generally less than one year, starting from customer acceptance. Payment terms vary based on the stage of the service. Normally a portion of the contract amount is paid when the contract is signed, and the remaining is paid upon the completion of the project and customer acceptance. The cost of providing free PCS has historically been insignificant.

Because a system development arrangement requires significant production, modification, or customization of software, the Group refers to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-35, "Construction-Type and Production-Type Contracts" for revenue recognition. As the system development service is generally completed within several weeks or months, the completed-contract method is used. Revenue for system development is recognized when the system development is finished and accepted by the customer.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(o)Revenue recognition - continued***

*Licensing income*

The Group coordinates with network operators to produce set-top boxes compatible with the Group's CA Systems. The Group enters into contracts with set-top box manufacturers selected by the network operators and provides these manufacturers with CA Systems terminal-end technology that is integrated in the set-top boxes and which permits the unscrambling of digital TV broadcasts that have been transmitted by TV network operators who use the Group's CA Systems. The Group provides testing and certifying service on the CA Systems' terminal-end technology so that the set-top box is compatible with the Group's CA system. The set-top box manufacturers pay the Group a one-time license fee, which includes a testing and certifying fee, for obtaining the blueprints and technologies. According to the contracts, these manufacturers are required to provide a set-top box prototype to the Group in order to obtain a certificate from the Group which indicates the set-top box is compatible with the Group's CA Systems and suitable for mass-production. The licenses to set-top box manufacturers are perpetual once provided. No PCS is offered in the licensing arrangement.

Licensing income is recognized when all revenue recognition criteria have been met, which is indicated by the Group receiving acceptance note of license issued by the set-top box manufacturers.

*Royalty income*

The Group receives royalties on sales of CA Systems terminal-end technology from set-top box manufacturers. Royalty revenue is recognized when both of the following criteria are met: (1) sales reports are received from set-top

box manufacturers; and (2) payments are received.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**(p) *VAT and VAT refund***

VAT on sales is calculated at 17% on revenue from product sales and SI Services or 6% on revenue from other services and subsequently paid to the PRC tax authorities after netting input VAT on purchases. The excess of output VAT over input VAT is reflected in Accrued expenses and other current liabilities, and the excess of input VAT over output VAT is reflected in Prepaid expenses and other current assets in the consolidated balance sheets.

For certain software related products that qualify as "software products" by PRC tax authorities, the Group pays VAT at 17% first and then receives a 14% refund. The Group records VAT refund receivables on an accrual basis. VAT refund is recorded in revenue in the consolidated statements of comprehensive income (loss).

**(q) *Taxes and surcharges***

The Company's PRC subsidiaries and consolidated VIE are subject to taxes and surcharges which are calculated based on the net amounts of VAT payable to tax authority.

**(r) *Government subsidies***

Government subsidies mainly represent amounts granted by local government authorities as an incentive for companies to promote economic development of the local technology industry. When the Group receives the subsidies related to government sponsored projects, the subsidies are recorded as a liability and are recognized as subsidy income when there is no further performance obligation. Government subsidies that compensate the acquisition cost of an asset are recognized in profit or loss over the useful life of the asset as other income. Subsidy income of \$197,

\$460 and \$91 from continuing operations were recognized in other income and \$1,250, \$863 and nil from discontinued operations were recognized in income from operations of discontinued operations, for the years ended December 31, 2015, 2016 and 2017, respectively.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(s) Operating leases***

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statements of comprehensive income (loss) on a straight-line basis over the lease periods.

***(t) Foreign currency translation***

The functional and reporting currency of the Company is the US dollar. The functional currency of the Company's subsidiaries outside the PRC is the US dollar. The functional currency of the Company's subsidiaries and consolidated VIE in the PRC is Renminbi ("RMB").

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year are converted into the functional currencies at the applicable rates of exchange prevailing at the transaction dates. Transaction gains and losses are recognized in the consolidated statements of comprehensive income (loss).

