

China Digital TV Holding Co., Ltd.
Form 20-F
April 21, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

**..REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934**

For the fiscal year ended December 31, 2016

OR

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the transition period from to

OR

**..SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

Commission file number 001-33692

CHINA DIGITAL TV HOLDING CO., LTD.

(Exact name of Registrant as specified in its charter)

N/A **Cayman Islands**
(Translation of Registrant's name into English) (Jurisdiction of incorporation or organization)

Jingmeng High-Tech Building B, 4th Floor

No. 5 Shangdi East Road

Haidian District, Beijing 100085

People's Republic of China

(Address of principal executive offices)

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(Name, telephone, email and/or facsimile number and address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Ordinary shares, par value US\$0.0005 per share* American depository shares, each representing one ordinary share	New York Stock Exchange

* Not for trading, but only in connection with the listing on the New York Stock Exchange of American depository shares, or ADSs, each representing one ordinary share.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2016, 60,285,087 ordinary shares, par value US\$0.0005 per share, were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statement included in this filing:

U.S. International Financial Reporting Standards as issued Other

GAAP by the International Accounting Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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INTRODUCTION

Except where the context otherwise requires and for purposes of this annual report only:

"ADSs" refers to our American depositary shares, each of which represents one ordinary share of China Digital TV Holding Co., Ltd., or CDTV Holding;

"ADRs" refers to American depositary receipts, which, if issued, evidence our ADSs;

"CA" or "CA systems" refers to conditional access systems provided to the PRC's digital television market, which consist of: (1) smart cards that are inserted into set-top boxes at the subscriber's end or terminal end; (2) software installed at the digital television network operator's transmission point, or head end; and (3) licenses for set-top boxes, enabling digital television network operators to control the distribution of content and value-added services to their subscribers and block unauthorized access to their networks;

"China" or the "PRC" refers to the People's Republic of China, excluding, for the purposes of this annual report, Hong Kong, Macau and Taiwan;

"RMB" or "Renminbi" refers to the legal currency of China;

"U.S." or "United States" refers to the United States of America;

"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 delisted from the New York Stock Exchange, or NYSE, and not qualifying for trading on another 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, 2014, 2015 and 2016, and the selected consolidated balance sheet data as of December 31, 2015 and 2016 set forth below are derived from our audited consolidated financial statements included elsewhere 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 years ended December 31, 2012 and 2013 and the selected historical consolidated balance sheet data as of December 31, 2012, 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,				
	2012	2013	2014	2015	2016
	(in thousands of U.S. dollars, except share and per share data)				
Consolidated Statements of Operations					
Data:					
Net revenues	3,604	2,680	1,915	1,920	4,228
Cost of revenues	3,093	2,378	2,344	1,380	1,517
Gross profit/(loss)	511	302	(429)	540	2,711
Total operating expenses	11,585	9,718	17,197	16,132	12,141
Loss from continuing operations	(11,074)	(9,416)	(17,626)	(15,592)	(9,430)
Interest income	1,234	226	205	104	105
Interest expense	(739)	-	-	-	-
Loss from forward contract	(690)	-	-	-	-
Cost method investment impairment	(4,487)	-	-	-	-
Gain from disposal of an equity method investment	-	-	-	-	95
Other income/(expense)	885	28	(50)	354	1,088
Loss from continuing operations before income tax expenses	(14,871)	(9,162)	(17,471)	(15,134)	(8,142)
Income tax expenses	336	206	81	292	114
Net loss from continuing operations before share of loss on equity method investments	(15,207)	(9,368)	(17,552)	(15,426)	(8,256)
Share of loss on equity method investments, net of nil income taxes	(578)	-	-	(101)	-
Net loss from continuing operations	(15,785)	(9,368)	(17,552)	(15,527)	(8,256)
Discontinued operations					
Income from the operations of discontinued operations, net of income taxes	21,323	31,944	36,717	16,155	10,445
Gain from disposal of discontinued operations, net of income taxes	-	-	-	-	43,190
Income from discontinued operations, net of income taxes	21,323	31,944	36,717	16,155	53,635
Net income	5,538	22,576	19,165	628	45,379
Less: Net loss attributable to noncontrolling interest	(1,389)	(1,832)	(1,725)	(900)	(39)
Net loss from continuing operations attributable to China Digital TV Holding Co., Ltd.	(14,396)	(7,536)	(15,827)	(14,627)	(7,226)
Net income from discontinued operations attributable to China Digital TV Holding Co., Ltd.	21,323	31,944	36,717	16,155	52,644
Net income attributable to China Digital TV Holding Co., Ltd.	\$6,927	\$24,408	\$20,890	\$1,528	\$45,418
Earnings/(loss) per share data – basic and diluted:					
Net loss per share from continuing operations attributable to ordinary	\$(0.24)	\$(0.13)	\$(0.27)	\$(0.24)	\$(0.12)

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shareholders of China Digital TV Holding Co., Ltd.:					
Net income per share from discontinued operations attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.:	0.36	0.54	0.62	0.27	0.87
Net income per share attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.:	\$0.12	\$0.41	\$0.35	\$0.03	\$0.75
Cash dividends declared per share	\$2.30	\$-	\$0.50	\$-	\$0.20
Weighted average shares outstanding, basic and diluted:	59,011,396	59,111,594	59,369,708	59,968,346	60,199,096
Consolidated Balance Sheet Data:					
Total current assets	\$184,321	\$139,953	\$130,154	\$121,873	\$126,585
Total assets	193,565	148,806	139,111	130,750	127,971
Total liabilities	110,402	37,834	37,084	28,944	4,900
Total China Digital TV Holding Co., Ltd. shareholders' equity	80,458	110,036	101,462	101,480	119,610
Noncontrolling interest	2,705	936	565	326	3,461
Total liabilities and equity	\$193,565	\$148,806	\$139,111	\$130,750	\$127,971

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, 2012 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, 2016. 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 14, 2017, the daily exchange rate reported by the Federal Reserve Board was RMB 6.8835 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 2016	6.7819	6.6685
November 2016	6.9195	6.7534
December 2016	6.9580	6.8771
January 2017	6.9575	6.8360
February 2017	6.8821	6.8517
March 2017	6.9132	6.8687
April 2017 (through April 14, 2017)	6.8988	6.8832

The following table sets forth the average exchange rates between Renminbi and U.S. dollars for each of 2012, 2013, 2014, 2015 and 2016 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
2012	6.2990
2013	6.1412
2014	6.1704
2015	6.2869
2016	6.6549

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

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 increased from 58.9% in 2014 to 63.6% in 2016. 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 income could decline significantly and, as a result, our financial condition and results of operations could be materially and adversely affected.

CA and CA-related business represented a substantial portion of our former business, therefore our business will be substantially different following its sale.

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 then held by our subsidiary, Golden Benefit Technology Limited, or 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. Our continuing business, substantially all of which are performed by Beijing Cyber Cloud Co., Ltd., or Cyber Cloud, constituted only a small part of our former business. In 2016, revenues from Super TV were US\$48.0 million, whereas revenues from Cyber Cloud were US\$3.7 million. In 2014, 2015 and 2016, Cyber Cloud generated net losses in the amount of US\$3.0 million, US\$3.4 million and US\$2.5 million, respectively.

Given that Cyber Cloud has only a short operating history, and we have no substantial experience of cooperating with television network operators or other third parties in providing new solutions and products, we may not be successful in doing so, and Cyber Cloud may not become profitable in the foreseeable future, or at all.

We may also seek to maximize our profitability through further reducing corporate overhead costs. Because our business will be significantly smaller following the Super TV Disposition, we believe that there will be certain ways in which corporate overhead costs may be significantly reduced. However, if we are not successful in fully implementing such cost reductions, our ability to increase our profitability in this manner may be impaired.

As a result, our operating results for any particular period may not be indicative of our future operating results.

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 from quarter to quarter, which could materially and adversely affect the price of our ADSs.

Our quarterly operating results have varied significantly in the past and are likely to continue to vary significantly in the future. Our quarterly revenues may fluctuate as 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 from quarter to quarter. 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 quarterly 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.

If we breach any representations, warranties, covenants or other obligations, the Equity Transfer Agreement may expose us to potential liabilities.

Golden Benefit has made certain representations, warranties and covenants under the Equity Transfer Agreement, for the Super TV Disposition. If there is any breach by Golden Benefit of any such representation, warranty, covenant or other obligation under the Equity Transfer Agreement, Golden Benefit may be liable, either before or after the closing of the Super TV Disposition. For a detailed explanation of the Equity Transfer Agreement, see "Item 4. Information on the Company—A. History and Development of the Company."

If Bao Li's creditors lay claim on the deposit for the period the purchase consideration is deposited in the co-owned bank account, we may not be able to receive the payment we are entitled to under the Equity Transfer Agreement in full or at all.