For translating the financial statements of the Company's PRC subsidiaries (including consolidated VIE) into the reporting currency of the Company (US dollar), assets and liabilities are translated from each subsidiary's functional currency to the reporting currency at the exchange rate on the balance sheet date. Equity amounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated using the average rate for the period. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of

other comprehensive income (loss) in the consolidated statements of comprehensive income (loss).

When the Company deconsolidates any of its subsidiaries which functional currencies are not US Dollar, the amount of accumulated other comprehensive income related to foreign currency translation adjustment of the deconsolidated subsidiaries will be reclassified to profit or loss and included in the calculation of gain or loss from deconsolidation.

Since the RMB is not a fully convertible currency, all foreign exchange transactions involving RMB must take place either through the People's Bank of China ("PBOC") or other institution authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**(u) *Income taxes***

Deferred income taxes are provided using the asset and liability method. Under this method, deferred income taxes are recognized for net operating losses available for carry-forwards and temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis using enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to reduce the amount of deferred income tax assets if it is considered more likely than not that some portion of, or all of the deferred income tax assets will not be realized.

Income taxes are provided for in accordance with the laws and regulations applicable to the Group as enacted by the relevant tax authorities. The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than not to be sustained upon audit of the related tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Group records interest and penalties related to unrecognized tax benefits (if any) in interest expenses and general and administrative expenses, respectively.

**(v) *Earnings/(loss) per share***

Basic earnings/(loss) per ordinary share is computed by dividing net income/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings/(loss) per ordinary share reflect the potential dilution that could occur if dilutive potential common shares were exercised or converted into ordinary shares. The Group has stock options which could potentially dilute

basic earnings/(loss) per share. The dilutive effect of stock options is computed using the treasury stock method. Potential dilutive securities are not included in the calculation of diluted earnings/(loss) per share if the impact is anti-dilutive.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**(w) *Research and development expenses***

Research and development expenses are costs incurred in the development of the Group's products and technologies, including significant improvements and refinements to existing products and services. All research and development expenses are expensed as incurred.

**(x) *Share-based compensation***

Share-based payment transactions with employees and directors are measured based on the grant date fair value of the equity instrument issued. Share-based compensation expenses, net of an estimated forfeiture rate, are recognized over the requisite service period based on the graded vesting attribution method, with a corresponding impact reflected in additional paid-in capital.

The Group recognizes the estimated compensation expenses of performance-based stock options based on the grant date fair value. The awards are earned upon attainment of identified performance goals. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods.

Forfeitures are estimated at the time of grant and revised in the subsequent periods if actual forfeitures differ from those estimates. The Group uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expenses only for those awards that are expected to vest.

A change in any of the terms or conditions of share options shall be accounted for as a modification of the plan. Therefore, the Group calculates incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, the Group would recognize incremental compensation cost in the period the modification occurred and for unvested options, the Group would recognize, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**(y)** *Fair value*

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

·Level 1-inputs are based upon unadjusted quoted prices for identical assets or liabilities traded in active markets.

Level 2-inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3-inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques.

Accounting guidance also describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

The carrying amounts of cash and cash equivalents, restricted cash, term deposits, notes receivable, accounts receivable, and accounts payable, as of December 31, 2015, 2016 and 2017, approximate fair value because of the short maturity of these instruments.

Short-term investments include financial products issued by financial institutions, which are valued based on prices per units quoted by issuers. They are categorized in level 2 of the fair value hierarchy.

The Group measures certain financial assets, including cost method investments and equity method investments, at fair value on a nonrecurring basis only if an impairment loss were to be recognized. The Group's non-financial assets, such as goodwill, intangible assets and property and equipment, would be measured at fair value only if they were determined to be impaired.

The inputs used to measure the estimated fair value of goodwill, intangible assets and property and equipment are classified as Level 3 fair value measurement due to the significance of unobservable inputs using company-specific information. The valuation methodology used to estimate the fair value of goodwill and long-lived assets is income approach based on its discounted cash flow.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(z)Business combinations***

Business combinations are recorded using the acquisition method of accounting. The purchase price of the acquisition is allocated to the tangible assets, liabilities, identifiable intangible assets acquired and noncontrolling interest, if any, based on their estimated fair values as of the acquisition date. The excess of the purchase price over those fair values is recorded as goodwill. If the purchase price is less than those fair values, the difference is recognized directly in the consolidated statements of comprehensive income (loss). Acquisition-related expenses and restructuring costs are expensed as incurred.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in earnings.

Where the consideration in an acquisition includes contingent consideration and the payment of which depends on the achievement of certain specified conditions post-acquisition, the contingent consideration is recognized and measured at its fair value at the acquisition date and if recorded as a liability, it is subsequently carried at fair value with changes in fair value reflected in earnings.

***(aa)Transactions between entities under common control***

When accounting for a transfer of assets or exchange of shares between entities under common control of the Company, the carrying amounts of the assets and liabilities transferred shall remain unchanged subsequent to the transaction, and no gain or loss shall be recorded in the Company's consolidated statements of comprehensive income (loss).

**(bb) *Commitments and contingencies***

In the normal course of business, the Group is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, shareholder lawsuits, and non-income tax matters. An accrual for a loss contingency is recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(cc)Discontinued operations***

The Company reports disposal of subsidiaries in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results, when either the subsidiaries are classified as held for sale or are disposed by sale.

When a discontinued operation is disposed of before being classified as held for sale, the Company presents the assets and liabilities of the discontinued operation separately from other assets and liabilities on the consolidated balance sheet before the period that includes the disposal.

***(dd)Segment reporting***

The Company considers the internal reporting used by the Company's chief operating decision maker for making operating decisions about the allocation of resources of the segment and the assessment of its performance in determining the Company's reportable operating segments. Management has determined that the Company has one operating segment, which is digital television related products and services.

***(ee)Recently adopted accounting standards***

Effective from January 1, 2017, the Company adopted the FASB ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The standard simplified certain aspects of the accounting for share-based payment transactions, including recognition of excess tax benefits and deficiencies, classification of awards and classification in the statement of cash flows and forfeitures. As a result of adoption, the Company elected to estimate the number of

awards that are expected to vest. The adoption of this standard had no impact on the Company's consolidated financial statements.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(ff) Recently issued accounting pronouncements not yet adopted***

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In December 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers, which deferred the effective date of ASU No. 2014-09. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The new standard is effective for annual reporting periods beginning after December 15, 2017. The new revenue standard may be adopted retrospectively to each prior period presented (“the full retrospective method”) or retrospectively with the cumulative effect recognized as of the date of adoption (“the modified retrospective method”). The new standard and its related amendments are collectively known as “ASC 606”.

The Group adopted ASC 606 as of January 1, 2018 and will recognize the cumulative effect of initial applying the guidance recognized at the date of initial application (modified retrospective method). The group has completed the evaluation and concluded that the impact on accumulated deficit as of January 1, 2018 upon adoption of this standard relates to the manner in which the Company recognizes revenue for its cloud platform operating services. Under the current accounting policies, the Group recognizes revenue upon receiving the billing statements. Under ASC 606, the Group recognizes revenue based on its estimate of the variable consideration it expects to be entitled. Adopting this new accounting standard will result in a decrease in the absolute value of accumulated deficit of approximately \$162.

In February 2016, the FASB issued ASC Topic 842, *Leases* through ASU No. 2016-02. ASC Topic 842 requires a lessee to recognize all leases, including operating leases, on balance sheet via a right-of-use asset and lease liability,

unless the lease is a short-term lease. All (or a portion of) fixed payments by the lessee to cover lessor costs related to ownership of the underlying assets, or executory costs, that do not represent payments for a good or service will be considered lease payments and reflected in the measurement of lease assets and lease liabilities by lessees. The new standard does not substantially change lessor accounting from current U.S. GAAP. The new standard also requires lessees and lessors to disclose more qualitative and quantitative information about their leases than current U.S. GAAP does. The standard is applied retrospectively, with elective reliefs. The new standard is effective for annual and interim reporting periods beginning after December 15, 2018 for a public business entity. Early adoption is permitted. The Group is currently evaluating the impact ASU No. 2016-02 will have on its consolidated financial statements.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