In accordance with the Equity Transfer Agreement for the Super TV Disposition and the supplemental agreement thereto, the purchase consideration of Renminbi 552 million, net of withholding income tax and stamp duties of Renminbi 58 million, was paid by Bao Li to our bank account on December 27, 2016. Once Bao Li completes all necessary administrative procedures for foreign currency exchange, the purchase consideration will be deposited to a bank account jointly opened and owned by Golden Benefit and Bao Li for a stipulated period of time, during which Bao Li exchanges the Renminbi purchase consideration into U.S. dollars and remit the payment in U.S. dollars to Golden Benefit's offshore bank account, unless otherwise instructed by Golden Benefit. However, if any of Bao Li's creditors lay claim on the deposit in the co-owned account, Golden Benefit might not be able to receive the payment in full or at all, which would in turn have a material adverse effect on our financial condition. Moreover, as the purchase consideration is denominated in Renminbi, the possible future depreciation in value of the Renminbi against the U.S. dollar may also affect the value of payment we receive in U.S. dollars under the Super TV Disposition.

For as long as we remain a public company, we will continue to incur the expenses of complying with public company reporting requirements.

Our reporting obligations as a SEC registrant will not be affected as a result of completing the Super TV Disposition. For as long as we remain as such, we have an obligation to 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 may be deemed an investment company and subject to related requirements and restrictions under the U.S. Investment Company Act of 1940

The regulatory scope of the U.S. Investment Company Act of 1940, as amended, or the Investment Company Act, which was enacted principally for the purpose of regulating vehicles for pooled investments in securities, generally extends to companies engaged primarily in the business of investing, reinvesting, owning, holding or trading in securities. However, the Investment Company Act may also apply to a company that does not hold itself out to be an investment company but that, due to the nature of its holdings, may be deemed to fall within the definition of an investment company under such Act. China Digital TV will hold the proceeds from the Super TV Disposition. If China Digital TV is deemed to be an investment company, it will become subject to certain restrictions relating to its activities, including restrictions on the nature of its operations and the issuance of securities. In addition, the Investment Company Act imposes certain requirements on companies deemed to be within its regulatory scope, including registration as an investment company.

However, as we intend to, and our Board of Directors has authorized us to, take actions so that we will be engaged primarily, as soon as reasonably possible and in any event before the first anniversary of the consummation of the Super TV Disposition, or the Rule 3a-2 period, in a business other than that of investing, reinvesting, owning, holding or trading in securities, we intend to rely upon Rule 3a-2 under the Investment Company Act to avoid being deemed an investment company during the Rule 3a-2 period.

In the event that it is determined that we are unable to rely on Rule 3a-2 under the Investment Company Act or that we are unable to be engaged primarily in a business other than that of investing, reinvesting, owning, holding or trading in securities prior to the first anniversary of the consummation of the Super TV Disposition, compliance with the requirements and restrictions of the Investment Company Act would likely have a material adverse effect on us.

Following the Super TV Disposition, our business is significantly smaller, and we may fail to satisfy the continued listing criteria of the NYSE. If we are unable to satisfy the continued listing criteria of the NYSE, our ADSs may be delisted from that market.

In order to continue to be listed on the NYSE, we must meet the requirements as set forth in Sections 802.01A to 802.01C of the NYSE-listed Companies Manual, which require, among other things: (i) average monthly trading volume of no less than 100,000 shares; (ii) average global market capitalization over a consecutive 30 trading-day period of no less than US\$50 million and, at the same time, stockholders' equity of no less than US\$50 million; and (iii) average closing price of a security as reported on the consolidated tape of no less than US\$1.00 over a consecutive 30 trading-day period. On April 19, 2017, our board declared a special dividend of US\$1.50 per ordinary share. Substantially all of the proceeds from the Super TV Disposition will be paid as special dividend. Such dividend payment will reduce our shareholders' equity and is expected to reduce our market capitalization. And it will

significantly increase our risk of failure to meeting these requirements. Additionally, because Super TV represented a significant portion of our operating assets prior to its sale, our ADSs may be subject to delisting by the NYSE under Section 802.01D of the NYSE-listed Companies Manual, which provides that the NYSE may in its sole discretion initiate delisting procedures against a company if such company's operating assets have been or are to be substantially reduced such as by sale.

Any delisting of our ADSs from the NYSE could adversely affect our ability to attract new investors, decrease the liquidity of our outstanding ADSs, reduce our flexibility to raise additional capital, reduce the trading price of our ADSs, and increase the transaction costs inherent in trading such shares with overall negative effects for our shareholders. In addition, delisting of our ADSs could deter broker-dealers from making a market in or otherwise seeking or generating interest in our ADSs, and might deter certain institutions and persons from investing in our securities at all. For these reasons and others, delisting could adversely affect the price of our ADSs and our business, financial condition and results of operations.

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 cus