***(ff) Recently issued accounting pronouncements not yet adopted - continued***

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Group evaluated the impact of ASU No. 2016-15 and does not expect the adoption of ASU No. 2016-15 will have material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows - Restricted cash*. This ASU requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, adjustments should be reflected at the beginning of the fiscal year that includes that interim period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Group evaluated the impact of ASU No. 2016-18 and determined to fully adopt the new standards starting from January 1, 2018 and will apply a retrospective transition method to each period presented.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**3. DISCONTINUED OPERATIONS**

On November 7, 2016 and December 26, 2016, the Company's subsidiary Golden Benefit entered into an equity transfer agreement and a supplemental agreement to equity transfer agreement (collectively the "Equity Transfer Agreements") with Beijing Super TV and Changxing Bao Li Rui Xin Technology Co., Ltd. ("Bao Li"), a limited liability company.

Mr. Zhu Jianhua, Chief Executive Officer and Director of the Company, owns interests in and then had significant influence on Bao Li.

According to the Equity Transfer Agreements, Bao Li agreed to pay cash consideration of RMB610 million to acquire all of the equity interest in Beijing Super TV owned by Golden Benefit, which represents 90.09% of outstanding equity interests of Beijing Super TV (the "Transaction").

A PRC subsidiary of the Company received total purchase consideration of RMB552 million, net of withholding income tax and stamp duties of RMB58 million from Bao Li in Renminbi, on December 27, 2016. Beijing Super TV completed the legal registration update of its shareholder information with the relevant PRC governmental authorities on December 29, 2016.

As a result, the Company no longer retained power of control over Beijing Super TV and deconsolidated Beijing Super TV and its wholly owned subsidiary, N-S Digital TV from the Company's consolidated financial statements on December 29, 2016. \$43,190 was recognized as gain from disposal of discontinued operations in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2016.



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**China digital tv holding co., LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

(U.S. dollars in thousands, except share and per share data)

**3. DISCONTINUED OPERATIONS - continued**

The operating results from discontinued operations included in the Company's consolidated statements of comprehensive income (loss) were as follows for the years ended December 31, 2015, 2016 and 2017.

	For years ended December 31,		
	2015	2016	2017
			(Note c)
Major classes of line items constituting pretax profit of discontinued operations			
Net revenues	\$ 50,944	\$ 47,328	\$ -
Cost of revenues (including share-based compensation of nil, \$181 and \$6 for 2015, 2016 and 2017, respectively)	(13,767 )	(12,719 )	(6 )
Selling, research and development, and general and administrative expenses (including share-based compensation of nil, \$3,793 and \$383 for 2015, 2016 and 2017, respectively)	(19,452 )	(23,823 )	(383 )
Other income and expenses that are not major	2,662	1,956	-
Income/(loss) from the operations of the discontinued operations, before income taxes (Note a)	20,387	12,742	(389 )
Income tax expenses (Note b)	(4,286 )	(2,492 )	-
Net income/(loss) from the operations of discontinued operations, before share of income on equity method investments	16,101	10,250	(389 )
Share of income on equity method investments	54	195	-
Income /(loss) from the operations of the discontinued operations, net of income taxes	16,155	10,445	(389 )
Gain from disposal of discontinued operations, net of income taxes	-	43,190	-
Income/(loss) from discontinued operations, net of income taxes	\$ 16,155	\$ 53,635	\$ (389 )
Net income/(loss) from discontinued operations attributable to China Digital TV Holding Co., Ltd.	\$ 16,155	\$ 52,644	\$ (389 )

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Income/(loss) from the operations of discontinued operations, before income taxes, attributable to China Digital TV a. Holding Co., Ltd. was income of \$20,387, \$11,750 for the years ended December 31, 2015 and 2016, respectively, and loss of \$389 for the year ended December 31, 2017.

Golden Benefit incurred withholding income tax expense relating to retained earnings of Beijing Super TV at a b. 10% income tax rate. This withholding tax expense is included as income tax expenses for the discontinued operations at the amount of \$1,608 and \$2,045 for the years ended December 31, 2015 and 2016, respectively.

Incremental cost of \$389 was incurred related to the modification of vested share options granted to the grantees c. employed by Beijing Super TV and N-S Digital TV under the share incentive plans of the Company.

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**3. DISCONTINUED OPERATIONS - continued**

The condensed cash flows of Super TV were as follows for the years ended December 31, 2015, 2016 and 2017:

	For years ended December 31,		
	2015	2016	2017
Net cash provided by operating activities	\$ 22,847	\$ 18,278	\$ -
Net cash provided /(used in) by investing activities	2,507	(206 )	-
Net cash provided by financing activities	-	5,015	-
Effect of exchange rate changes on cash and cash equivalents	(1,752 )	(2,041 )	-

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**China digital tv holding co., LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

**(U.S. dollars in thousands, except share and per share data)**

**4.SEGMENT INFORMATION AND REVENUE ANALYSIS**

The Group's chief operating decision maker is the Chief Executive Officer, who reviews consolidated results of operations when making decisions about allocating resources and assessing performance of the Group.

The Group primarily operates in the PRC, all of the Group's long-lived assets are located in the PRC and majority of the Company's revenues for the years ended December 31, 2015, 2016 and 2017 were generated from the PRC.

After the disposal as described in Note 3, the Company still has one operating segment, which is digital television related products and services. The gross revenues consist of the following:

	For the years ended December 31,		
	2015	2016	2017
Revenues from continuing operations			
Products	\$ 248	\$ 618	\$ 790
Services			
Cloud platform operations	412	2,019	2,341
Head-end system integration	527	708	1,846
Head-end system development	735	895	1,224
Subtotal	1,674	3,622	5,411
Total revenues	\$ 1,922	\$ 4,240	\$ 6,201

Revenues generated by the discontinued operations, which were included in income from operations of discontinued operations, consisted of revenues from products of \$46,150, \$43,504 and nil, and revenues from services of \$5,630,

Explanation of Responses:

\$4,541 and nil for the years ended December 31, 2015, 2016, and 2017, respectively.

VAT refunds of \$9, \$57 and \$92 from continuing operations were included in revenues and \$4,120, \$3,062 and nil from discontinued operations were included in income from operations of discontinued operations for the years ended December 31, 2015, 2016 and 2017, respectively.

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**China digital tv holding co., LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

(U.S. dollars in thousands, except share and per share data)

**5. RESTRICTED CASH**

Restricted cash consists of the following:

	As of December 31,	
	2016	2017
Bank deposits in an escrow account (Note 20(c))	\$ 4,753	\$ -
Restricted cash	\$ 4,753	\$ -

**6. SHORT-TERM INVESTMENTS**

Short-term investments consist of the following:

	As of December 31,	
	2016	2017
Aggregate cost basis	\$ -	\$ 3,766
Gross unrealized holding gain	\$ -	\$ 17
Aggregate fair value	\$ -	\$ 3,783

The Group's short-term investments represent financial instruments issued by financial institutions with variable interest rates indexed to the performance of underlying assets. As of December 31, 2017, there was no unrealized holding losses.

**7.ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net, consists of the following:

	As of December 31,	
	2016	2017
Accounts receivable	\$ 589	\$ 2,041
Less: allowance for doubtful accounts	(89 )	(110 )
Accounts receivable, net	\$ 500	\$ 1,931

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**China digital tv holding co., LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued****FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

(U.S. dollars in thousands, except share and per share data)

**7. ACCOUNTS RECEIVABLE, NET - continued**

Movement of allowance for doubtful accounts is as follows:

	Balance at beginning of the year	Charge to expenses	Exchange rate difference	Balance at end of the year
2016	\$ 21	\$ 73	\$ (5 )	\$ 89
2017	\$ 89	\$ 15	\$ 6	\$ 110

**8. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, consist of the following:

	As of December 31,	
	2016	2017
Computers and other electronic equipment	\$ 989	\$ 1,132
Furniture and fixtures	6	3
Leasehold improvements	35	38
Motor vehicles	13	-
	1,043	1,173
Less: accumulated depreciation	(622 )	(742 )
Less: accumulated impairment loss	-	-

Explanation of Responses: