China Digital TV Holding Co., Ltd.
Form 20-F
April 17, 2012
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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, 2011

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)

Mr. Nan Hao

China Digital TV Holding Co., Ltd.

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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 depositary 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 depositary 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, 2011, 58,981,890 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 x

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 x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 x 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 x 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. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

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 x

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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;
- ADRs refers to American depositary receipts, which, if issued, evidence our ADSs;
- 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) software for set-top boxes, enabling digital television network operators to control the distribution of contents 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. dollars or US$ refers to the legal currency of the United States;
- U.S. GAAP refers to generally accepted accounting principles in the United States; and
- all references to the number of the ordinary shares and the number of the Series A convertible redeemable shares, or Series A preferred shares, of our wholly owned subsidiary, China Digital TV Technology Co., Ltd., or CDTV BVI, take into account a 40-for-1 share split executed by CDTV BVI in May 2007.

All references to CDTV Holding, we, us or our include China Digital TV Holding Co., Ltd., its subsidiaries, the businesses acquired from Novel-Tongfang Information Engineering Co., Ltd., or N-T Information Engineering, and, in the context of describing our operations and consolidated financial information, also include Beijing Novel-Super Digital TV Technology Co., Ltd. (formerly known as Beijing Novel-Tongfang Digital TV Technology Co., Ltd.), or N-S Digital TV, 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, expressions. These forward-looking statements include, without limitation, statements relating to:

- changes in technology standards in the digital television broadcasting industry 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 and distribution network and other aspects of our operations;

expected changes in our revenues and cost and expense items;

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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 CA systems market;

government policies and regulations relating to the digital television broadcasting industry, the CA systems industry and other areas relevant to our business activities;

any significant changes to the PRC government s ongoing digitalization program;

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; and

the future expansion of the PRC digital television broadcasting market, and factors driving that growth.

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 digital television broadcasting industry, including progress of digitalization in the PRC and the growth of digital television network operators;

future profitability of our business and operations;

exchange rate fluctuations between the Renminbi and other currencies; and

the 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 might 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 Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

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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, 2009, 2010 and 2011, and the selected consolidated balance sheet data as of December 31, 2010 and 2011 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 years ended December 31, 2007 and 2008 and the selected historical consolidated balance sheet data as of December 31, 2007, 2008 and 2009 set forth below are derived from our audited consolidated financial statements which are not included in this annual report.

Our audited 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,				
	2007	2008	2009	2010	2011
	(In thousands of U.S. dollars, except share and per share data)				
Consolidated Statements of Operations Data:					
Revenues					
Products	US$ 49,741	US$ 64,412	US$ 49,146	US$ 82,518	US$ 95,162
Services	6,011	6,285	5,918	5,225	5,378
Total revenues	55,752	70,697	55,064	87,743	100,540
Business tax	(299)	(363)	(360)	(620)	(1,445)
Net revenues	55,453	70,334	54,704	87,123	99,095
Cost of revenues					
Products	8,100	10,877	9,716	15,148	16,100
Services	2,135	2,828	3,686	3,040	3,027
Total cost of revenues	10,235	13,705	13,402	18,188	19,127
Gross profit	45,218	56,629	41,302	68,935	79,968
Total operating expenses	12,107	19,068	20,775	25,325	35,240
Income from operations	33,111	37,561	20,527	43,610	44,728
Interest income	2,790	9,138	6,070	5,294	6,810
Interest expense					(1,452)
Gain from forward contracts					404
Impairment loss of cost method investment				(5,000)	
Other income (expense)	263	(412)	(65)	(92)	594
Income before income taxes	36,164	46,287	26,532	43,812	51,084
Income tax expense	(2,342)	(3,235)	(1,261)	(10,250)	(9,762)
Net income before (loss)/income from equity method investments	33,822	43,052	25,271	33,562	41,322
(Loss)/income from equity method investments, net of income taxes	(6)	(4)	20	(151)	(1,052)

Net income	33,816	43,048	25,291	33,411	40,270

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	For the years ended December 31,				
	2007	2008	2009	2010	2011
	(In thousands of U.S. dollars, except share and per share data)				
Net loss attributable to noncontrolling interest		(14)	(13)	(10)	(730)
Net income attributable to holders of ordinary shares	US$ 33,816	US$ 43,062	US$ 25,304	US$ 33,421	US$ 41,000
Earnings per share data:					
Net income per ordinary share basic	US$ 0.74	US$ 0.75	US$ 0.44	US$ 0.57	US$ 0.70
Net income per participating preferred share basic	0.66				
Net income per ordinary share diluted	US$ 0.68	US$ 0.72	US$ 0.43	US$ 0.57	US$ 0.69
Weighted average shares used in calculating basic net income per share ordinary shares	39,170,004	57,138,985	57,728,009	58,313,467	58,934,912
Weighted average shares used in calculating basic net income per share preferred shares	7,389,394				
Weighted average shares used in calculating diluted net income per share	42,773,590	60,058,724	58,591,072	58,779,027	59,075,466
Consolidated Balance Sheet Data:					
Cash and cash equivalents	US$ 228,958	US$ 202,947	US$ 131,087	US$ 148,944	US$ 201,557
Total assets	263,735	297,976	263,488	273,642	321,338
Total liabilities	11,884	71,950	10,464	94,622	111,016
Total shareholders equity	247,851	224,462	253,024	178,500	206,442
Noncontrolling interest	4,000	1,564		520	3,880
Total liabilities, noncontrolling interest and shareholders equity	US$ 263,735	US$ 297,976	US$ 263,488	US$ 273,642	US$ 321,338

In May 2011, our board of directors declared a special cash dividend of US$0.56 per ordinary share. The dividend was fully paid by April 13, 2012.

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, 2009 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 30, 2011. 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 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, 2012, the daily exchange rate reported by the Federal Reserve Board was RMB6.3022 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.

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	RMB per US$1.00	
	High	Low
October 2011	6.3825	6.3534
November 2011	6.3839	6.3400
December 2011	6.3733	6.2939
January 2012	6.3330	6.2940
February 2012	6.3120	6.2935
March 2012	6.3315	6.2975
April 2012 (through April 13, 2012)	6.3123	6.2975

The following table sets forth the average exchange rates between Renminbi and U.S. dollars for each of 2007, 2008, 2009, 2010 and 2011 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
2007	7.5806
2008	6.9193
2009	6.8295
2010	6.7603
2011	6.4475

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

The PRC television broadcasting industry may not digitalize as quickly as we expect, as a result of which our revenues and net income would be materially adversely affected.

Our future success depends upon the pace at which PRC television network operators switch from analog to digital transmission. In particular, various factors, including those beyond our control, may cause PRC television network operators to convert from analog to digital transmission at a slower pace. Moreover, although the PRC government has strongly encouraged cable television network operators to digitalize their networks and has set a target of 2015 for all analog channels to be switched off (except for those required to be retained during the transition period), it may relax or cancel the 2015 target. The pace of digitalization may also be slowed down as a result of uncertainties in the change of industrial policies. In addition, PRC television viewers may fail to subscribe to digital television services in sufficient numbers to support wide-scale digitalization. PRC television network operators may also decide that the commercial benefits of digitalization are outweighed by the costs or other commercial or policy considerations. If any of these or other factors were to cause the pace of digitalization to proceed significantly more slowly than we anticipate, our sales of CA systems, in particular smart cards, would suffer significantly, and our revenues and net income would be materially reduced.

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Changes in the regulatory environment of, and government policies towards, the PRC television broadcasting industry could have a material adverse effect on our business, financial condition and results of operations.

Strong PRC government support has been a significant driver of the PRC television broadcasting industry s transition from analog to digital transmission. Although the PRC government has set a target of 2015 for all cable television networks to switch to digital transmissions, terminating all analog transmissions except for up to six channels that will continue in service for the benefit of those unable to afford digital television, we cannot assure you that the government will not change or adjust its digitalization policies at any time, including canceling or relaxing the target for digitalization. If the digitalization process in the PRC were to be slowed down or otherwise adversely affected by any government action or inaction, we may not be able to develop new customers or attract new business from existing customers, and our growth and prospects would be materially and adversely affected.

Furthermore, the television broadcasting industry in the PRC is highly regulated. Government regulations with respect to television broadcasting content, the amount and content of advertising, the pricing of pay-television subscriptions, the role of private-sector investment and the role of foreign investment significantly influence the business strategies and operating results of our customers. For example, the PRC State Administration of Radio, Film and Television, or the SARFT, issues licenses without which our customers cannot operate, and may withdraw such licenses for violation of its regulations. Among other things, the SARFT must approve the creation of new premium content channels and has the power to order television network operators to stop airing programs or advertising that it considers illegal or inappropriate. Any adverse government actions against television network operators could in turn cause us to lose existing or potential customers.

In addition, many of our customers are directly or indirectly owned by the central PRC government or provincial or local governments. As a result, their business strategies and capital expenditure budgets are significantly influenced by government policies at various levels. Any change in the business strategies of our customers that leads to a reduction in the funds available to purchase our CA systems could have a material adverse effect on our business, financial condition and results of operations. Furthermore, the ongoing consolidation of the PRC cable television broadcasting industry could, among other things, substantially increase the bargaining power of the consolidated network operators over us and require us to reduce the prices of our CA systems and other products and services, which could, in turn, materially reduce our revenues and profitability.

If significant numbers of television viewers in the PRC are unwilling to pay for digital television or related value-added services, our business and profits will suffer.

The substantial majority of our revenues are derived from digital television network operators who purchase our head-end CA systems software and smart cards to insert in the set-top boxes of their subscribers. As a result, we are substantially dependent upon the television network operators ability to sell digital television subscriptions to viewers. In addition, the success of our efforts to generate future revenues by offering value-added services to television viewers ultimately depends on whether viewers are willing to pay for such value-added services.

We cannot assure you that television network operators will be successful in promoting digital television or value-added services. In particular, television viewers in the PRC are accustomed to receiving television for free or at a very low price. Even viewers who are accustomed to paying for cable television subscriptions have historically paid very low rates and may not be willing to pay significantly higher rates for digital television services, or additional fees for value-added services. If digital television network operators are unable to develop unique and compelling content to differentiate from the content provided through analog transitions or offer value-added services that meet viewers needs at an affordable price, these operators may find it difficult to persuade viewers to accept the pay-television model or pay more for digital television or value-added services than viewers have historically paid for analog television. In that event, our customers digital subscriber numbers may not grow and we may be unable to sustain our current level of revenue, net income and/or growth.

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If large numbers of television network operators who have already installed our CA system head-end software do not purchase sufficient quantities of our smart cards, our financial condition and results of operations would be materially and adversely affected.

Television network operators who purchase and install our CA systems head-end software generally purchase our smart cards in batches over a period from several months to several years as they roll out digital services to their subscribers in stages. Substantially all of our revenues are derived from the sale of smart cards to customers who are engaged in such service roll-outs. However, certain television network operators have installed our CA systems head-end software and subsequently failed to purchase sufficient quantities of our smart cards. Factors that may cause a television network operator to suspend or halt its digitalization using our products include, but are not limited to, changes in such television network operator s management priorities or financial condition, and a decision by such television network operator to carry out digitalization using the CA systems of a competitor.

In January 2010, the PRC government stepped up its policy to encourage convergence of television broadcasting, telecommunications and Internet services. Although this policy may lead to acceleration of the digitalization of cable networks as the cable operators prepare themselves for potential competition from telecommunications operators, it may also have a material adverse effect on our business. In particular, as a response to that policy, and as an important measure to strengthen the competitiveness of the cable television industry as a whole, the SARFT has increased its efforts to consolidate the cable television industry. As a result, provincial cable operators have gained increasing influence over the municipal cable operators, including the latter s purchase and investment decisions. If the provincial cable operators, who may be CA customers of our competitors or otherwise prefer our competitors products, direct the municipal cable operators to suspend or cancel their orders for our smart cards or purchase smart cards from our competitors, our business could suffer.

If large numbers of television network operators who have already installed our CA systems head-end software fail to purchase commercial quantities of our smart cards, our financial condition and results of operations would be materially and adversely affected.

We derive substantially all of our revenues from customers who are installing new CA systems, and if we are unable to continue attracting new customers to install our CA systems or persuade existing customers to purchase our system upgrades or value-added applications, our revenues, profitability and prospects may be materially and adversely affected.

CA systems vendors in more mature digital television markets, such as the United States and Europe, derive revenues not only from the purchase of new CA systems by television network operators who are switching from analog to digital transmissions, but also from the purchase of new and replacement smart cards, system upgrades and new value-added services by existing customers. In the PRC, however, cable television network operators are still in the process of purchasing CA systems and introducing digital content and services to their subscribers. To date, none of our customers have made a follow-on purchase for system upgrades or card replacements. As a result, the success of our business depends primarily on our ability to attract a continuing stream of customers who are switching from analog to digital transmission. As the digitalization process in the PRC continues to progress in light of the targeted completion in the year 2015, the number of cable television network operators who have not switched from analog to digital transmission, who are the prospective customers of our CA systems, has decreased significantly. If we are unable to continue attracting sufficient numbers of such customers, or to develop a significant additional source of recurring revenues, our revenues and profitability may be materially reduced and our prospects may suffer.

Our business will suffer if we do not respond effectively to technological or commercial changes in our industry.

Our business and the market in which we operate are characterized by rapid commercial and technological change, evolving industry standards and frequent product enhancements. As digital broadcasting becomes more popular in the PRC, television network operators are likely to seek more sophisticated CA technology that offers them greater reliability, flexibility and functionality in delivering protected content or value-added services to viewers. As methods of distributing information and entertainment evolve, CA technology may also need to evolve to provide content protection for distribution platforms other than television. Our continued success will depend, in part, on our ability to develop and market products and services that respond to technological changes and evolving market demand or industry standards in a timely and cost-effective manner. We will need to invest significant financial resources in research and development to keep pace with technological advances in the CA systems industry and related industries. However, research and development activities are inherently uncertain, and our significant expenditures on research and development may not yield corresponding benefits. If we fail to develop and introduce products and services that effectively respond to technical changes and evolving market demand or industry standards and compete effectively with products and services offered by our competitors, our sales may be significantly reduced and our revenues and profitability will suffer.

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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 or chooses our competitors products or services, our revenues and net income could decline significantly.

The revenues generated by our top five customers for a particular year as a percentage of our total revenues declined from 48.3% in 2006 to 25.9% in 2011. However, 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 digital cable television systems are still at the developing stage in the PRC, the largest shipments of smart cards tend to be to operators who are launching new digital transmission systems and need to purchase in bulk for their established networks. If a customer significantly reduces the volume of its purchases from us, defers or cancels orders or 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.

Our business may suffer if cable television network operators, who currently comprise our primary customer base, do not compete successfully with existing and emerging alternative platforms for delivering television programs, including terrestrial networks, Internet protocol television, mobile television and satellite broadcasting networks.

Our existing customers are mainly cable television network operators in the PRC, which compete with traditional terrestrial television networks for the same pool of viewers. As technologies develop, other means of delivering information and entertainment to television viewers are evolving. For example, some telecommunications companies in the PRC are seeking to compete with terrestrial broadcasters and cable television network operators by offering Internet protocol television, or IPTV, which allows telecommunications companies to stream television programs through telephone lines. The SARFT has officially issued seven IPTV licenses and seven Internet TV licenses, and it may issue significantly more IPTV and Internet TV licenses in the future. The SARFT also issued a broadcast license in 2006 to the PRC s first direct satellite broadcast company, which began operation in 2008. More recently, a television operator has started to offer mobile television services. We may not be as successful in selling our CA systems to the operators of IPTV, or terrestrial, satellite or mobile television networks as we have been in selling to cable television network operators. To the extent that the terrestrial television networks, telecommunications companies or satellite television network operators compete successfully with cable television network operators for viewers, the ability of our existing cable customer base to attract and retain subscribers may be adversely affected. As a result, demand for additional smart cards could falter and our business, financial condition and results of operations would be materially and adversely affected.

Our business could be harmed if the security of our customers networks is compromised due to the failure of our CA systems or the security breach of the software or hardware supplied by other vendors.

We face risks relating to the failure of our CA systems to block unauthorized access to the television networks of our customers. Our CA systems use a combination of signal scrambling and encryption to prevent unauthorized viewing of our customers television programs. An important component of our CA systems is the smart cards we provide for our customers individual subscribers. Unauthorized viewing and use of content could be accomplished by counterfeiting our smart cards, stealing our system s authorization messages or security codes, or in any other way thwarting our CA systems security features. Any significant security breach could require us to develop and implement solutions that could be costly or time-consuming, or to replace an operator s smart cards at our own expense. For example, pursuant to our contracts with buyers of our CA systems, if we were unable to remedy such security breach with system modifications, we could be obligated to replace the cards free of charge if the breach occurs within the first year (or in some cases, within the first two or three years) after the sale. Even though we have not experienced any significant counterfeiting or other security breach, we cannot assure you that our current assumptions regarding the security of our CA systems are reasonable. We could be obligated to incur a significant portion of the cost of replacing our smart cards in future years if any significant counterfeiting or security breach occurs. See Item 4. Information on the Company B. Business Overview Our Products and Services CA Systems. The cost of smart card replacement and the damage to our reputation could have a material adverse effect on our business, financial condition and results of operations.

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In addition to our CA systems, the secured transmission of digital television programming also relies on certain other software and hardware components, such as set-top boxes supplied by other vendors, used on our customers digital television networks. A security breach of any of these other software and hardware components could also result in unauthorized access to the television networks of our customers. For example, in November 2007, it was discovered that an individual located in the city of Daqing in Heilongjiang Province had provided shared access to the local digital television network to over 100 other persons without authorization by hacking into certain set-top boxes used on that network, which do not have advanced security features due to cost considerations. By using a tracking technology offered by our CA systems, which enables an operator to track down the compromised set-up boxes, the local television network operator identified the points of breach, took measures to block further unauthorized access and contained the impact of the breach. The perpetrator was convicted and sentenced to eight months in prison. We believe we are not liable for such security breach of software or hardware components that are supplied by other vendors under the terms of our contractual arrangements. However, our business, financial conditions and results of operations could still be materially and adversely affected if these security breaches result in the affected television network operators having difficulty recruiting new subscribers or retaining existing subscribers. Furthermore, as our CA systems are used on the affected networks, our reputation could also be severely harmed by being associated with such security breaches on our customers networks.

We generally do not have long-term contracts with suppliers of computer chips or the companies that manufacture our smart cards. If any of our computer chip suppliers or smart-card manufacturers is unable to fulfill our orders in time or at all, we may be unable to deliver smart cards to our customers, which could severely damage our business, profitability and prospects.

As a general matter, we do not have long-term contracts with our suppliers. We purchase substantially all of the computer chips that are used in our smart cards from two suppliers, STMicroelectronics, or STM, and Infineon Technologies AG, or Infineon (and prior to February 2009, indirectly through an agent of Infineon). In addition, we have arrangements with a number of smart-card manufacturers, including China Electronics Smart Card Co., Ltd., or China Electronics, the China Sciences Group, Axalto Smart Card Technology Co., and Oberthur Card Systems, to embed the computer chips into plastic cards. We generally place purchase orders with our computer chip and smart card suppliers as needed to meet our customers demand. Our computer chip and smart card suppliers are generally not under any contractual obligation to accept our purchase orders or fulfill them within our desired time frame. However, we currently maintain a one-year contract with each of China Electronics and the China Sciences Group that requires them to fulfill our orders in accordance with an agreed schedule. Any significant delay or failure by any of our suppliers or manufacturers to fulfill our orders for computer chips or smart cards could force us to obtain computer chips or smart cards from alternative sources at higher cost, negatively affecting our operating margins, or could prevent us from delivering smart cards in the required quantities to our customers on time. Any such failure by us could have a material adverse effect on our reputation and ability to retain customers, as well as our business, financial condition and results of operations, and may also subject us to claims from our customers.

We face intense competition, which could reduce our market share and harm our financial performance.

The market for digital television CA systems and software applications is intensely competitive. Several of the world s leading developers and producers of CA systems, including Irdeto Access B.V., Conax Company, Kudelski SA and NDS Group, operate in the PRC market. We also compete with domestic CA systems vendors, including Sumavision Technologies Co., Ltd., DVN Holdings Ltd. and Beijing Compunicate Technologies Inc. Some of our competitors have substantially greater financial, technical and other resources than we do, and may respond more quickly than we could to technological or commercial changes in our industry. In addition, some competitors offer their CA systems at a lower price or with a longer credit term than we do. We may need to reduce our prices to compete with them, which may lead to reduced margins or loss of market share. We cannot assure you that we will be able to compete effectively in the market for digital television CA systems and software applications in the PRC. See Item 4. Information on the Company B. Business Overview Competition.

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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 Jianhua Zhu, chairman of our board of directors and our chief executive officer, Dr. Zengxiang Lu, member of our board of directors, and Dong Li, our president and chief marketing officer, in our business operations and technology development efforts, and on their relationships with the regulatory authorities, our customers, our suppliers, our employees and our operating company, N-S Digital TV. 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.

Our attempts to diversify our business and expand our revenues by providing new solutions and products may not be successful and may prove costly.

We have been pursuing strategies to expand and diversify our revenues, including developing and commercializing new solutions and products, such as value-added digital television services, cloud computing technology-based digital video delivery solutions and advanced digital television terminals. To this end, we established Beijing Novel-Super Media Investment Co., Ltd., or N-S Media Investment, Beijing Cyber Cloud Co., Ltd., or Cyber Cloud, Beijing Joysee Technology Co., Ltd., or Joysee, and Beijing Super Movie Technology Co., Ltd., or Super Movie, during the past years. See Item 4. Information on the Company A. History and Development of the Company. However, we have no prior experience cooperating with television network operators or other third parties in providing new solutions and products, and may not be successful in doing so. In addition, our attempts to develop this new business model may be time-consuming and may distract our management from developing our existing lines of business, which could have a material adverse effect on our business, financial condition and results of operations.

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

As part of our business strategy, we intend to enhance our capabilities by acquiring other companies, businesses or technologies that complement our existing business or enhance our product portfolio and proprietary technology. However, 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 attract 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.

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

Our software and technology are integrated into the television transmission infrastructure of our customers. Accordingly, 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 and public relations problems for our customers.

N-S Digital TV may be deemed not to be in full compliance with certain legal regulatory requirements relating to the production and sale of encryption products, and the relevant PRC government authorities could require N-S Digital TV to cease such activities and impose administrative penalties including fines, which could have a material adverse effect on our business, financial condition and results of operations.

The PRC government introduced regulations in 1999 generally requiring a company that engages in the production and sale of encryption products to obtain two licenses, one for the production of encryption products and the other for the sale and distribution of encryption products, and the implementation rules for issuing these two licenses were promulgated in December 2005. Under these regulations and rules, a company generally is only allowed to produce and/or sell encryption products that use algorithms designated by the encryption authority and such products shall also be certified by the encryption authority. The encryption authority initially designated permitted algorithms for CA systems in April 2007 and a final and official designation remains pending. Like many other vendors of CA systems in the PRC, N-S Digital TV has been producing and selling CA systems using algorithms other than those initially designated by the encryption authority. We understand the encryption authority has allowed a transition period, of a duration yet to be determined at the sole discretion of the encryption authority, for vendors of CA systems to comply with this requirement to use the algorithms to be finally and officially designated by the government. See Item 4. Information on the Company B. Business Overview Regulation Regulation of Encryption Industry. N-S Digital TV has engaged in the production and sale of encryption products since its establishment in May 2004, but it did not obtain the license for the production of encryption products until June 2006 and the license for the sale of encryption products until September 2008. In December 2008 and February 2009, certain CA system products we developed by using the algorithms designated by the encryption authority were certified by the encryption authority. However, we have not decided when N-S Digital TV will produce and sell those products using the designated algorithms, and various factors, in addition to the permissible transition period for adoption, will affect this decision, including whether products using algorithms designated by the encryption authority will be generally accepted by the cable television industry (including CA system vendors and cable television operators). If N-S Digital TV fails to adopt the algorithms designated by the encryption authority for any of CA systems products it produces and sells by the end of the transition period or at any time during the transition period at the request of the government, it may be required to discontinue the production and sale of its non-compliant CA systems. If the relevant PRC government authorities deem N-S Digital TV s production of encryption products prior to June 2006 or sale of encryption products prior to September 2008 to be in violation of the applicable regulations, they may impose sanctions against N-S Digital TV. These sanctions may include confiscation of income from non-compliant activities, fines of up to three times the amount of income from non-compliant activities and revocation of the licenses already issued. Imposition of such sanctions may result in material disruptions to our business operations, damage to our reputation and significant financial losses.

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Enforcement of certain PRC regulatory requirements regarding the use of encryption products may prevent prospective customers from purchasing our CA systems and our business revenues and net income could be materially reduced as a result.

In March 2007, the PRC encryption authority introduced regulations that require users to use only encryption products that are certified by the encryption authority. The CA systems we currently produce and sell have not been certified by the encryption authority because we have not adopted the government-designated algorithms for such CA systems. King & Wood Mallesons, our PRC counsel, has advised us that because the encryption authority provides for a transition period, which will be for a duration to be determined at the sole discretion of the encryption authority, for us to adopt the algorithms to be finally and officially designated by the government, it is unlikely that the encryption authority will enforce the above-mentioned regulatory requirements with respect to the use or purchase of our CA systems during that transition period. In December 2008 and February 2009, certain CA system products we developed by using the algorithms designated by the encryption authority were certified by the encryption authority. However, as stated above, we have not decided when N-S Digital TV will produce and sell those CA system products certified by the encryption authority and various factors, in addition to the permissible transition period for adoption, will affect this decision. If we have not obtained the certification for the CA systems that we produce and sell upon the expiration of the transition period or at an earlier time the PRC encryption authority may otherwise require, enforcement of the above-mentioned regulatory requirements could prevent our prospective customers from purchasing our non-compliant CA systems, which could materially reduce our revenues and net income. In addition, even if we produce and sell products certified by the PRC encryption authority, we cannot assure you that we will be able to successfully market and sell such products.

We may incur development costs and may be required to pay certain fees in order to use the algorithms designated by the PRC encryption authority for CA systems.

A company generally is only allowed to produce and/or sell encryption products that have adopted the algorithms designated by the PRC encryption authority. As the encryption authority did not designate any algorithms for CA systems until April 2007, we have been using algorithms in our CA systems other than those designated by the encryption authority. If we are required by the government authorities to instead use the algorithms designated by the encryption authority in our CA systems, we may incur costs to develop new products adopting such algorithms and may have to pay certain fees to the government for such usage. Development costs and the payment of such fees, the amount of which remains unclear, may cause our profit margin to decline significantly as well as materially reduce our profitability.

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 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 without infringing the intellectual property rights of third parties. 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 would be highly uncertain. 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 both 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, require us to seek licenses from third parties, 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.

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

Almost all of our business operations, including the encoding of our smart cards, which is an essential part of the smart card manufacturing process, 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 net income.

Our operating results may fluctuate significantly from quarter to quarter, which could 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. For example, our quarterly revenues substantially depend upon the timing of smart card orders placed by our customers. A significant portion of our quarterly revenues has generally reflected orders from a small number of large customers for our CA systems. 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.

Failure to manage our growth or develop appropriate internal organizational structures, internal control environment and risk monitoring and management systems in line with our growth could have a material adverse effect on our business and prospects.

Our business and operations have expanded since our formation in 2004. Significant management resources must be expended to develop and implement appropriate structures for internal organization and information flow, an effective internal control environment and risk monitoring and management systems in line with our growth, as well as to hire and integrate qualified employees into our organization. We cannot assure you that our existing internal control and risk monitoring and management systems would continue to be adequate. If we fail to appropriately develop and implement structures for internal organization and information flow, an effective internal control environment and a risk monitoring and management system, we may not be able to identify unfavorable business trends, administrative oversights or other risks that could materially and adversely affect our business, financial condition and results of operations.

If we fail to maintain an effective system of internal control over financial reporting, our ability to accurately and timely report our financial results or prevent fraud would suffer. As a result, investor confidence and the trading price of our ADSs may be materially and adversely impacted.

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 control over financial reporting in our annual report on Form 20-F. In addition, our independent registered public accounting firm must report on the effectiveness of our internal control over financial reporting. Our management concluded that our internal control over financial reporting was effective as of December 31, 2011, the end of the period covered by this annual report, and our independent registered public accounting firm opined that we maintained effective internal control over financial reporting of the same period. However, we may fail to maintain effective internal control over financial reporting in the future, in which case we and the independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, or the relevant regulators, may disagree. If such independent registered public accounting firm is not satisfied with our internal control or the level at which our control is documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us, then it may not be able to issue an unqualified opinion. In addition, our reporting obligations as a public company may place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

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Moreover, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could harm our operating results and lead to a significant decline in the trading price of our ADSs. Furthermore, ineffective internal control 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 civil or criminal 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

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 were classified as a passive foreign investment company, or PFIC, for each of 2009, 2010 and 2011, which resulted 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 analyses of the value of our assets as of December 31, 2011 and the ends of earlier years, we were a PFIC during the taxable years 2009 through 2011 for U.S. federal income tax purposes. We have substantial passive assets in the form of cash and cash equivalents, among others, and can provide no assurance that we will not continue to be classified as a PFIC for the taxable year 2012 or future taxable years, as PFIC status is tested each year and depends on our assets and income in such year. Our PFIC status for the current taxable year 2012 will not be determinable until the close of the taxable year ending December 31, 2012.

We will be classified as a PFIC in any future taxable year if either: (1) the average percentage value of our gross assets during the taxable year 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 would increase the risk of us becoming a PFIC.

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In any taxable year in which we are classified as a PFIC, and you are a U.S. holder of our ADSs or shares, unless you make a mark-to-market election, 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 later than 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, including the consequences of making a mark to market selection, 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 insured or similarly protected against loss.

As of December 31, 2011, approximately 96.2% of our bank deposits were placed with three commercial banks in the PRC. Unlike certain other jurisdictions, applicable PRC laws do not require that banks provide deposit insurance or similar protections to depositors in the PRC. As a result, our bank accounts are not 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. As a result, our liquidity and cash flows, as well as financial condition and results of operations, could be materially and adversely affected.

Risks Relating to Our Corporate Structure

If the PRC government determines that N-S Digital TV is a vendor of non-PRC CA systems by virtue of the agreements that establish the structure for operating our business, we could face difficulty selling our CA systems in the PRC.

SARFT policy requires any cable television network operator who uses a non-PRC CA system to install a parallel PRC CA system. Under this policy, vendors of non-PRC CA systems may sell only to cable network operators who have already installed a PRC CA system or who are willing to purchase a parallel PRC CA system. This may result in a competitive disadvantage for vendors of non-PRC CA systems relative to vendors of PRC CA systems. Such policy does not expressly indicate whether the CA systems produced by a foreign-invested company incorporated in the PRC, such as our subsidiary Beijing Super TV Co., Ltd., or Super TV, fall into the category of non-PRC CA systems. In light of this ambiguity, in order to avoid our CA systems being deemed non-PRC CA systems, we have established N-S Digital TV, which is wholly owned by PRC persons, to produce and sell our CA systems. We do not have any equity interest in N-S Digital TV and instead enjoy the economic benefits of, and have substantive control over, N-S Digital TV through contractual arrangements with N-S Digital TV and its shareholders. N-S Digital TV also holds the licenses and approvals that are essential to our business, and we derive a significant portion of our revenues from N-S Digital TV.

There are substantial uncertainties regarding the interpretation and application of the above-described PRC government policy and relevant PRC laws and regulations. Accordingly, the PRC government may determine that N-S Digital TV is a vendor of non-PRC CA systems by virtue of our contractual arrangements with N-S Digital TV and its shareholders. If N-S Digital TV is deemed to be a vendor of non-PRC CA systems by the PRC government, cable network operators may cancel their orders for our CA systems to avoid being required to install a parallel PRC CA system, and we may also lose potential customers who are not willing, or have no plan, to install a parallel PRC CA system for economic or other reasons. As a result, our business, financial condition and results of operations could be materially and adversely affected.

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The agreements that establish the structure for operating our business may result in the relevant PRC government regulators revoking or refusing to renew N-S Digital TV s licenses for the production and sale of commercial encryption products, or refusing to issue any other license required to engage in an encryption-related business.

Our CA systems business uses encryption technology and thus is required by the relevant PRC laws, rules and regulations to obtain licenses to produce and sell commercial encryption products. Although foreign-invested enterprises incorporated in the PRC, such as our subsidiary, Super TV, are not expressly prohibited from conducting a business that uses encryption technology, foreign-invested enterprises may have difficulty obtaining the necessary license due to the PRC encryption authority s generally restrictive approach towards foreign participation in the PRC encryption industry. N-S Digital TV, which is wholly owned by PRC persons and through which we conduct our CA systems business, has obtained licenses to produce and sell commercial encryption products as required for our business.

Our contractual arrangements with N-S Digital TV and its shareholders provide us with the economic benefits of, and substantive control over, N-S Digital TV. If the PRC encryption authority determines that our control over, or relationship with, N-S Digital TV through those contractual arrangements is contrary to their generally restrictive approach towards foreign participation in the PRC encryption industry, we cannot assure you that the PRC encryption authority will not reconsider N-S Digital TV s eligibility to hold the licenses to produce and sell commercial encryption products. The PRC encryption authority may revoke, or refuse to renew, N-S Digital TV s licenses to produce and sell commercial encryption products, or refuse to grant any other encryption-related license that may be required for our business in the future. If that were to happen, we might have to discontinue all or a substantial portion of our business pending the reissuance, extension or issuance of the required license. In addition, we might have to restructure our operation in order to have such licenses reissued, extended or issued. Such restructuring may result in a loss or reduction of our control over, or the economic benefits we enjoy from, N-S Digital TV under existing contractual arrangements. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Our business and operations could be significantly disrupted, and we could be subject to sanctions, if the contractual arrangements between us and our consolidated variable interest entity, N-S Digital TV, which we depend on for the production and sales of our CA systems, are found to be in violation of applicable PRC laws, rules and regulations.

As PRC laws, rules and regulations are evolving and subject to differing interpretations, there exist substantial uncertainties regarding the validity and enforceability of the contractual arrangements between us and N-S Digital TV and its shareholders. We have been advised by our PRC legal counsel, King & Wood Mallesons, that the ownership structures of our operating subsidiary in China and our consolidated variable interest entity comply with existing PRC laws, rules and regulations. Moreover, King & Wood Mallesons is of the opinion that each of the agreements that establish the contractual arrangements are valid, legally binding and enforceable and do not violate applicable PRC laws, rules and regulations.

We cannot assure you that the relevant PRC regulatory authorities will not ultimately determine that these contractual arrangements do not comply with applicable PRC laws, rules and regulations. In addition, various media sources have recently reported that the research division of the China Securities Regulatory Commission, or the CSRC, had prepared a report for the State Council of the PRC proposing to regulate the use of the variable interest entity structure, such as the structure used by us, in the context of foreign investment in the PRC and overseas listings of PRC companies. It is unclear, however, whether the CSRC has officially submitted such a report to the State Council, what specific content such report contains and whether and when any further action will be taken by the State Council, the CSRC, the Ministry of Commerce, or the MOFCOM, or any other PRC government authority regarding the use of the variable interest entity structure.

If we or our operating company were found to be in violation of PRC laws, rules or regulations, the relevant PRC regulatory authorities would have broad discretion in imposing sanctions, including, without limitation:

levying fines;

confiscating income;

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revoking N-S Digital TV s business license or operating licenses;

requiring us to revise our ownership structure or restructure our operations; and/or

requiring the discontinuation of businesses.

Any of these or similar actions could cause significant disruptions to our business, as well as materially reduce our revenues, profitability and cash flows.

Our contractual arrangements with our operating company, N-S Digital TV, and its shareholders may not be as effective in providing operational control as direct ownership and may be difficult to enforce.

In order for our CA systems not to be deemed by the PRC government as non-PRC CA systems, which may result in a competitive disadvantage for us in the PRC market, we have established N-S Digital TV, which is wholly owned by PRC persons, to produce and sell our CA systems in the PRC. As a result, we generate a significant portion of our revenues through N-S Digital TV. We do not have any equity interest in N-S Digital TV and instead enjoy the economic benefits of, and have substantive control over, N-S Digital TV through contractual arrangements with N-S Digital TV and its shareholders. N-S Digital TV also holds the licenses and approvals that are essential to our business. For a description of such contractual arrangements, see Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions. These arrangements may not be as effective in providing control over our operations as direct ownership would be. In particular, N-S Digital TV could fail to perform or make payments as required under these contractual arrangements, and we would have to rely on the PRC legal system to enforce these arrangements, which may not be effective.

The shareholders or directors of N-S Digital TV may have conflicts of interest with us.

We do not have any equity interest in N-S Digital TV and instead enjoy the economic benefits of, and have substantive control over, N-S Digital TV through contractual arrangements with N-S Digital TV and its shareholders. Conflicts of interests may arise between us and the shareholders of N-S Digital TV, who are currently our employees. In addition, two directors of N-S Digital TV are also directors of our company, and conflicts may arise between the duties they owe to N-S Digital TV and the duties they owe to us. We cannot assure you that if any such conflicts arise, any or all of the shareholders or directors of N-S Digital TV, as the case may be, will act in the best interests of our company or that such conflicts will be resolved in our favor. We have no specific policies or procedures for resolving any such conflicts that may arise. In addition, these shareholders or directors may breach, or cause N-S Digital TV to breach or refuse to renew, the existing contractual arrangements that allow us to effectively control N-S Digital TV and receive economic benefits from it. If we cannot satisfactorily resolve any conflicts of interest or disputes between us and the shareholders or directors of N-S Digital TV, we may have to resort to legal proceedings, which may involve substantial uncertainty and result in disruptions to our business and operations.

Contractual arrangements we have entered into between Super TV and N-S Digital TV may be subject to scrutiny by the PRC tax authorities and any finding that we or N-S Digital TV owe additional taxes could substantially reduce our net income and the value of your investment.

Under applicable PRC laws, rules and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material adverse tax consequences if the PRC tax authorities determine that the contractual arrangements between Super TV, our wholly owned subsidiary in the PRC, and N-S Digital TV do not represent an arm s-length price and consequently adjust N-S Digital TV s income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by N-S Digital TV, which could in turn increase its tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties.

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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, 2012, our three largest shareholders beneficially owned a total of approximately 47.9% of our outstanding shares. Accordingly, they 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. They will also have the power to prevent or cause a change in control. In addition, without the consent of these shareholders, we could be prevented from entering into transactions that could be beneficial to us. These shareholders may cause us to take actions that are opposed by other shareholders as the interests of these shareholders 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 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 with respect to 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 government has implemented various measures since 2011 to control inflation, such as tightening bank lending policies and increasing interest rates, In addition, the PRC government in March 2012 reduced its 2012 annual gross domestic product growth target to 7.5% from 8%. Continued implementation of these or similar measures, or a variety of other factors, may cause a continued slowdown in the PRC economy, which, in turn, could significantly reduce business activities in the PRC, including a slowing-down 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 and profitability.

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. Our PRC operating subsidiary, Super TV, is a foreign-invested enterprise and is subject to laws, rules and regulations applicable to foreign investment in the PRC as well as laws and regulations applicable to foreign-invested enterprises. N-S Digital TV is a privately owned company and is subject to various PRC laws, rules and regulations that are generally applicable to companies in the PRC. 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.

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The approval of the CSRC 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 MOFCOM, the State-owned Assets Supervision and Administration Commission, the State Administration for Taxation, or the SAT, the State Administration for Industry and Commerce, 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. 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.

On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of an application and supporting documents with the CSRC.

We completed the initial listing and trading of our ADSs on the New York Stock Exchange, or the NYSE, on October 11, 2007. We did not seek CSRC approval in connection with our initial public offering. Our PRC counsel, King & Wood Mallesons, advised us that, based on their understanding of the current PRC laws, regulations and rules and the procedures announced on September 21, 2006, 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 Regulation Regulation 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 regulations that require PRC residents and PRC corporate entities to register with and obtain approvals from relevant PRC government authorities in connection with their 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.

The SAFE regulations required registration by March 31, 2006 of direct or indirect investments previously made by PRC residents in offshore companies prior to the implementation of the *Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies* on November 1, 2005, or SAFE Notice 75. In May 2007, the SAFE issued guidance to its local branches with respect to the implementation of SAFE Notice 75, known as SAFE Notice 106. The SAFE issued another notice on May 20, 2011, or Notice 19, which sets forth additional requirements regarding foreign exchange registration under SAFE Notice 75. If a PRC shareholder with a direct or indirect stake in an offshore parent company fails to make the required SAFE 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.

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We have notified holders of our ordinary shares whom we know are PRC residents to register with the local branches of the SAFE and update their registration 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 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 there is uncertainty concerning the reconciliation of the new regulation with other approval requirements, it is unclear how the regulation, 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 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 stock-related rights and benefits under our stock incentive plans are subject to SAFE Notice 7. We have registered for us and on behalf of our employees with the relevant local SAFE branch in 2008 for our 2005 Stock Incentive Plan pursuant to prior SAFE Notice 78, and we intend to register for us and on behalf of our employees who are Domestic Individuals for our 2008 Stock Incentive Plan and 2010 Stock Incentive Plan 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 Regulation 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 subsidiary, Super TV, 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 Super TV incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Furthermore, relevant PRC laws, rules and regulations permit payments of dividends by Super TV only out of its retained earnings, if any, determined in accordance with PRC accounting standards and regulations.

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Under applicable PRC laws, rules and regulations, Super TV is required to set aside 10% of its after-tax profits 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, Super TV is restricted in its ability to transfer a portion of its net assets to us in the form of dividends. Limitations on the ability of Super TV 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, Super TV may purchase foreign exchange for settlement of current account transactions, including purchase of imported computer chips and payment of dividends to us, without the approval of the SAFE by complying with certain procedural requirements. However, the relevant PRC governmental 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 purchase computer chips from suppliers outside of the PRC or fund our business activities outside of the PRC denominated in foreign currencies or pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

In addition, foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities. In particular, any loans to Super TV are subject to PRC regulations and approvals. For example:

- loans by us to Super TV, a foreign-invested enterprise, cannot exceed statutory limits and must be registered with the SAFE or its local counterpart; and

- loans by us to N-S Digital TV, which is a domestic PRC entity, and its subsidiaries must be approved by the relevant government authorities and must also be registered with the SAFE or its local counterpart.

This could affect the ability of Super TV 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.

As 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 raised to 0.5% in May 2007 and was further raised to 1% in April 2012. 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 are denominated in Renminbi while approximately 45.0% of our cost of revenues is denominated in U.S. dollars, fluctuations in the exchange rate could also impact our financial condition and results of operations.

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Very limited hedging transactions are available in the PRC to reduce our exposure to exchange rate fluctuations. In April and May 2011, we entered into foreign currency forward contracts to facilitate the payment of the special cash dividend declared in November 2010, in an effort to reduce our exposure to foreign currency exchange risk. The 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 Super TV and N-S Digital TV. These incentives include reduced enterprise income tax rates, value-added tax refunds and tax holidays. For example, as high-and-new technology enterprises incorporated and operated in the Beijing High-Tech Development Experimental Zone, which is a designated high-and-new technology development zone, each of Super TV and N-S Digital TV is entitled to a preferential income tax rate of 15% (against the standard income tax rate of 33% before, or 25% from, January 1, 2008). In addition, Super TV was designated as a key software enterprise for the tax year of 2010 by the relevant PRC government authorities and, as a result, was entitled to a preferential income tax rate of 10% in 2010. In addition, each of Super TV and N-S Digital TV was entitled to income tax exemption from 2004 to 2006 and a 50% reduction of income tax from 2007 to 2009. 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 value-added tax rate from 17% to 3%.

Super TV and N-S Digital TV 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%, Super TV and N-S Digital TV must be qualified as high-and-new technology enterprises strongly supported by the State under the newly enacted *PRC Enterprise Income Tax Law*, or the 2008 EIT Law, which took effect on January 1, 2008. In addition, in order to continue to enjoy the preferential income tax rate of 10%, Super TV must reapply for and obtain the designation as a key software enterprise annually. 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 Super TV s or N-S Digital TV s enterprise income tax rate or discontinuation or reduction of any of the preferential tax treatments or financial incentives currently enjoyed by Super TV or N-S Digital TV 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 2008 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. 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 the SAT Notice 82, on April 22, 2009. The 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 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. Although each of the SAT Notice 82 and the 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 the SAT Notice 82, we believe that we are not a PRC resident enterprise. However, if we were considered a PRC resident enterprise, we would be subject to the enterprise income tax at the rate of 25% on our global income. In such case, our profitability and cash flow would be materially reduced as a result of our global income being taxed under the 2008 EIT Law.

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If we are considered as a non-resident enterprise under the 2008 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 can 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 foreign-invested enterprise to its shareholder in Hong Kong are generally subject to a 5% PRC withholding tax compared to the standard 10% PRC withholding tax under the 2008 EIT Law. However, on October 27, 2009, the SAT issued the *Notice on How to Recognize Beneficial Owners under Relevant Tax Treaties*, or the SAT Notice 601, which provides that only the enterprises with active operations can be recognized as beneficial owners under relevant tax treaties that are entitled to enjoy the corresponding tax benefits. The SAT Notice 601 further provides that those enterprises that are established solely for the purposes of benefiting from favorable tax treatment under the relevant tax treaties should not be recognized as beneficial owners and therefore cannot enjoy favorable tax treatment. We indirectly hold the 100% interest in our PRC subsidiary, Super TV, through Golden Benefit Technology Limited, or Golden Benefit, a wholly owned subsidiary incorporated in Hong Kong. As a result, to the extent we are considered as a non-resident enterprise and Golden Benefit is not recognized as a qualified beneficial owner under the relevant tax treaty, dividends we receive from our PRC subsidiary will be subject to the standard rate of 10%. In November 2010, we declared a special cash dividend of US$2.00 per ordinary share and accordingly the 10% withholding tax was paid on the amount of distributable profits accumulated after January 1, 2008 of Super TV when it repatriated offshore for such dividend payment. Such withholding tax increased 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.

Prior to January 1, 2008, dividends payable to non-PRC investors were exempted from withholding tax. The 2008 EIT Law and the Implementation Rules, both of which became effective on January 1, 2008, provide that an income tax rate of 10% (subject to the tax treaties between PRC and other jurisdictions) will generally be applicable to dividends payable to non-PRC investors which are derived from sources within the PRC, provided that dividends are not subject to the 10% tax if they are paid out of distributable profits accumulated before January 1, 2008. Similarly, any gain realized on the transfer of shares by such investors is also subject to 10% tax if such gains are regarded as income derived from sources within the PRC.

We are a Cayman Islands holding company and substantially all of our income may come from dividends we receive from our subsidiaries, primarily the operating subsidiary located in the PRC. As a result, dividends we receive from our PRC operating subsidiary may be subject to withholding tax under the 2008 EIT Law. 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. Although in the case that we are recognized as a qualified PRC resident enterprise and the dividends we receive from our operating subsidiary in the PRC are not subject to any withholding tax, our dividends payable to our non-PRC shareholders and ADS holders would be subject to withholding tax under the 2008 EIT Law.

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If dividends we receive from our PRC operating subsidiary or dividends payable to our non-PRC shareholders and ADS holders are subject to withholding tax under the 2008 EIT Law, or if non-PRC foreign shareholders and ADS holders are required to pay PRC income tax on the transfer of their ordinary shares or ADSs, the value of your investment may be materially reduced.

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.

In May 2008, a major earthquake registering 8.0 on the Richter scale struck Sichuan Province and certain other parts of China, devastating much of the affected areas and causing tens of thousands of deaths and widespread injuries. In 2010, another major earthquake registering 7.1 on the Richter scale struck Qinghai Province. In addition, in early 2008, parts of Mainland China, in particular its southern, central and eastern regions, 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, over the past six years, and more recently in 2009, the outbreak of influenza (H1N1). 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 economic 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.

On June 29, 2007, the PRC National People s Congress enacted the *Labor Contract Law*, which became effective on January 1, 2008. On September 18, 2008, the State Council of the PRC issued the *Implementation Rules of the Labor Contract Law*, which became effective on the same day. The Labor Contract Law 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 procedure 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 auditor, like other independent registered public accounting firms operating in the PRC, is not inspected by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports on Form 20-F filed with the U.S. Securities and Exchange Commission, or the SEC, as external auditors of companies that are traded publicly in the United States and as a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. As our independent registered public accounting firm is located in the PRC, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in the PRC, is not currently inspected by the PCAOB.

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Inspections of other independent registered public accounting firms that the PCAOB has conducted outside the PRC have identified deficiencies in the audit procedures and quality control procedures of those firms, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections in the PRC prevents the PCAOB from regularly evaluating our auditor s audits and its quality control procedures. And the inability of the PCAOB to conduct inspections of independent registered public accounting firms in the PRC makes it more difficult to evaluate the effectiveness of our external auditor s audit procedures or quality control procedures as compared to external auditors outside the PRC that are subject to PCAOB inspections. As a result, investors may be deprived of the benefits of the PCAOB inspections.

Risks Relating to the ADSs

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 on the NYSE have ranged from US$3.17 to US$51.08 per ADS and the last reported sale price on April 16, 2012 was US$3.38. 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 or acquisitions 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.

The sale or availability for sale of substantial amounts of our ADSs could adversely affect their trading price and could materially impair our future ability to raise capital through offerings of our ADSs.

Sales of substantial amounts of our ADSs in the public market, or the perception that theses sales could occur, could adversely affect the market price of our ADSs and could materially impair our future ability to raise capital through offerings of our ADSs.

As of March 31, 2012, we had 58,995,688 ordinary shares outstanding (excluding 527,404 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), including 28,769,682 ordinary shares represented by 28,769,682 ADSs (excluding the 527,404 ADSs that were held for our account in preparation for exercise of share options by option holders under our employee stock incentive plans). All ADSs are freely transferable without restriction or additional registration under the Securities Act. The remaining ordinary shares outstanding have been available for sale, subject to volume and other restrictions that may be applicable under Rule 144 and Rule 701 under the Securities Act. In addition, we have filed a registration statement on Form S-8 to register the ordinary shares to be issued to the share option holders under our employee stock incentive plans. The ordinary shares to be received by such share option holders who are not affiliated with us may be resold freely to the public market. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

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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, 2012, options to purchase an aggregate of 4,348,328 ordinary shares had been granted and were outstanding under the 2005 Stock Incentive Plan, the 2008 Stock Incentive Plan and the 2010 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, 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 of 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.

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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.

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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 CA systems to the PRC s digital television market. We conduct substantially all of our business through our operating subsidiary in the PRC, Super TV, and through N-S Digital TV, a PRC company that we control through contractual arrangements. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions.

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.

N-T Information Engineering was established as a limited liability company under the PRC law by Tsinghua Enterprise Group, a company affiliated with Tsinghua University, and Hong Kong-based Tsinghua Novel Hi-Tech Investment Holding Ltd. in July 1998, and initially focused on developing, producing and selling digital data broadcasting equipment for cable television operators. In December 2002, N-T Information Engineering completed its acquisition of the CA systems-related assets of Tsinghua Tongfang Co., Ltd., or Tsinghua Tongfang. In March 2004, 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, in connection with an investment by SAIF, by establishing Super TV, a limited liability company under the PRC law and a wholly owned subsidiary of CDTV BVI, on May 31, 2004. On the same day, N-T Information Engineering and Li Yang, a PRC citizen then employed by SAIF, established N-S Digital TV. In June 2004, N-S Digital TV acquired from N-T Information Engineering its smart card and CA systems business and, in August 2006, N-S Digital TV acquired from N-T Information Engineering its set-top box design business. In April 2007, a new holding company, China Digital TV Holding Co., Ltd., or 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 August 2007, with our consent, Ms. Yang transferred her entire equity interest in N-S Digital TV to Wei Gao, a PRC citizen employed by an affiliated company of SAIF.

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, a company incorporated in Hong Kong, for a nominal consideration, and transferred its 100% equity interest in 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.

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Since December 2007, new entities have been established in the PRC to offer new solutions and products, including N-S Media Investment, Cyber Cloud, Joysee and Super Movie.

In June 2008, Ms. Gao transferred all of her equity interests in N-S Digital TV to Junming Wu, who is a PRC citizen and is currently our employee. In November 2008, N-T Information Engineering transferred all of its equity interest in N-S Digital TV, our variable interest entity, to Lei Zhang and Shizhou Shen, both of whom are PRC citizens and are currently our employees. In July 2011, Junming Wu transferred all of his equity interests in N-S Digital TV to Tianxing Wang, who is a PRC citizen and is currently our employee. In addition, in July 2011, Tianxing Wang, Lei Zhang and Wenjun Wang, who are PRC citizens and are currently our employees, each contributed cash to increase the registered capital of N-S Digital TV to RMB150 million using the loan proceeds from Super TV. As a result of these transactions, Tianxing Wang, Lei Zhang, Shizhou Shen and Wenjun Wang in aggregate own all of the equity interest of N-S Digital TV.

N-S Digital Technology Co., Ltd., or N-S Digital Technology, and N-S Investment Holdings Co., Ltd., or N-S Investment Holdings, were incorporated in the PRC as wholly-owned subsidiaries of our company in April and July 2010, respectively. In March 2011, N-S Digital Technology was dissolved.

Our Investments and Acquisitions

In August 2006, N-S Digital TV entered into an asset transfer agreement to purchase from N-T Information Engineering its set-top box design business for an initial purchase price of RMB29.4 million (US$3.8 million), subject to certain post-closing downward adjustments. As an adjustment to the initial purchase price, N-T Information Engineering refunded RMB12.1 million (US$1.5 million) to N-S Digital TV in April 2007. For details of the adjustment mechanism of the initial purchase price, see Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Super TV and N-S Digital TV Arrangements Transfer of Assets and Equity Interests and Intellectual Property Rights Asset Transfer Agreement, dated August 5, 2006, between N-T Information Engineering and N-S Digital TV, as amended on April 6, 2007.

In August 2006, N-S Digital TV entered into an equity transfer agreement to purchase from N-T Information Engineering its 51% equity interest in Foshan Nanhai Guokai Digital TV Technology Co., Ltd., or Guokai, for a cash consideration of RMB2.4 million (US$0.3 million). The parties entered into a new agreement in March 2007 to reduce the consideration to RMB2.3 million (US$0.3 million). Guokai is a company primarily engaged in the research, development and sale of digital TV-related systems, software and products. A Japanese multinational company holds the remaining 49% equity interest in Guokai. This transaction was completed on July 27, 2007.

In March 2007, N-S Digital TV and Jiangsu Qingda Technology Co. Ltd., or Jiangsu Qingda, one of our customers, entered into an agreement to set up a joint venture in Nanjing of Jiangsu Province mainly engaging in digital television technology development and services, Nanjing Qingda Yongxin Culture & Media Co. Ltd., or Qingda Yongxin. N-S Digital TV contributed cash of RMB0.8 million (US$0.1 million), representing 40% of equity interest in the joint venture. Jiangsu Qingda contributed cash of RMB1.2 million (US$0.2 million) representing 60% of equity interest in the joint venture. In three years after the establishment of Qingda Yongxin, N-S Digital TV has the option to purchase up to an additional 30% of the equity interest of Qingda Yongxin. The purchase price of the additional interest will be determined based on the valuation of the joint venture on the date of purchase, which will be the higher of ten times its net profits in the year prior to the purchase, and the net asset value of Qingda Yongxin on the last fiscal year end date prior to the purchase. N-S Digital TV did not exercise this option, which expired in 2010.

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In June 2008, N-S Digital TV and Xitao Lai, a PRC citizen, established Dongguan SuperTV Video Info Co., Ltd., or Dongguan SuperTV, a joint venture in Dongguan, Guangdong Province, mainly to provide value-added services to television viewers. N-S Digital TV and Mr. Lai each contributed cash of RMB 5.0 million (US$0.7 million), representing 50% of equity interest in the joint venture. In September 2008, N-S Digital TV exercised an option to purchase an additional 10% equity interest in the joint venture from Mr. Lai. In July 2009, N-S Digital TV sold its 20% equity interest in Dongguan SuperTV to a new investor, Guangdong Jiacai Digital Technology Co., Ltd., or Guangdong Jiacai. In August 2010, N-S Digital TV entered into an equity transfer agreement with Guangdong Jiacai to purchase an additional 20% equity interest in Dongguan SuperTV from Guangdong Jiacai. After those transactions, the equity interest of Dongguan SuperTV held by N-S Digital TV increased to 60% and N-S Digital TV became entitled to 70% of shareholders voting rights and appointing three out of the five members of the board of directors of Dongguan SuperTV. In November 2011, Dongguan SuperTV transferred all of its high-definition interactive television services-related assets to the Dongguan branch of the Guangdong Broadcasting TV Network Co., Ltd. In December 2011, N-S Digital TV transferred its 60% equity interest in Dongguan SuperTV to a third party for total consideration of RMB6.6 million (US$1.0 million).

In August 2008, we acquired from N-T Information Engineering all of its intellectual property rights relating to digital watermarking and image tracing technologies, including one issued patent and five pending patent applications in the PRC. The purchase price was RMB21.2 million (US$3.1 million), which was fully paid by Super TV in September 2008. A portion of this purchase price in the amount of RMB8.8 million (US$1.3 million) was attributable to the acquisition of the intellectual property rights relating to the digital watermarking and image tracing technologies and the remainder was reallocated to the acquisition of N-T Information Engineering s equity interest in N-S Digital TV by two of our employees. For details of these acquisitions, see Item 4. Information on the Company B. Business Overview Intellectual Property and Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Super TV and N-S Digital TV Arrangements.

On January 4, 2010, we entered into a share purchase agreement with OpenV China Holdings Company, or OpenV, a PRC online video company, and several other parties to make a strategic investment in OpenV. Pursuant to the share purchase agreement and related transaction documents, we acquired an 11.5% equity interest (subject to adjustment based on, among others, OpenV s performance) in OpenV for a consideration of US$5.0 million and received a warrant to purchase ordinary shares of OpenV of up to US$4.5 million. As part of this investment transaction, we also agreed to extend to OpenV a US$2.5 million interest-free convertible loan, which could be converted into ordinary shares of OpenV, subject to certain closing conditions. The Company did not purchase additional ordinary shares of OpenV pursuant to the warrant, which has expired, and the interest-free convertible loan was not extended to OpenV due to OpenV s performance in 2010. In 2010, we wrote off our entire investment in OpenV because we had doubts on OpenV s ability to continue as a going concern. As of December 31, 2011, we understood that OpenV s normal online video services had not been restored.

In February 2010, N-S Digital TV acquired from Beijing Shi Xun Hu Lian Technology Co., Ltd., or Beijing Shi Xun, and another shareholder of Guangdong Digital Media Technology Research & Development Institute Co., Ltd., or Guangdong R&D, their entire equity interest in Guangdong R&D for RMB3.0 million (US$0.4 million) and became the sole shareholder of Guangdong R&D.

In May 2010, we entered into a share subscription agreement with 3DiJoy Corp., or 3DiJoy, a company specializing in the research and development of interactive and motion-sensing gaming products, and several other parties to make a strategic investment in 3DiJoy. Pursuant to the share subscription agreement, we acquired an aggregate of 4,953,798 series C convertible preferred shares of 3DiJoy, representing a 24% equity interest, for an aggregate subscription price of US$6.0 million.

In May 2010, Super TV acquired an aggregate 34.45% equity interest in Guangzhou Rujia Network Technology Co., Ltd., or Guangzhou Rujia, through both purchase of existing shares from a shareholder of Ruijia and contribution to its capital increase, for total consideration of RMB16.5 million (US$2.5 million).

In August 2010, N-S Digital TV entered into an equity transfer agreement with Guangzhou Rujia to transfer all of its equity interest in Guangdong SuperTV for a consideration of RMB30.3 million (US$4.6 million).

In December 2010, Super TV and Beijing Yuewu Yuntian Software Technology Ltd., or Yuewu Yuntian, agreed to establish Beijing Cyber Cloud Co., Ltd., or Cyber Cloud, in Beijing mainly engaging in research and development of cloud computing technology based digital video delivery solutions. Super TV and Yuewu Yuntian contributed cash of RMB45.0 million (US$6.8 million) and RMB5.0 million (US$0.8 million), representing 90% and 10% of the equity interest in Cyber Cloud, respectively. Cyber Cloud was formally established on January 19, 2011.

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In April 2011, Super TV and Beijing Ying Zhi Cheng Technology Co., Ltd., or Ying Zhi Cheng Techonology, agreed to establish Joysee in Beijing, which mainly engages in the research and development of advanced digital television terminals. Super TV and Ying Zhi Cheng Technology contributed cash of RMB27.0 million (US$4.2 million) and RMB3.0 million (US$0.5 million), representing 90% and 10% of the equity interest in Joysee, respectively. Pursuant to an agreement, dated May 24, 2011, among Super TV, N-S Digital TV and Ying Zhi Cheng Techonology, N-S Digital TV contributed RMB6.0 million (US$0.9 million) in cash, representing a 16.7% equity interest in Joysee. Pursuant to an agreement, dated June 13, 2011, among Super TV, N-S Digital TV, Ying Zhi Cheng Techonology and Intel Semiconductor (Dalian) Ltd., or Intel, a wholly-owned subsidiary of Intel Corporation in the PRC, Intel contributed RMB33.0 million (US$5.1 million) in cash, representing a 37.5% equity interest in Joysee. Pursuant to an equity transfer agreement, dated June 13, 2011, between N-S Digital TV and Intel, Intel transferred 7.5% of its equity investment in Joysee to N-S Digital TV for a nominal consideration. As a result of these transactions, Super TV, N-S Digital TV, Ying Zhi Cheng Technology and Intel each holds a 46.9%, 17.9%, 5.2% and 30% equity interest in Joysee, respectively.

In June 2011, Super TV and Beijing AirMedia Advertising Co., Ltd., or AirMedia, entered into a framework cooperation agreement for the establishment of two joint ventures, Beijing Shibo Movie Technology Co., Ltd., or Shibo Movie, and Beijing Xinghe Union Media Co., Ltd., or Xinghe Union, in the PRC, each of which mainly engages in movie-related content sourcing and distribution services. In December 2011, Super TV, N-S Digital TV and AirMedia entered into a supplemental agreement, pursuant to which Super TV transferred its rights and obligations under the framework cooperation agreement to N-S Digital TV. N-S Digital TV and Air Media each contributed in cash RMB5.0 million (US$0.8 million), representing 50% of the equity interest in Shibo Movie, and cash of RMB5.0 million (US$0.8 million), representing 50% of the equity interest in Xinghe Union. Shibo Movie and Xinghe Union were formally established on February 15, 2012 and March 13, 2012, respectively.

In August 2011, Super TV and Beijing Chaoying Weichuang Technology Ltd. agreed to establish Super Movie, which mainly engages in video program delivery services. Super TV and Beijing Chaoying Weichuang Technology Ltd. contributed cash in the amount of RMB13.5 million (US$2.1 million) and RMB1.5 million (US$0.2 million), respectively, representing 90% and 10% of the equity interest in Super Movie, respectively. Super Movie was formally established on September 23, 2011.

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. We have not undertaken any significant divestitures.

B. Business Overview

Overview

We are the leading provider of CA systems to the PRC s digital television market. Our CA systems, which consist of smart cards, head-end software for television network operators and terminal-end software for set-top box manufacturers, enable digital television network operators in the PRC to control the distribution of content and value-added services to their subscribers and block unauthorized access to their networks. As of December 31, 2011, we had installed CA systems at 345 digital television network operators in 28 of the 32 provinces, autonomous regions and centrally administered municipalities in the PRC. We were the leading vendor of smart cards for CA systems in terms of smart cards shipped in the PRC in 2011, with a market share of approximately 56.8%, according to Researchdtv. We have also been installing CA systems outside the PRC since 2010. We derive a substantial majority of our revenues from sales of our smart cards, which accounted for 93.6% and 91.5% of our total revenues in 2010 and 2011, respectively. We expect that the sales of our smart cards will continue to constitute the majority of our revenues in the near future. In addition, we license our set-top box design to set-top box manufacturers and sell advanced digital television application software such as electronic program guides and subscriber management systems to digital television network operators. We are also developing and commercializing certain new solutions and products, including value-added digital television services, cloud computing technology based digital video delivery solutions and advanced digital television terminals.

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PRC television network operators are in the process of migrating from analog to digital transmissions, and the PRC government has set a target of 2015 for cable television operators to complete their digital transition. We are a primary beneficiary of this transition because CA systems are an essential component of any pay-television platform. We sell our CA systems and digital television application software to PRC television network operators, including cable, mobile, satellite and terrestrial television network operators, enterprises that maintain private cable television networks within their facilities and media operators.

Our top five customers in terms of revenues in 2011 were Jiangsu Qingda, Heilongjiang Broadcasting TV Network Co., Ltd., Jiangxi Broadcasting TV Network Transmission Co., Ltd., China Cable Network Co., Ltd. and Hubei Digital TV Co., Ltd., which in aggregate contributed 25.9% of our total revenue in 2011.

We were founded in 2004 by Dr. Zengxiang Lu and Jianhua Zhu, who had worked together since 2001 at N-T Information Engineering, one of the PRC s earliest CA systems vendors. We purchased N-T Information Engineering s CA systems business in 2004 and continued to build upon the strong reputation that business had achieved. Our net revenues were US$54.7 million, US$87.1 million and US$99.1 million in 2009, 2010 and 2011, respectively. We sold 8.8 million, 16.2 million and 18.3 million smart cards in 2009, 2010 and 2011, respectively. Our net income was US$25.3 million, US$33.4 million and US$40.3 million in 2009, 2010 and 2011, respectively.

Our Products and Services

Our core products and services include the following:

- end-to-end CA systems, including smart cards, head-end software and terminal-end software;
- other digital television application software for television network operators; and
- set-top box products.

CA Systems

Our CA systems consist of: software that is installed at the premises of the television network operator, or the head end; software that is installed in a set-top box at the subscriber s end, or the terminal end; and smart cards that are inserted into the set-top boxes. At both the head end and the terminal end, our CA systems are designed to interface easily with the software and hardware of as many other vendors as possible. This gives our customers maximum flexibility in selecting the components of their digital transmission systems, and allows us to cooperate with the other vendors in promoting each other s products to the network operators.

Our CA systems give cable television network operators the flexibility to charge subscribers on a per-channel or per-view basis, and to restrict viewers from making copies of the programs they watch. Our CA systems also support or offer the following functions:

- ***Video on demand.*** Video on demand is a system that allows subscribers to select and watch video on demand and provides subscribers with a large subset of personal-video-reorder functions, such as pause, fast forward, slow forward and jump to previous/future frame. Television network operators need to have two-way transmission capacity in order to apply such systems, which either stream content through a set-top box for viewing in real time, or download the content to subscribers local storage devices for viewing at any time.

- ***Near video-on-demand.*** Television network operators who do not yet have two-way transmission capacity, which is necessary for full-blown video on demand, can broadcast the same program repeatedly at short intervals, typically of 10 to 20 minutes, giving subscribers many choices of time to start watching the program.

***Push video-on-demand*.** Television network operators who do not yet have two-way transmission capacity can record programs onto subscribers local storage devices based on subscribers instructions, giving subscribers the flexibility to watch the programs at time of their own choice.

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Personal video recorder. A personal video recorder, or digital video recorder, is a device that records video in a digital format to a disk drive or other memory medium within the device. Access to the contents, such as television programs, recorded in the personal video recorder is controlled by the CA system module and the smart card installed in the personal video recorder.

Parental control. Parents can use the set-top box to set viewing controls by creating a password that must be entered to watch television or to watch certain programs, and can block access to the system at certain hours.

Location control. Television network operators can authorize each smart card and set-top box to function only on the premises of the subscriber in whose name the smart card and set-top box are registered, preventing subscribers from providing their smart cards and set-top boxes to others.

E-wallets. Information about pre-payment by subscribers for programs or services can be recorded on their smart cards. As subscribers order programs or services, the fees are deducted from the amounts recorded on their smart cards.

Messaging. Network operators can communicate with their subscribers by transmitting electronic messages about bill status, rate changes and new programs and services to their subscribers televisions. Network operators also can allow other vendors, such as water or electricity companies, to send billing or other service messages via this messaging platform.

Upgrades. CA systems upgrades can be accomplished by transmitting software over the transmission network to the terminal end. We guarantee the security of the encryption technologies of our CA systems during the periods generally ranging from one to three years after sale. In the event of a security problem, we undertake to attempt to resolve the problem by taking steps such as resetting the encryption code or adding additional layers of encryption. If these or other system modifications do not resolve the problem, we undertake to replace our smart cards. Upon expiration of the applicable period, the customer bears some portion or all of the cost. To date, we have not encountered any material problems with the security of our CA systems.

Smart Cards. Our smart cards are manufactured by third-party manufacturers based on our blueprints, and then are encoded by us on our premises with security codes unique to each customer. We forward the chips to smart card manufacturers in the PRC, which embed the chips in plastic cards. When we receive the cards from the card manufacturers, we program each one with a unique security code so that it can communicate with the CA systems of its intended network. We currently have enough equipment and trained staff to encode 100,000 smart cards on our premises during an eight-hour shift. An additional layer of security code is added at the customer s premises using software that we install as part of our CA systems.

Our customers generally wait until after they have purchased, installed and tested our head-end CA systems software before placing purchase orders for smart cards. We may offer discounts for large smart card orders. We sold 8.8 million, 16.2 million and 18.3 million smart cards in 2009, 2010 and 2011, respectively.

Our smart cards are manufactured to meet the ISO-7816 standard for card readability. We guarantee the quality of our smart cards for periods generally ranging from one to three years and if any of our cards are found to have defects during the applicable warranty period, we replace them for free. To date, we have not experienced a material rate of smart card failure.

Head-End Software. Our head-end software includes: an entitlement management message generator, which notifies the smart card whether the subscriber is entitled to view a program or not; an entitlement control message generator, which sends messages that the set-top box uses to unscramble the digital television signal; and encryption software, which encrypts the outgoing messages.

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Our head-end software also includes simulcryption software that allows network operators to install parallel CA systems from multiple vendors and transmit their programs to some subscribers using one CA system s security codes and to other subscribers using another CA system s security codes. Many of the cable television network operators in the PRC who use digital transmission have installed two or more CA systems sourced from different vendors in order to reduce dependency on a single vendor. Moreover, in 2003, the SARFT issued a policy requiring digital cable television network operators who install non-PRC CA systems to also install a domestic CA system. Our simulcryption software and open-interface technology enable us to work with operators to install parallel CA systems, and we have integrated our CA systems with those of NDS Group, Irdeto Access BV, Sumavision Technologies Co., Ltd. and DVN Holdings Ltd., among others.

As of December 31, 2011, our CA systems had been installed at 345 digital television network operators.

We generally install, customize, test and commission our CA systems over a period of months and train our customers staff to operate it. Our prices vary according to the size and complexity of each customer s network, as well as market conditions. Generally, the contract price is payable in installments with the respective installments due on issuance of a preliminary acceptance, issuance of a final acceptance or within a certain period thereafter, or, in the case of a single acceptance, due prior, on and/or after the issuance of the acceptance.

Terminal-End Software. We license our CA systems terminal-end software to whichever set-top box manufacturer has been chosen by our customer to produce set-top boxes compatible with our CA systems. More than 140 set-top box manufacturers in the PRC have installed our technology in their set-top boxes.

Once our customer has selected one or more set-top box manufacturers, the selected manufacturers enter into contracts with us to license our terminal-end software for use in their manufacturing processes so that their set-top boxes can be used on the planned network. The manufacturers agree to pay us a one-time license fee, including fees for testing and certifying their set-top boxes, and royalties for each box they manufacture using our software. In 2006, we began entering into agreements with certain television network operators who purchase our CA systems pursuant to which the operators agree to pay us royalties for each set-top box deployed on their networks that uses our CA systems terminal-end software.

Other Digital Television Application Software for Television Network Operators

Our other digital television application software for television network operators primarily includes subscriber management systems and electronic program guides.

Subscriber Management Systems. We produce subscriber management system, or SMS, software, which can be used by television network operators to reduce the cost and improve the efficiency of their subscriber management. Our SMS software is compatible with the CA systems of other vendors, and we sell it on a stand-alone basis as well as packaged with our CA systems. Our SMS software performs the following functions:

- maintains and updates a database of subscriber information;
- processes subscriber orders for new services;
- maintains billing, payment and authorization records and sends e-mail bills and receipts to subscribers; and
- processes subscriber requests to repair or replace defective or lost set-top boxes or smart cards.

As of December 31, 2011, our SMS software had been installed by 106 television network operators. Our prices vary according to the size and complexity of each customer s network, as well as market conditions.

Electronic Program Guides. An electronic program guide is an on-screen guide to the programs and services available to subscribers. Our electronic program guide is a software application that is installed at the head end of a CA system and can be controlled by a remote control. Viewers can use the guide to obtain program schedules as well as information about specific programs, such as plot descriptions and the names of featured actors.

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As of December 31, 2011, our electronic program guide had been installed by 190 television network operators. Our electronic program guide may be sold together with our CA systems, but it is also compatible with the CA systems of other vendors. When we sell our electronic program guides packaged with our CA systems, we provide the same maintenance terms as for the CA systems. Our prices vary according to the size and complexity of each customer s network, as well as market conditions.

Set-top Box Products

We produce a design, or operating system, for set-top boxes and license it to set-top box manufacturers. Our design enables set-top box manufacturers to incorporate high-end features, such as high-definition capabilities, into their set-top boxes. We also provide our customers with computer chips for the set-top boxes that have been made to our specifications by third-party fabricators. The set-top box manufacturers generally sign a purchase order specifying the number of set-top boxes that they intend to manufacture using our design, and pay us a license fee and royalties based on such number. Our set-top box design does not include CA system terminal-end software. Manufacturers who use our set-top box design may separately purchase our or other vendors CA system terminal-end software. We are developing additional applications for our set-top box designs to support new value-added services and to allow the set-top boxes to operate as personal video recorders.

Technical Support and Services

We offer system integration services for television network operators who are digitalizing and installing our CA systems. As system integrators, we purchase additional hardware and software from third parties and integrate it with our CA systems software. If our customers install multiple CA systems from more than one vendor, we integrate these systems with our own so that all the hardware and software operate as a seamless whole.

As of December 31, 2011, we had a total of 49 technicians and engineers located in Beijing and two other cities available 24 hours a day to respond to customer requests for information and assistance. Our two regional service centers are strategically located in eastern (Hangzhou) and southern (Nanhai) China. Each service center maintains a 24-hour telephone hotline. Upon receiving a call for assistance, our technical support employees first attempt to identify and resolve the problem over the telephone or by accessing the software remotely, and then arrange a site visit if necessary. In addition, each customer is assigned a project manager who oversees the initial software installation and remains primarily responsible for ensuring that after-sale requests for assistance are handled promptly.

Sales and Marketing

As of December 31, 2011, we had 148 full-time sales personnel. We maintain regular contact with our customer base through contacts at industry forums and sales visits, and use these opportunities to educate them about digital television systems. We actively monitor which operators are moving towards digitalization, and when we learn that a particular operator is planning to launch a digital network, we target that operator for more frequent contact by our sales and technical personnel. We compensate our sales personnel by means of base salaries and performance bonuses.

We also cooperate informally with other providers of digital television software and hardware with whom we do not compete, such as set-top box manufacturers, to promote each other s products to our respective customers, and thereby benefit from each other s marketing efforts.

Jiangsu Qingda, a Nanjing-based company, is our exclusive distributor for CA systems and smart cards in Jiangsu Province in eastern China. Jiangsu Qingda also provides after-sales technical support and maintenance services for our customers in Jiangsu Province. We entered into a 13-year distribution contract with Jiangsu Qingda effective January 1, 2007. We account for revenues contributed by Jiangsu Qingda in the same way as revenues from our customers who are television network operators. Jiangsu Qingda was our largest contributor to revenues in 2009, 2010 and 2011. In addition to Jiangsu Qingda, we also engage fee-based sales agents to assist us in selling and maintaining our CA systems and smart cards in designated regions or to designated customers. Such sales agents also provide certain related services, including gathering market intelligence regarding potential customers and pricing information in the relevant market.

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Customers

Our primary customers are cable television network operators. We sell our products and services to networks of all sizes. Our top five customers in 2011 were Jiangsu Qingda, Heilongjiang Broadcasting TV Network Co., Ltd., Jiangxi Broadcasting TV Network Transmission Co., Ltd., China Cable Network Co., Ltd. and Hubei Digital TV Co., Ltd., which contributed 9.1%, 6.8%, 5.7%, 2.3% and 2.0%, respectively, to our total revenues for the year.

We have also sold our CA systems to:

- satellite and terrestrial television network operators, including the China Central Satellite Television Transmission Center;
- a commercial satellite transmission platform, namely China Dbstar Co., Ltd.;
- large enterprises that maintain private cable television networks within their facilities, including the Beijing Capital International Airport and Daqing Oilfield Company Limited, a wholly-owned subsidiary of PetroChina Company Limited;
- media operators who use CA systems to encrypt their programs for distribution to television operators, including China DTV Media Inc., Ltd. and Huacheng Digital Movie & TV Co., Ltd.; and
- a mobile television operator, namely China Broadcasting (Group) Co., Ltd. (formerly known as China Satellite Mobile Broadcasting Corporation or China Broadcasting Co., Ltd.).

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. As digital cable television systems are at the developing stage in the PRC, the largest shipments of smart cards are to operators who are launching new digital transmission systems and need to purchase in bulk for their established networks. For example, Jiangsu Qingda was our only customer that contributed more than 10% of our total revenues in 2009 and 2010, representing 12.8% and 14.2% of our revenues in the relevant periods, respectively. We may face certain risks from this concentration of revenues. 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 or chooses our competitors products or services, our revenues and net income could decline significantly.

As most cable television network operators in the PRC are state-owned, they are required to follow a public bidding process for major purchases. As a result, the majority of our CA systems sales are made pursuant to a formal bid process. In such cases, the network operator generally submits its CA systems requirements to a state-owned bidding company, which posts a request for bids at its Internet site and specifies the necessary financial and technical qualifications of bidders. We are generally required to accompany our bid with a cash deposit, which generally is from US$300 to US$143,000 and which is refundable in full if we fail to win the sales contract. If we succeed in winning the contract, some network operators require that we leave our deposit in their account until we have installed and tested our software and the network operator has signed a certificate of acceptance. The time from when a request for bids is posted until a winner is selected is usually one to two months.

Our customers also include set-top box manufacturers, to whom we license terminal-end software for our CA systems and set-top box designs. More than 140 set-top box manufacturers in the PRC, including Changhong Electric Co., Huawei Technologies, Panasonic AVC Networks, Skyworth, TCL Technology, Intel Corporation and Hisense, have installed our terminal-end software in their set-top boxes.

Suppliers

Before 2006, we bought most of our computer chips for our smart cards from STM. In order to maintain a secure supply of computer chips, beginning in 2006 we have purchased a significant portion of our computer chips from Infineon, initially indirectly through AdvanIDe Pte. Ltd. (formerly known as ACG Identification Technologies Asia Pte. Ltd.), an agent of Infineon, and since February 2009, directly from Infineon.

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STM and Infineon produce chips that use our card operating system and deliver them to Beijing by air freight. We do not have long-term contracts with any of our computer chip suppliers, but place orders according to our customers demands. We pay based upon the prevailing market price at the time of order.

The time required from placing a new chip order with the fabricators to shipping finished smart cards to our customers may be as long as 15 weeks. To ensure that we are able to meet our customers demands, we plan at all times to have enough chips and smart cards on order or in inventory to meet our demand for an average 15-week period.

We have arrangements with a number of smart-card manufacturers, including China Electronics, the China Sciences Group, Axalto Smart Card Technology Co. and Oberthur Card Systems, to embed the computer chips into plastic cards. We currently maintain a one-year contract with each of China Electronics and the China Sciences Group that guarantees us a volume-based price discount for each purchase order and requires China Electronics or the China Sciences Group, as the case may be, to fulfill our orders in accordance with an agreed schedule. We do not have any long-term contract with Axalto Smart Card Technology Co. or Oberthur Card Systems. Our contracts with China Electronics and the China Sciences Group require them to meet the ISO-7816 standard for card readability. In addition, we believe that there are numerous alternative smart-card manufacturers from whom we would be able to obtain smart cards if any of our current suppliers were unable to meet our needs.

For more information about risks relating to our relationships with our suppliers, see Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry We generally do not have long-term contracts with suppliers of computer chips or the companies that manufacture our smart cards. If any of our computer chip suppliers or smart-card manufacturers is unable to fulfill our orders in time or at all, we may be unable to deliver smart cards to our customers, which could have a material adverse effect on our business, financial condition and results of operations.

Competition

We face competition in the CA systems market from both international and domestic companies. We compete on the basis of:

- customer service and technical support;
- brand name, track record and market recognition;
- encryption management and other technologies, including our smart cards;
- the number of set-top box manufacturers with whom we cooperate; and
- price.

Our main international competitors in the CA systems business are Irdeto Access B.V., Conax Company, Kudelski SA and NDS Group. These companies have longer operating histories and substantially greater financial, technical and other resources than we do, which may enable them to respond more quickly than we could to technological or commercial changes in our industry. In addition, several of these companies entered the PRC market before us, but have to date been less successful in capturing market share. Historically, these companies have generally focused on sales to the television network operators in the PRC s largest cities. To the extent that our international competitors may begin targeting small- and mid-size television network operators, we believe that we can continue to compete successfully because of our local knowledge and relationships and our more extensive customer support and service network.

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Our main domestic competitors are Sumavision Technologies Co., Ltd., DVN Holdings Ltd. and Beijing Compunicate Technologies Inc., all of which are non-state-owned companies operating mainly in the PRC. They may offer their CA systems at a lower price or with a longer credit term than we do. However, we believe that we have more advanced technology than they do, and that our strong technology and leading market position will enable us to continue to compete successfully against these companies.

According to Researchdtv, we were the leader in the PRC CA systems market in 2011. According to Researchdtv, in 2011, we had an approximately 56.8% market share based on the number of smart cards shipped, followed by Sumavision Technologies Co., Ltd. with approximately 15.0% market share, DVN Holdings Ltd. with approximately 11.1% market share and Irdeto Access B.V. with approximately 8.0% market share, Conax Company with approximately 2.7%, Kudelski SA with approximately 1.8%, NDS Group with approximately 1.2% market share, Beijing Compunicate Technologies Inc. with approximately 1.0% market share and others accounting for the remaining 2.4%. For more information about risks relating to our competitors, see Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry We face intense competition, which could reduce our market share and harm our financial performance.

Research and Development

Our success to date has in large part resulted from our strong research and development capabilities. As of December 31, 2011, our research and development team consisted of 334 employees, compared to 308 as of December 31, 2010 and 272 as of December 31, 2009. Our research and development expenses increased from US$8.8 million in 2009 to US$10.4 million in 2010 and US$13.1 million in 2011.

Our business and the market in which we operate are characterized by rapid technological change, evolving industry standards and frequent product enhancements. As digital broadcasting becomes more popular in the PRC, television network operators are likely to seek more sophisticated CA technology that offers them greater reliability, flexibility and functionality in delivering protected content or value-added services to viewers. As methods of distributing information and entertainment evolve, CA technology also needs to evolve to provide content protection for distribution platforms other than television. Our continued success will depend, in part, on our ability to develop and market products and services that respond to technological changes and evolving market demand or industry standards 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 digital television and encryption technologies. Our research team played a leading role in drafting the PRC industry standards for CA systems, electronic program guides and other key industry standards. We are active in the China Digital Rights Management Forum, which aims to develop a PRC standard for digital rights management.

Our research and development personnel are actively seeking ways to improve the security and reliability of our CA systems, as well as to prevent content theft at other stages of the television network operators chain of transmission. Other focuses of our research include: (1) adapting our CA systems for use on new television platforms, such as satellite television, mobile television, IPTV and Internet TV; (2) enhancing our CA systems to support applications such as video-on-demand, near video-on-demand, push video-on-demand and personal video recorders; (3) developing new value-added services that will enhance operator revenues; (4) developing a new line of products and technologies, including high-definition and hybrid set-up box solutions and digital rights management products that allow content providers to control the way their content is distributed and reproduced, such as advanced digital television terminals; (5) applying cloud computing to television applications; and (6) developing our CA systems for use outside of the PRC.

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, 2011, we had a total of 49 patents issued and 59 pending patent applications in the PRC. Our issued patents and pending patent applications relate primarily to digital transmission technologies, encryption and decryption technologies, technologies relating to the production of set-top boxes and smart cards and technologies relating to value-added services. We have also completed copyright registration of 77 software programs for digital television in the PRC.

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In August 2008, we acquired from N-T Information Engineering all intellectual property rights relating to the digital watermarking and image tracing technologies, including one issued patent and five then pending patent applications in the PRC. Four of these pending patent applications relate to the digital watermarking technology, while the remaining pending patent application and the issued patent relate to the image tracing technology. The digital watermarking technology is aimed to enhance cable television operators counterfeit tracking and broadcasting restriction capabilities and can also be used to provide anti-piracy and TV rating services. The image tracing technology is used for remote control of personal computers, set-top boxes and televisions as well as gaming consoles.

When we license our intellectual property to third parties, we generally receive a combination of license fees and royalties. We mainly license our terminal-end software and our set-top box design to the set-top box manufacturers.

We have a non-exclusive license to use the English and Chinese names for NOVEL-TONGFANG and a graphic logo, free of charge, pursuant to an agreement with N-T Information Engineering. N-T Information Engineering has registered these names and the logo as trademarks. Our term of use is from June 1, 2004 until such trademark registrations expire at various dates in 2013. In November 2007, we ceased using NOVEL-TONGFANG in N-S Digital TV s name by changing the name from Beijing Novel-Tongfang Digital TV Technology Co., Ltd. to Beijing Novel-Super Digital TV Technology Co., Ltd. In January 2008, we ceased using the English and Chinese names for NOVEL-TONGFANG as trademarks for our products and we intend not to use such trademarks in the future. We started to use the English and Chinese names for NOVEL SUPERTV in combination with the graphic logo we licensed from N-T Information Engineering as the trademarks for our products. In December 2008, we acquired for free the licensed graphic logo from N-T Information Engineering. In 2010, we completed the registration of the trademarks of the English and Chinese names for NOVEL SUPERTV , as well as the trademark for a combination of Chinese and English names for NOVEL SUPERTV and the graphic logo.

As of December 31, 2011, we owned 45 trademarks 32 of them are registered trademarks and 13 of them are in the process of being registered. We have 30 registered domain names, six of which were registered with the Ministry of Industry and Information Technology, or MIIT, including novel-supertv.com and chinadtv.cn.

Insurance

We do not maintain any business insurance or key-man insurance. Insurance companies in the PRC offer limited business insurance products and do not, to our knowledge, offer 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 automobiles.

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Employees

We had 504, 550 and 627 full-time employees as of December 31, 2009, 2010 and 2011, respectively. We have no part-time employees. Substantially all of our employees are located in the PRC. The table below shows the number of employees categorized by business area and as a percentage of our workforce as of December 31, 2009, 2010 and 2011:

	As of December 31, 2009		As of December 31, 2010		As of December 31, 2011	
	Number	%	Number	%	Number	%
Research and development	272	54.0%	308	56.0%	334	53.3%
Technical service	55	10.9	44	8.0	49	7.8
Sales and marketing	88	17.5	96	17.5	148	23.6
General and administration	60	11.9	71	12.9	68	10.8
Smart card production	29	5.7	31	5.6	28	4.5
Total	504	100.0%	550	100.0%	627	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 in 2009, 2010 and 2011 were approximately US$2.1 million, US$2.8 million and US$3.4 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.

Regulation

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 encryption industry, the cable television industry and the software industry. These laws, rules and regulations require us to obtain certain licenses and certificates for our encryption 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.

Regulation of Encryption Industry

Encryption software is an essential component of our CA systems. The development, production and sale of commercial encryption products in the PRC is regulated by the PRC National Encryption Administrative Bureau, or the Encryption Bureau, and its authorized local branches. The principal regulations governing the encryption business in the PRC are the *Administrative Regulation for Commercial Cryptogram* promulgated by the State Council in 1999 and a series of rules issued by the Encryption Bureau thereunder.

A company generally is only allowed to produce and/or sell encryption products that have adopted the algorithms designated by the Encryption Bureau and such products shall also be certified by Encryption Bureau. The Encryption Bureau did not initially designate algorithms for CA systems until April 2007, and a final and official designation still remains pending. As a result, like many other vendors of CA systems in the PRC, N-S Digital TV has been making and selling CA systems using algorithms other than those initially designated by the Encryption Bureau. Based on its consultation with the Encryption Bureau, King & Wood Mallesons, our PRC counsel, advised us that it has no reason to believe, given that N-S Digital TV commenced its CA systems business when the initially designated algorithms were not yet available, that the Encryption Bureau would impose any sanctions against N-S Digital TV for not using initially designated algorithms in the past. King & Wood

Mallesons further advised us that since the Encryption Bureau did not initially designate any algorithms for CA systems until April 2007 with a final and official designation pending and the CA systems using algorithms other than those initially designated by the Encryption Bureau have been widely used and accepted in the market, the Encryption Bureau has allowed vendors of CA systems a transition period, of a duration yet to be determined at the sole discretion of the Encryption Bureau, during which such vendors, including N-S Digital TV, may continue to produce and sell CA systems without using government-designated algorithms. The Encryption Bureau may require vendors of CA systems to adopt the algorithms to be finally and officially designated by the authority at the expiration of such transition period.

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In addition, a company engaging in the encryption-related business is subject to certain licensing requirements. For example, a company engaging in the production of commercial encryption products must obtain a production license from the Encryption Bureau, and a company engaging in the sale and distribution of commercial encryption products must obtain a sales license. In addition, a company engaging in research and development of commercial encryption systems, protocols, algorithms or technical standards shall obtain a license for research and development from the Encryption Bureau. To obtain such licenses, a company must meet requirements established by the Encryption Bureau, among others, with respect to its technological capabilities, its equipment, its production and quality control processes, the level of security of its algorithms and the qualifications of its employees. In addition, both importing and exporting products or equipment containing encryption technologies are subject to the prior approval of the Encryption Bureau.

In the opinion of King & Wood Mallesons, our PRC counsel, the business of N-S Digital TV does not require a license for research and development. N-S Digital TV has engaged in the production and sale of encryption products since its establishment in May 2004, but it did not obtain the license for the production of encryption products until June 2006, which was renewed in May 2009, and the license for the sale of encryption products until September 2008, which was renewed in September 2011. For risk relating to the potential legal penalties against N-S Digital TV for its operation prior to its obtaining the production and sales licenses, see Item 3. Key Information D. Risk Factors Risk Relating to Our Business and Industry N-S Digital TV may be deemed not to be in full compliance with certain legal regulatory requirements relating to the production and sale of encryption products, and the relevant PRC government authorities could require N-S Digital TV to cease such activities and impose administrative penalties including fines, which could have a material adverse effect on our business, financial conditions and results of operations.

Furthermore, the Provisions on the Administration of the Use of Commercial Encryption Products, which became effective in May 2007, allow users to use only encryption products that are certified by the encryption authority and purchased from vendors who hold an encryption product sales license. Our CA systems that we currently produce and sell have not been certified by the Encryption Bureau because we have not adopted the government-designated algorithms for those CA systems. King & Wood Mallesons, our PRC counsel, has advised us that because the Encryption Bureau has allowed a transition period, of a duration yet to be determined at the sole discretion of the Encryption Bureau, for us to adopt the algorithms to be finally and officially designated by the authority, it is unlikely that the Encryption Bureau will enforce the above-mentioned regulatory requirements with respect to the use or purchase of our CA systems during that transition period. See also Item 3. Key Information D. Risk Factors Risks Relating to Our Business and Industry Enforcement of recent PRC regulatory requirements regarding the use of encryption products may prevent prospective customers from purchasing our CA systems and our business revenues and net income could be materially reduced as a result.

Although foreign-invested enterprises incorporated in the PRC, such as our subsidiary, Super TV, are not expressly prohibited from conducting encryption-related business, they may have difficulties obtaining the licenses or permits required for conducting such business from the Encryption Bureau due to the Encryption Bureau s generally restrictive approach towards foreign participation in the PRC encryption industry. N-S Digital TV, which is wholly owned by PRC citizens and through which we conduct our CA system business, has obtained the license for the production and sales of commercial encryption products required for our business. Our contractual arrangements with N-S Digital TV and its shareholders provide us with the economic benefits of, and substantive control over, N-S Digital TV. If the Encryption Bureau determines that our control over, or relationship with, N-S Digital TV through those contractual arrangements is contrary to its generally restrictive approach towards foreign participation in the PRC encryption industry, it may reconsider N-S Digital TV s eligibility to hold the license to produce and sell commercial encryption products. The Encryption Bureau may revoke, or refuse to renew, N-S Digital TV s licenses to produce and sell commercial encryption products, or refuse to grant any other encryption-related license that may be required for our business in the future. See Item 3. Key Information D. Risk Factors Risks Relating to Our Corporate Structure The agreements that establish the structure for operating our business may result in the relevant PRC government regulators revoking or refusing to renew N-S Digital TV s licenses for the production and sale of commercial encryption products, or refusing to issue any other license required to engage in an encryption-related business.

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Regulation of the Cable Television Industry

The PRC cable television industry, in which most of our customers operate, is subject to extensive government regulation and control. All PRC cable television network operators are directly or indirectly owned or controlled by provincial or local governments, and their business decisions and strategies are significantly affected by government budgets and spending plans. In April 2005, the PRC State Council issued a notice to allow domestic private investors to invest in PRC companies engaged in the operation and infrastructure development of cable networks, subject to a 49% ownership cap. Foreign ownership of cable television networks and stations, however, is still prohibited.

Cable television network operators are subject to the laws, rules and regulations promulgated from time to time by the State Council, the SARFT and other ministries and government departments. These regulations include the *Administrative Regulations for Television Broadcasting* promulgated by the State Council in 1997, the *Interim Measures regarding the Management of Cable TV* promulgated by a predecessor government agency of the SARFT in 1990 and amended in January 2011, and the Measures Concerning Network Access Certification of Broadcasting and Television Equipment, which became effective on August 1, 2004. Under these laws, rules and regulations:

- the establishment of a television station or cable television network requires the approval from the SARFT or its relevant local branch;
- the establishment of a digital pay-television channel requires the approval of the SARFT;
- basic cable television subscription rates are set by local governments and may not be increased without a public hearing;
- cable television networks must be designed, constructed and installed by institutions or companies that meet the qualifications set by the SARFT;
- each province and municipality, respectively, can have only one provincial or municipal cable television network; and
- various restrictions on television programming must be complied with, including a requirement that television operators shall procure programs only from licensed production companies.

According to the relevant regulations of the SARFT, cable television network operators may not use any network equipment or system unless the SARFT has issued a network access certificate with respect to such equipment or system. In determining whether to issue such a certificate, the SARFT reviews the quality assurance system of the relevant manufacturer or vendor and the results of tests of the equipment or systems. A network access certificate has a term of three years and is subject to annual review by the SARFT or its local branches. N-S Digital TV has obtained network access certificates for our CA systems and SMS products.

According to a policy introduced by the SARFT in 2003 and the Policies to Encourage the Development of Digital TV Industry jointly promulgated by SARFT and other government authorities in January 2008, any cable network operator that uses a non-PRC CA system should use such non-PRC CA system together with a PRC CA system when transmitting broadcasting signals. To satisfy this requirement, a cable network operator that uses a non-PRC CA system must install a parallel PRC CA system. Under these policies, vendors of non-PRC CA systems may sell only to cable network operators that have already installed a PRC CA system or who are willing to purchase a parallel PRC CA system. This may result in a competitive disadvantage for vendors of non-PRC CA systems relative to vendors of PRC CA systems. Such policies do not expressly indicate whether the CA systems produced by a foreign-invested company incorporated in the PRC, such as our subsidiary, Super TV, fall into the category of non-PRC CA systems. In light of this ambiguity, we have established N-S Digital TV, which is wholly owned by PRC citizens, to produce and sell our CA systems. We do not have any equity interest in N-S Digital TV and instead enjoy the economic benefits of, and have substantive control over, N-S Digital TV through contractual arrangements with N-S Digital TV and its shareholders as described in Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions. There are substantial uncertainties regarding the interpretation and application of the above- described PRC government policies and relevant PRC laws, rules and regulations. Accordingly, the PRC government may determine that N-S Digital TV is a vendor of non-PRC CA systems by virtue of our contractual arrangements with N-S Digital TV and its shareholders. See Item 3. Key Information D. Risk Factors Risks Relating to Our Corporate Structure If the PRC

government determines that N-S Digital TV is a vendor of non-PRC CA systems by virtue of the agreements that establish the structure for operating our business, we could face difficulty selling our CA systems in the PRC.

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Software Products Registration

On March 1, 2009, the former Ministry of Information Industry (now the Ministry of Industry and Information Technology) issued the *Measures Concerning Software Products Administration*, or Software Measures, which became effective on April 10, 2009, to regulate software products and promote the development of the software industry in the PRC.

In order to manufacture software products, a software producer must possess the copyright of such software or have obtained a license from legitimate copyright owner or licensor in connection with such software. Software producers must censor the content of their software products. Software developers or producers are allowed to sell or license their registered software products independently or through agents. Software products developed in the PRC may be registered with the local provincial government authorities in charge of the information industry and filed with the MIIT. If no objection is raised within seven business days from the date of the public announcement made by the MIIT after its receipt of the filing, the software products shall be granted registration certificates. Each registration certificate is valid for five years and may be renewed upon expiration. Registered software products may be qualified for certain tax and other preferential treatments under the industrial policies. The MIIT and other relevant departments may carry out supervision and inspection over the development, production, operation and importing and exporting of software products in the PRC. As of December 31, 2011, we had 40 registered software products.

Tax

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:

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*, foreign-invested enterprises 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 foreign-invested enterprises outside of the PRC are also subject to limitations, which include approvals by the MOFCOM, the SAFE and the National Development and Reform Commission.

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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 by PRC individuals are to be transacted upon the approval from 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

Wholly Foreign-Owned Enterprise Law Implementation Rules (1990), as amended in 2001.

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.

Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions

In October 2005, the SAFE issued SAFE Notice 75, which became effective as of November 1, 2005, and was further supplemented by an implementation notice issued by the SAFE on November 24, 2005. SAFE Notice 75 suspends the implementation of two prior regulations promulgated in January and April of 2005 by the SAFE. SAFE Notice 75 states that PRC residents, whether natural or legal persons, must register with the relevant local SAFE branch prior to establishing or taking control of an offshore entity established for the purpose of overseas equity financing involving onshore assets or equity interests held by them. The term PRC legal person residents as used in SAFE Notice 75 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 SAFE Notice 75 includes all PRC citizens and all other natural persons, including foreigners, who habitually reside in the PRC for economic benefit. The SAFE implementation notice of November 24, 2005 further clarifies that the term PRC natural person residents as used under SAFE Notice 75 refers to those PRC natural person residents defined under the relevant PRC tax laws and those natural persons who hold any interests in domestic entities that are classified as domestic-funding interests.

PRC residents are required to complete amended registrations with the local SAFE branch upon: (1) injection of equity interests or assets of an onshore enterprise to the offshore entity; or (2) subsequent overseas equity financing by such offshore entity. PRC residents are also required to complete amended registrations or filing with the local SAFE branch within 30 days of any material change in the shareholding or capital of the offshore entity, such as changes in share capital, share transfers and long-term equity or debt investments, and providing security. PRC residents who have already incorporated or gained control of offshore entities that have made onshore investment in the PRC before SAFE Notice 75 was promulgated must register their shareholding in the offshore entities with the local SAFE branch on or before March 31, 2006.

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Under SAFE Notice 75, PRC residents are further required to repatriate into the PRC all of their dividends, profits or capital gains obtained from their shareholdings in the offshore entity within 180 days of their receipt of such dividends, profits or capital gains. The registration and filing procedures under SAFE Notice 75 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.

Notice 19, which was issued by the SAFE on May 20, 2011, provides further requirements regarding foreign exchange registration under SAFE Notice 75. Under Notice 19, PRC residents are required to update their previous registration with the authorized branches of the SAFE to reflect any material change in the offshore entity. Moreover, Notice 19 provides that an offshore entity that has failed to comply with SAFE Notice 75 may register with the authorized branches of the SAFE after receiving administrative penalties imposed by the relevant branches of the SAFE.

Regulation of Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Administration of State-owned Assets Supervision and Administration Commission, the SAT, the State Administration for Industry and Commerce, the CSRC and the SAFE, jointly adopted the M&A Rules, which became effective on September 8, 2006. 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.

On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of an application and supporting documents with the CSRC and it would take several months to complete the approval process.

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, King & Wood Mallesons, advised us that, based on their understanding of the current PRC laws, regulations and rules and the procedures announced on September 21, 2006, 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 CSRC, 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 conditions, results of operations and reputation as well as the trading price of our ADSs.

C. Organizational Structure

We are a Cayman Islands holding company and conduct substantially all of our business through Super TV, our operating subsidiary in the PRC, and through N-S Digital TV, a PRC company that we control through contractual arrangements. 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 China Super Media Holdings Limited, or CSM Holdings, each a Hong Kong holding company. Golden Benefit, in turn, directly owns 100% of the equity interest of Super TV. In order to assure that the PRC government does not deem our CA systems to be non-PRC CA systems, which would result in a significant competitive disadvantage for us in the PRC market, we have established N-S Digital TV, which is wholly owned by PRC citizens, to produce and sell our CA systems in the PRC. We do not have any equity interest in N-S Digital TV, but instead enjoy the economic benefits derived from N-S Digital TV through a series of contractual arrangements.

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

(1) Wenjun Wang, Tianxing Wang, Shizhou Shen and Lei Zhang are our employees.
(2) Two of our directors, Dr. Zengxiang Lu and Jianhua Zhu, are also directors of N-S Digital TV.

N-T Information Engineering was established by Tsinghua Enterprise Group, a company affiliated with Tsinghua University, and Hong Kong-based Tsinghua Novel Hi-Tech Investment Holding Ltd. in July 1998, and initially focused on developing, producing and selling digital data broadcasting equipment for cable television operators. In December 2002, N-T Information Engineering completed its acquisition of the CA systems-related assets of Tsinghua Tongfang. In March 2004, CDTV BVI was incorporated as a holding company in the BVI. Following the establishment of CDTV BVI, we restructured our operations in connection with an investment by SAIF. As part of this restructuring, we established Super TV, a wholly owned subsidiary of CDTV BVI, on May 31, 2004. On the same day, N-T Information Engineering and Li Yang, a PRC citizen employed by SAIF, established N-S Digital TV. In June 2004, N-S Digital TV acquired from N-T Information Engineering its smart card and CA systems business and, in August 2006, N-S Digital TV acquired from N-T Information Engineering its set-top box design business. 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, CDTV BVI became a wholly owned subsidiary of CDTV Holding. In August 2007, with our consent, Ms. Yang transferred her entire equity interest in N-S Digital TV to Wei Gao, a PRC citizen employed by an affiliated company of SAIF. Wei Gao further transferred her entire equity interest in N-S Digital TV to Junming Wu in June 2008, and N-T Information Engineering transferred its entire equity interest in N-S Digital TV to Shizhou Shen and Lei Zhang in November 2008. In July 2011, Junming Wu transferred his equity interest in N-S Digital TV to Tianxing Wang. In addition, in July 2011, Tianxing Wang, Lei Zhang and Wenjun Wang each contributed cash to increase the registered capital of N-S Digital TV to RMB150 million using the loan proceeds from Super TV. As a result of these transactions, Tianxing Wang, Lei Zhang, Shizhou Shen and Wenjun Wang in aggregate own all of the equity interest of N-S Digital TV.

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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 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 PRC and Hong Kong.

In December 2007, Super TV established a wholly owned subsidiary, N-S Media Investment, in the PRC to partner with the PRC s cable television operators and content providers to offer value-added services to television viewers. In light of the applicable PRC regulatory restrictions on foreign investment in advertising business, which some of the value-added television services to be offered by N-S Media Investment and its subsidiaries could be categorized as, Super TV transferred all of its equity interests in N-S Media Investment to N-S Digital TV in October 2008. In February 2008, CDTV BVI established a wholly-owned subsidiary, CSM Holdings, in Hong Kong. In addition, in June 2008, N-S Digital TV established a joint venture, Dongguan SuperTV, with other investors to provide value-added services to television viewers in Dongguan, Guangdong Province. In September 2008, N-S Digital TV exercised an option to purchase an additional 10% equity interest in the joint venture from Mr. Lai. In July 2009, N-S Digital TV sold its 20% equity interest in Dongguan SuperTV to a new investor, Guangdong Jiacai. In August 2010, N-S Digital TV entered into an equity transfer agreement with Guangdong Jiacai to purchase 20% equity interest in Dongguan SuperTV from Guangdong Jiacai. After those transactions, the equity interest of Dongguan SuperTV held by N-S Digital TV increased to 60% and N-S Digital TV became entitled to 70% of shareholders voting rights in Dongguan SuperTV. In December 2011, N-S Digital TV sold all of its equity interest in Dongguan SuperTV to a third party. In October 2008, N-S Media Investment established a wholly owned subsidiary, Guangdong SuperTV, to provide value-added services to television viewers in Guangdong Province. In August 2010, all of the equity interest in Guangdong SuperTV was transferred to Guangzhou Rujia.

In April 2010, we established N-S Digital Technology, a wholly-owned subsidiary of Golden Benefit, in the PRC. In March 2011, N-S Digital Technology was dissolved. In July 2010, we established N-S Investment Holdings, a wholly-owned subsidiary of Super TV, in the PRC. In addition, in January 2011, we established Cyber Cloud, a subsidiary in which Super TV holds a 90% equity interest, in the PRC. In May 2011, we established Joysee, a subsidiary in the PRC in which Super TV and N-S Digital TV hold 46.9% and 17.9% equity interest, respectively. In September 2011, we established Super Movie, a subsidiary in the PRC in which Super TV holds a 90% equity interest.

Any cable network operator who uses a non-PRC CA system is required under a policy promulgated by the SARFT to install a parallel PRC CA system. Under this policy, vendors of non-PRC CA systems may sell only to cable network operators who have already installed a PRC CA system or are willing to purchase a parallel PRC CA system. This may result in a competitive disadvantage for vendors of non-PRC CA systems relative to vendors of PRC CA systems. Such policy does not expressly indicate whether the CA systems produced by a foreign-invested company incorporated in the PRC, such as our subsidiary Super TV, falls into the category of non-PRC CA systems. In light of this ambiguity, we have established N-S Digital TV, which is incorporated in the PRC and wholly owned by PRC citizens, to produce and sell our CA systems to avoid our CA systems being deemed as non-PRC CA systems. We conduct a significant portion of our operations through N-S Digital TV. We do not directly or indirectly have any equity interest in N-S Digital TV, but Super TV, our wholly owned subsidiary in the PRC, has entered into a series of contractual arrangements with N-S Digital TV and its shareholders. As a result of these contractual arrangements, we are considered the primary beneficiary of N-S Digital TV and, accordingly, we consolidate N-S Digital TV s results of operations in our financial statements.

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Super TV mainly engages in supplying software products relating to smart cards to N-S Digital TV, providing technical support and related services to N-S Digital TV, and developing technology for use by N-S Digital TV. Specifically, Super TV and N-S Digital TV have entered into the following contracts:

- a products and software purchase agreement, pursuant to which N-S Digital TV exclusively purchased from Super TV all software products relating to smart cards required for N-S Digital TV s CA systems;

- a technical support and related services agreement, pursuant to which Super TV exclusively provides N-S Digital TV and/or its customers with technical support, technical training, personnel services in connection with N-S Digital TV s marketing activities and services relating to the maintenance and optimization for the products and software of N-S Digital TV s customers at N-S Digital TV s request;

- a technology license agreement, pursuant to which N-S Digital TV grants Super TV, free of charge, an exclusive license to use certain software copyrights, patents, unpatentable technologies and technical secrets relating to the digital television business that was transferred from N-T Information Engineering to N-S Digital TV; and

- a technology development agreement, pursuant to which N-S Digital TV engages Super TV to develop all technology required by N-S Digital TV or its customers.

In addition, Super TV has entered into agreements with N-S Digital TV and its shareholders that provide us with the ability to control N-S Digital TV. Pursuant to those contractual arrangements:

- the shareholders of N-S Digital TV have jointly granted Super TV an exclusive and irrevocable option to purchase all or part of their equity interests in N-S Digital TV at any time;

- without Super TV s prior written consent, the shareholders of N-S Digital TV may not: (1) transfer or pledge their equity interests in N-S Digital TV; (2) cause N-S Digital TV to issue new shares; (3) receive any dividends, loan interest or other benefits from N-S Digital TV; or (4) make any material adjustment or change to N-S Digital TV s business or operations;

- N-S Digital TV and its shareholders agreed to: (1) accept the policies and guidelines furnished by Super TV with respect to the hiring and dismissal of employees, the operational management and financial system of N-S Digital TV; (2) appoint the candidates recommended by Super TV as directors of N-S Digital TV and appoint the senior management personnel of Super TV as the general manager, chief financial officer and other senior officers of N-S Digital TV based on Super TV s recommendations; (3) replace or remove a director or senior management personnel of N-S Digital TV upon Super TV s request; and (4) seek a guarantee from Super TV first when any guarantee is required to secure performance by N-S Digital TV of any contract or working capital loans borrowed by N-S Digital TV;

- each shareholder of N-S Digital TV has obtained loans from Super TV to fund its contribution to N-S Digital TV s registered capital and has agreed to: (1) not repay the loan prior to the termination date of the relevant loan agreement, unless so requested by Super TV; and (2) only repay the loan by (i) transferring all his equity interests in N-S Digital TV to Super TV or any third party designated by Super TV and (ii) paying Super TV with the entire proceeds obtained by himself from such transfer;

- each shareholder of N-S Digital TV has appointed Super TV or one of its directors as their attorneys-in-fact to exercise all its voting rights as shareholders of N-S Digital TV;

each shareholder of N-S Digital TV has pledged all of its respective equity interests in N-S Digital TV to Super TV to secure the performance of its and N-S Digital TV s obligations under certain contractual arrangements between N-S Digital TV and/or its shareholders and Super TV; and

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N-S Digital TV and its shareholders agreed to: (1) not terminate these agreements prior to their respective termination dates; and (2) renew these agreements upon Super TV s written notice for a term to be determined by Super TV prior to their respective termination date.

For a more detailed description of these contractual agreements, see Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Super TV and N-S Digital TV Arrangements and Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Shareholder Rights and Corporate Governance.

D. Property, Plants and Equipment

We currently maintain our headquarters and substantially all of our operations at Jingmeng High-Tech Building B, 4th Floor, No. 5 Shangdi East Road, Haidian District, Beijing 100085, PRC, where we lease 8,821 square meters of office space pursuant to five short-term lease agreements with the same landlord for separate portions of the total space. The five lease agreements are: (1) a lease agreement of N-S Digital TV with respect to an aggregate area of 2,364 square meters for its operational use; (2) a lease agreement of Super TV with respect to an aggregate area of 4,334 square meters for its operational use and an aggregate area of 180 square meters for storage; (3) a lease agreement of Cyber Cloud with respect to an area of 1,130 square meters for its operational use; (4) a lease agreement of Joysee with respect to an aggregate area of 520 square meters for its operational use; and (5) a lease agreement of Super Movie with respect to an aggregate area of 293 square meters for its operational use. All the lease agreements expired in April 2012. We intend to continue leasing the forgoing space and are currently in the process of finalizing the relevant leasing arrangements with the landlord.

In addition, we lease office space for service and support centers in Hangzhou and Nanhai. We routinely review our needs for office space in light of the development of our operations. We believe that the office space that we currently lease is sufficient for our current and immediately foreseeable needs. We may lease additional space if needed in the future.

Item 4A. Unresolved Staff Comments

None.

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 the leading provider of CA systems to the PRC s expanding digital television market. Our CA systems, which consist of smart cards, head-end software for television network operators and terminal-end software for set-top box manufacturers, enable digital television network operators in the PRC to control the distribution of content and value-added services to their subscribers and block unauthorized access to their networks. In addition, we license our set-top box design to set-top box manufacturers and sell advanced digital television application software, such as electronic program guides and subscriber management systems, to digital television network operators.

We sell our CA systems and digital television application software to PRC television network operators, including cable, satellite and terrestrial television network operators and enterprises that maintain private cable television networks within their facilities. We currently derive, and we expect to continue to derive, a significant portion of our revenues during any given period from a limited number of customers, primarily cable television network operators who are launching new digital transmission systems, although the particular customers may vary from period to period.

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PRC television network operators are in the process of migrating from analog to digital transmissions, and the PRC government has set a target of 2015 for cable operators nationwide to complete the digital transition. As of December 31, 2011, we had installed CA systems at 345 digital television network operators in 28 of the 32 provinces, autonomous regions and centrally administered municipalities in the PRC. We have also been installing CA systems outside the PRC since 2010. We derive a substantial majority of our revenues from sales of our smart cards, which accounted for 89.0%, 93.6% and 91.5% of our total revenues in 2009, 2010 and 2011, respectively. We expect that sales of our smart cards will continue to constitute the majority of our revenues in the near future. We sold 8.8 million, 16.2 million and 18.3 million smart cards in 2009, 2010 and 2011, respectively, and our net revenues were US$54.7 million, US$87.1 million, US$99.1 million in 2009, 2010 and 2011, respectively. Our net income was US$25.3 million, US$33.4 million and US$40.3 million in 2009, 2010 and 2011, respectively.

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

Progress of continued digitalization and growth of digital television network operators subscriber base in the PRC. Our continued success depends on the pace at which PRC television network operators continue to switch from analog to digital transmission as well as further growth in our customers subscriber base. If the PRC government postpones its target date for digitalization, or our customers fail to roll out analog-to-digital conversion or attract subscribers to digital television, we may be unable to sustain or grow our revenues.

Pricing. The business in which we operate is subject to intense competition, particularly with respect to pricing of our products and services. Our customers generally expect to receive volume-based discounts from us, and we may be required to reduce prices for large purchases or if competition intensifies.

Purchasing patterns of our customers. Our customers generally purchase smart cards from us based on the number of digital television subscribers they expect to add in the immediate near term, resulting in significant fluctuations in our revenues from period to period due to the uncertainty of both the timing and the amount of such customer orders.

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 industry standards 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 or industry standards in a timely and cost-effective manner.

Cost structure. Our profitability also depends on the cost structure of our operations, including, among other things, the costs of computer chips sourced from third-party suppliers and personnel costs.

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 entities in China, which operate substantially all of our business, is the Renminbi. In 2009, 2010 and 2011, the Renminbi appreciated against the U.S. dollar by approximately 0.01%, 3.3% and 4.6%, respectively. The appreciation of the Renminbi against the U.S. dollar contributed to the increase in our net income reported in U.S. dollar terms in 2009, 2010 and 2011, respectively. 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.

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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

We derive revenues primarily from the following two sources:

Products. We currently derive a substantial majority of our revenues from sales of smart cards and other products to digital television network operators. Smart cards are an essential part of our CA systems. Our customers purchase our smart cards for distribution to and use by their subscribers in their set-top boxes. Revenues from the sales of our smart cards account for substantially all of our revenues from the sales of our products. In addition, we also sell small quantities of other products, such as integrated chips and surface mounted device chips. We expect that the sales of our smart cards will continue to constitute the majority of our revenues in the near future.

Services. We derive revenues from providing head-end system integration services and head-end system development services to digital television network operators, collecting licensing fees and/or royalty income from set-top box manufacturers and digital television operators. Our head-end system integration services involve providing head-end software, hardware and related system integration services to our customers. Head-end software mainly consists of software for CA systems, subscriber management systems and electronic program guides. Our head-end system development services involve the development of customized digital television-related software applications for our customers. In addition, we provide set-top box manufacturers with our CA system terminal-end software that enables them to manufacture set-top boxes compatible with our CA systems, and receive one-time licensing fees as well as royalties from such set-top box manufacturers. We also earn licensing fees and/or royalties from licensing our set-top box design to set-top box manufacturers and digital television operators.

In certain circumstances, we receive royalties from digital television network operators who purchase smart cards for use with set-top boxes that were manufactured using our CA system terminal-end software, in lieu of collecting royalties from the relevant set-top boxes manufacturers. We include such royalty income as part of the revenue from sales of the related smart cards.

Revenues from the sales of our products and services accounted for 94.7% and 5.3%, respectively, of our total revenues in 2011 compared to 94.0% and 6.0%, respectively, of our total revenues in 2010. Our revenues also include certain refunds of value-added taxes from PRC tax authorities that we previously paid with respect to some of our software products. See Item 5. Operating and Financial Review and Prospects A. Operating Results Taxes and Incentives below for more information.

Our net revenues represent total revenues less PRC business tax and related surcharges and cultural construction fees relating to advertising services. See Item 5. Operating and Financial Review and Prospects A. Operating Results Taxes and Incentives PRC Business Tax below for more information.

Cost of Revenues

Cost of revenues primarily includes: costs of raw materials, such as computer chips manufactured by third-party suppliers and used in our smart cards and other products; personnel costs directly relating to provision of our services; warranty costs relating to our smart card sales; depreciation and amortization costs; share-based compensation allocated to the production and processing of our smart cards and other products; fees paid to our sales agents; and other miscellaneous costs. These costs are allocated to our two types of revenue-generating activities as their respective costs of revenues. Cost of revenues related to the sales of our products and to the sales of our services accounted for 84.2% and 15.8%, respectively, of our total cost of revenues in 2011 compared to 83.3% and 16.7%, respectively, of our total cost of revenues in 2010. As a percentage of our net revenues, cost of revenues decreased from 20.9% in 2010 to 19.3% in 2011.

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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 75.5%, 79.1% and 80.7% in 2009, 2010 and 2011, respectively. The increase in our gross margin since 2009 was primarily attributable to changes in product mix, reflecting an improvement in our higher margin businesses, principally from sales of smart cards, as well as decreases in the unit cost of smart cards.

The average unit cost of our smart cards in U.S. dollar terms decreased by approximately 15.2% from 2009 to 2010 and further decreased by approximately 10.0% from 2010 to 2011, principally as a result of the continuing decline in chip and production costs.

Operating Expenses

Our operating expenses consist of research and development expenses, selling and marketing expenses and general and administrative expenses. Each of these components of our operating expenses includes 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 12.0% and 13.3% in 2010 and 2011, respectively.

Selling and Marketing Expenses. Selling and marketing expenses consist primarily of compensation and benefits for our sales and marketing staff, expenses for promotional, advertising, travel and entertainment activities, marketing-related consulting fees, expenditures for purchases of supplies and amortization of intangible assets. Selling and marketing expenses as a percentage of our net revenues were 9.8% and 12.5% in 2010 and 2011, 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 7.3% and 9.8% in 2010 and 2011, respectively.

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 and 2010 Stock Incentive Plans in February 2005, September 2007 and November 2010, respectively, and options to purchase 4,377,563 ordinary shares had been granted and were outstanding under the plans as of December 31, 2011. In May 2011, we granted options to purchase 1,600,000 ordinary shares to 80 of our employees, including options to purchase 1,000,000 ordinary shares to Zengxiang Lu, our director. In September 2011, we granted options to purchase 700,000 ordinary shares to 15 of our employees, including options to purchase 190,000, 165,000 and 165,000 ordinary shares to Dong Li, our president and chief marketing officer, Huiqing Chen, our chief administrative officer, and Zhenwen Liang, our chief financial officer, respectively. In November 2011, we granted options to purchase 300,000 ordinary shares to 35 of our employees, including options to purchase 10,000 ordinary shares to Jian Han, our chief technology officer. We incurred share-based compensation expenses of US$1.7 million, US$1.5 million and US$5.6 million in 2009, 2010 and 2011, respectively. For additional information regarding our share-based compensation expenses, see Note 21 to our consolidated financial statements included elsewhere in this annual report.

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The table below shows the allocation of share-based compensation 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,		
	2009	2010	2011
	(In thousands)		
Cost of revenues	US$ 30	US$ 10	US$ 52
Research and development expenses	713	393	1,025
Selling and marketing expenses	447	384	633
General and administrative expenses	472	691	3,852
Total	US$ 1,662	US$ 1,478	US$ 5,562

Income from Operations

Income from operations represents gross profit less operating expenses.

Non-operating Income/(Expenses)

Non-operating income/(expenses) includes interest income/(expense), gain from foreign currency forward contracts, impairment loss of cost method investment and other income or expenses, each as presented in our consolidated statements of operations. Our interest income was US$6.1 million, US$5.3 million and US$6.8 million in 2009, 2010 and 2011, respectively. We had interest expense of US$1.5 million and a gain from foreign currency forward contracts, which were entered into in April and May 2011, of US$0.4 million in 2011. Our impairment loss of cost method investment was US$5.0 million in 2010 and nil in 2011.

Corporate Structure

We are a Cayman Islands holding company and conduct substantially all of our business through Super TV, our indirectly wholly owned subsidiary in the PRC. In May 2004, we established N-S Digital TV, a PRC company that is wholly owned by PRC citizens, to carry out our CA systems business in the PRC. We do not directly or indirectly have any equity interest in N-S Digital TV, but Super TV has entered into a series of contractual arrangements with N-S Digital TV and its shareholders. As a result of these contractual arrangements, we have the power to effectively control N-S Digital TV and its subsidiaries as well as the ability to receive substantially all the economic benefits of these entities. As a result, we are considered the primary beneficiary of N-S Digital TV and we consolidate N-S Digital TV s results of operations in our financial statements. For a description of these contractual agreements, see Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Super TV and N-S Digital TV Arrangements and Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Shareholder Rights and Corporate Governance.

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

Revenue Recognition. We derive revenues primarily from two sources: (1) sales of products, including smart cards and other products sourced from third-party suppliers, such as set-top boxes; and (2) provision of services, including head-end system integration services, head-end system development services and CA system terminal-end software or set-top box design that generate licensing income and royalty income.

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

Our head-end integration services primarily involve provision of our head-end software, third-party hardware and software, related installation and integration services, training and post-contract customer support, or PCS, including telephone support and bug-fixing. Our head-end system development services involve the development of customized digital television technology-related software applications. Head-end software offered by us includes CA systems head-end software, SMS software and electronic program guide software.

We sign head-end system integration contracts with cable television network operators to install and integrate our software with third-party hardware and software. Once the service is substantially completed, customers will issue a preliminary acceptance, while a final acceptance is usually issued six months to one year after the issuance of preliminary acceptance if no major technical problems are discovered. In the majority of our head-end system integration contracts, we offer free PCS for one year, beginning from preliminary acceptance by customers. Based on historical information, we believe that a final acceptance is not a significant event because essentially all the services we were obligated to provide have been delivered and all technical problems, if any, have been detected at the point of the preliminary acceptance by the customer and the cost of additional work between a preliminary acceptance and a final acceptance has historically been insignificant.

With respect to the contracts in which we offer free PCS for one year or less, we recognize revenue when all installation and integration services are completed, which is generally indicated by obtaining the preliminary acceptances from customers. With respect to contracts in which we offer free PCS for more than one year, although the costs incurred during the PCS term have historically been insignificant, we defer the revenue and ratably recognize it over the PCS term. Where we offer PCS for an unspecified period, we ratably recognize the relevant revenue over the estimated useful life of our CA systems, which we determined to be five years.

With respect to our head-end system development services, we use the completed-contract method to recognize revenue when the software application development is finished and accepted by customers, as we currently do not have a reliable mechanism to measure the progress toward completion of the service.

We receive licensing fees from set-top box manufacturers who license our CA systems terminal-end software or set-top box design, and we are also entitled to receive royalties from them based on the quantity of set-top boxes manufactured under such licenses. Royalty income is recognized upon receipt of sales reports from the set-top box manufacturers and when payment is received, while licensing income is recognized upon the issuance of certificates to the set-top box manufacturers by us.

Deferred Costs. Where revenue from a head-end system integration contract is deferred and recognized over the PCS term, we defer the costs directly associated with such revenue. Such costs mainly relate to hardware and software purchased from third-party suppliers. Deferred costs are recorded as an asset and amortized to cost of revenue over the same period as that over which the corresponding revenue is recognized.

Goodwill. Goodwill is not amortized but tested for impairment on an annual basis and between annual tests in certain circumstances. Goodwill impairment is tested using a two-step approach. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test measures the amount of the impairment loss, if any, by comparing the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. The implied fair value of goodwill is calculated in the same manner that goodwill is calculated in a business combination, whereby the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit, with the excess purchase price over the amounts assigned to assets and liability representing the implied fair value of goodwill. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being a discounted cash flow. We have one reporting unit and have determined to perform the annual impairment test on December 31 of each year. As of December 31, 2011, there was no impairment of goodwill as the fair value of the reporting unit was in excess of its carrying amount.

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Impairment of Long-Lived Asset. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, we measure impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, we would recognize an impairment loss based on the fair value of the assets. Impairment loss in 2009, 2010 and 2011 was US$271,000, US$20,000 and nil, respectively.

Held-to-Maturity Investments. Investments are classified as held-to-maturity when we have the intent and ability to hold the debt security to maturity.

We review the held-to-maturity investments in securities for other-than-temporary impairment, or OTTI, based on the specific identification method. We consider available quantitative and qualitative evidence in evaluating the potential impairment of our investments. If the cost of an investment exceeds the investment s fair value, we consider, among other factors, general market conditions, the duration and the extent to which the fair value of the investment is less than the cost, and our intent and ability to hold the investment. OTTI is recognized as a loss in the income statement.

We separate the amount of the OTTI for investments in debt securities into the amount that is credit related, which is referred to as the credit loss component, and the amount that is due to all other factors. The credit loss component is recognized in earnings, which represents the difference between a security s amortized cost basis and the discounted present value of expected future cash flows. The amount due to other factors is recognized in other comprehensive income if the entity neither intends to sell nor will more likely than not be required to sell the security before recovery. The difference between the amortized cost basis and the cash flows expected to be collected is accreted as interest income.

Equity Method Investments. Investee companies over which we have the ability to exercise significant influence, but do not have a controlling interest, are accounted for using the equity method. Significant influence is generally considered to exist when we have 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.

Investee companies over which we have equity interest over 50%, but where the noncontrolling shareholders have substantive rights to participate in significant operating decisions, are accounted for using the equity method.

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.

Cost Method Investments. For investee companies over which we do not have significant influence and a controlling interest, we carry the investment at cost and recognize as income for any dividend received from distribution of the investee s earnings.

We review our cost method investments for impairment whenever an event or circumstance indicates that an other-than-temporary impairment has occurred. We consider available quantitative and qualitative evidence in evaluating potential impairment of our cost method investments. An impairment charge is recorded if the cost of an investment exceeds its fair value and such excess is determined to be other-than-temporary. Factors we consider in making such a determination include general market conditions, the duration and the extent to which the fair value of an investment is less than its cost, and our intent and ability to hold such investment. As a result of the assessment process for our cost method investments, we recognized an impairment charge of US$5.0 million in 2010 because we had doubts on OpenV s ability to continue as a going concern.

Allowance for Doubtful Accounts. We perform ongoing credit evaluations of our customers and generally do not require collateral on accounts receivable. We maintain an allowance for doubtful accounts primarily based upon the aging analysis of the receivables and factors surrounding the credit risk of specific customers.

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Share-based Compensation. Share-based payment transactions with employees, such as share options, are measured based on the fair value of the equity instrument issued on the date of grant, and are recognized as compensation expense over the requisite service period based on the graded vesting attribution method, with a corresponding impact reflected in additional paid-in capital. We estimated the fair value of our share options at the respective grant dates using the Black-Scholes option-pricing model or the Binomial model.

Under these models, we made a number of assumptions regarding the fair value of the options, including:

- the expected future volatility of our ordinary share price;
- the risk-free interest rate;
- the expected life of options;
- the estimated time of vesting of options;
- the expected dividend yield;
- the exercise price; and
- the estimated fair value of our ordinary shares at the grant date for options granted prior to our initial public offering.

For options granted after our initial public offering, the fair value of our ordinary share on the grant date is determined by the closing trade price of our ADSs representing our ordinary shares on the grant date. For options granted prior to May 16, 2011, we estimated the volatility of the underlying ordinary shares based on the historical stock price volatility of our company and the publicly traded shares of three comparable companies in the digital television and related businesses over a period comparable to the expected term of the options. For options granted after May 16, 2011, we estimated the volatility of the underlying ordinary shares during the life of the options based on the historical stock price volatility of our company over the past years.

A change in any of the terms or conditions of share options will be accounted for as a modification of the plan. Consequently, we calculate 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, we would recognize incremental compensation cost in the period of the modification occurred. For unvested options, we 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.

Consolidation of Variable Interest Entity. Currently, foreign-invested enterprises incorporated in the PRC are not expressly prohibited from engaging in encryption-related businesses. However, they may have difficulty in obtaining the necessary licenses for the development, production and sale of commercial encryption products in the PRC from the PRC encryption authority due to such authority s generally restrictive approach towards foreign participation in the PRC encryption industry. In addition, SARFT s policy requires any cable television network operator who uses non-PRC CA systems to install a parallel PRC CA system. This policy does not, however, expressly indicate whether the CA systems produced by a foreign-invested company incorporated in the PRC fall into the category of non-PRC CA systems. In light of the above, we conduct substantially all of our business through our operating subsidiary, Super TV, and our variable interest entity, N-S Digital TV, which is wholly owned by PRC citizens and has obtained the licenses for the production and sale of commercial encryption products in the PRC required for our business.

Since the establishment of N-S Digital TV, we have designed the structure such that Super TV is the primary beneficiary of N-S Digital TV:

(a) The nominee shareholders of N-S Digital TV lack direct or indirect ability to make decisions regarding the activities of N-S Digital TV that could have a significant impact on the economic performance of N-S Digital TV. All of the voting rights of N-S Digital TV s nominee shareholders have been transferred to Super TV such that Super TV has effective control over N-S Digital TV; and

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(b) The nominee shareholders of N-S Digital TV do not have the right to receive the expected residual returns of N-S Digital TV, while such right has been transferred to Super TV such that Super TV is the primary beneficiary of N-S Digital TV.

In order to achieve such purpose, we have entered into a series of contractual agreements with N-S Digital TV and/or its nominee shareholders, including technical support and related services agreement, technology license agreement, technology development agreement, products and software purchase agreement, equipment lease agreement, Transfer Option Agreements, Business Operating Agreement, loan agreements, share pledge agreements and powers of attorney. Through those contractual arrangements, Super TV has the right to: (i) exercise 100% of the voting rights of N-S Digital TV s shareholders and (ii) nominate the members of N-S Digital TV s board of directors and senior management. As a result, Super TV has the power to direct the activities of N-S Digital TV that most significantly impact N-S Digital TV s economic performance, including the power, pursuant to the articles of association of N-S Digital TV, to: (i) approve the operating strategy and investment plan of N-S Digital TV; (ii) elect the members of N-S Digital TV s board of directors and approve their compensation; and (iii) review and approve N-S Digital TV s annual budget and earnings distribution plan. In addition, through these contractual arrangements, Super TV has the right to receive substantially all the economic benefits of N-S Digital TV.

We have evaluated the VIE structure and concluded that through these contractual arrangements, we have the ability to effectively control N-S Digital TV and its subsidiaries as well as to receive substantially all the economic benefits of those entities. As a result, we are considered the primary beneficiary of N-S Digital TV, and N-S Digital TV and its subsidiaries are our variable interest entities under U.S. GAAP and we consolidate their financial results and assets and liabilities in our consolidated financial statements.

Government Subsidies.

Government subsidies mainly represent amounts granted by local government authorities as an incentive for companies to promote the development of the local technology industry. We record any government subsidies received with respect to government sponsored projects as liabilities and record such government subsidies as subsidy income when no performance of the relevant obligation is required. Subsidy income of nil, US$89,000 and US$168,000 was recognized in 2009, 2010 and 2011, respectively.

Recently Issued Accounting Pronouncements

See Note 2(z) 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, are subject to 16.5% Hong Kong profits tax in 2009, 2010 and 2011 on their activities conducted in Hong Kong.

PRC

Our subsidiaries, our variable interest entity and the subsidiaries of our variable interest entity operating in the PRC are subject to PRC taxes as described below:

Enterprise Income Tax. Prior to January 1, 2008, the effective date of the 2008 EIT Law, both domestic and foreign-invested enterprises were generally subject to an enterprise income tax rate of 33% in the PRC under the relevant tax laws then effective. Effective from January 1, 2008, the 2008 EIT Law imposes a tax rate of 25% on all enterprises, including foreign-invested enterprises, and terminates many of the tax exemptions, reductions and preferential treatments available under previous tax laws and regulations. However, under the 2008 EIT Law, enterprises that were established before March 16, 2007 and already enjoy preferential tax treatments will continue to enjoy them (1) in the case of certain preferential tax rates that are specified by tax legislations, for a transition period of five years from January 1, 2008 or (2) in the case of tax exemption or reduction for a specified term, until the expiration of such term.

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Each of N-S Digital TV and Super TV was entitled to income tax exemption during the three years from 2004 through 2006, and a 50% reduction of income tax during the subsequent three years from 2007 through 2009. In addition, under the 2008 EIT Law, high-and-new technology enterprises strongly supported by the State are entitled to a preferential tax rate of 15%. In December 2008, N-S Digital TV and Super TV successfully obtained their respective high-and-new technology enterprise certificates under the 2008 EIT Law and were therefore recognized as high-and-new technology enterprises strongly supported by the State and qualified for a preferential tax rate of 15% in each of 2008, 2009 and 2010. In October 2011, N-S Digital TV and Super TV successfully renewed their respective high-and-new technology enterprise certificates and qualified for a preferential tax rate of 15% for another three years from 2011 to 2013. In 2010, Super TV was designated as a Key Software Enterprise by the relevant PRC government authorities and, as a result, qualified for a preferential tax rate of 10% for that year.

N-S Media Investment was subject to an enterprise income tax rate of 25% in each of 2009, 2010 and 2011. Each of N-S Investment Holdings and Guangdong R&D was subject to an enterprise income tax rate of 25% in each of 2010 and 2011. Each of Cyber Cloud, Joysee and Super Movie was subject to an enterprise income tax of 25% in 2011.

In addition, under the 2008 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. 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 enterprises. The 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, the 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 the 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. 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 2008 EIT Law and the Implementation Rules provide that a withholding tax of 10% (or other applicable withholding tax rates based on tax treaties between the PRC and other jurisdictions) will generally be applicable to dividends payable to foreign investors, 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 foreign investors. To the extent we are not considered as a PRC resident enterprise, 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 shareholders. 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.

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Value-Added Tax Refunds. 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, each of N-S Digital TV and Super TV is entitled to a refund of value-added tax paid at a rate of 14% of the sale value of some of our software products. The amount of the refund for this value-added tax included in our total revenues was US$4.1 million, US$7.6 million and US$8.4 million in 2009, 2010 and 2011, respectively, accounting for 7.4%, 8.7% and 8.3%, respectively, of our total revenues in the corresponding periods. We include such refunds in the total revenues in our consolidated statements of operations included elsewhere in this annual report. The value-added tax refund benefits have been renewed for N-S Digital TV and Super TV from January 1, 2011. Each of Super TV s and N-S Digital TV s subsidiaries was subject to a standard value-added tax rate of 17% without any tax refunds in 2011.

Business Tax. Each of Super TV s subsidiaries, N-S Digital TV and N-S Digital TV s subsidiaries is subject to business tax and related surcharges as well as cultural construction fees relating to our advertising services at a rate of (1) approximately 8.5% on revenues generated from advertising services after deduction of certain costs permitted by the PRC tax regulations and (2) approximately 5.5% on certain other service-type revenues, including those from our head-end integration services, head-end system development services, licensing income and royalty income. Super TV is currently exempted from business tax at a rate of 5% on the revenues generated by the services it currently provides. As a foreign-invested company, Super TV has been subject to surcharges since December 1, 2010.

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 company from its investments in the PRC is 5% compared to 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, and a full tax exemption in the PRC is available on a capital gain derived by a Hong Kong company from the disposal of its shares in a PRC company, provided that the shares sold are less than 25% of the shareholding of the PRC company and the assets of the PRC company do not consist mainly of real property situated in the PRC.

On October 27, 2009, the SAT issued the SAT Notice 601, which is applicable to the tax arrangements between PRC and Hong Kong. Specifically, the SAT Notice 601 provides that only the enterprises with active operations can be recognized as beneficial owners under relevant tax treaties which are entitled to enjoy the corresponding tax benefits. It further provides that those enterprises that are established solely for the purposes of benefiting from favorable tax treatment under the relevant tax treaties should not be recognized as beneficial owners and therefore cannot enjoy favorable tax treatment. See Item 3. Key Information D. Risk Factors 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 Our Investments and Acquisitions.

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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,					
	2009		2010		2011	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
	(In thousands, except percentages)					
Revenues:						
Products	US$49,146	89.8%	US$ 82,518	94.7%	US$ 95,162	96.1%
Service	5,918	10.8	5,225	6.0	5,378	5.4
Total revenues	55,064	100.6	87,743	100.7	100,540	101.5
Business taxes	(360)	(0.6)	(620)	(0.7)	(1,445)	(1.5)
Net revenues	54,704	100.0	87,123	100.0	99,095	100.0
Cost of revenues:[(1)]						
Products	9,716	17.8	15,148	17.4	16,100	16.2
Service	3,686	6.7	3,040	3.5	3,027	3.1
Total cost of revenues	13,402	24.5	18,188	20.9	19,127	19.3
Gross profit	41,302	75.5	68,935	79.1	79,968	80.7
Operating expenses:						
Research and development expenses[(1)]	8,779	16.0	10,432	12.0	13,140	13.3
Selling and marketing expenses[(1)]	7,203	13.2	8,504	9.8	12,377	12.5
General and administrative expenses[(1)]	4,793	8.8	6,389	7.3	9,723	9.8
Total operating expenses	20,775	38.0	25,325	29.1	35,240	35.6
Income from operations	20,527	37.5	43,610	50.1	44,728	45.1
Non-operating income/(expenses)						
Interest income	6,070	11.1	5,294	6.0	6,810	6.9
Interest expense					(1,452)	(1.5)
Gain from forward contracts					404	0.4
Impairment loss of cost method investment			(5,000)	(5.7)		
Other income/(expense)	(65)	(0.1)	(92)	(0.1)	594	0.6
Income before income taxes	26,532	48.5	43,812	50.3	51,084	51.5
Income tax expense	(1,261)	(2.3)	(10,250)	(11.7)	(9,762)	(9.8)
Net income before income/(loss) from equity method investments	25,271	46.2	33,562	38.6	41,322	41.7
Income/(loss) from equity method investments, net of income taxes	20	0.0	(151)	(0.2)	(1,052)	(1.1)
Net income	25,291	46.2	33,411	38.4	40,270	40.6

Net loss attributable to noncontrolling interest	13	0.0	10	0.0	730	0.8
Net income attributable to holders of ordinary shares	US$ 25,304	46.2%	US$ 33,421	38.4%	US$ 41,000	41.4%

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

	For the years ended December 31,					
	2009		2010		2011	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
	(In thousands, except percentages)					
Cost of revenues	US$ 30	0.1%	US$ 10	0.0%	US$ 52	0.1%
Research and development expenses	713	1.3	393	0.5	1,025	1.0
Selling and marketing expenses	447	0.8	384	0.4	633	0.6
General and administrative expenses	US$ 472	0.9%	US$ 691	0.8%	US$ 3,852	3.9%

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Comparison of Years Ended December 31, 2011 and December 31, 2010

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,			
	2010		2011	
	Amount	% of Total Revenues	Amount	% of Total Revenues
	(In thousands, except percentages)			
Products				
Smart cards	US$ 82,153	93.6%	US$ 91,960	91.5%
Set-top boxes and others	365	0.4	3,202	3.2
Subtotal	82,518	94.0	95,162	94.7
Services				
Head-end system integration	2,399	2.7	2,562	2.6
Head-end system development	595	0.7	736	0.7
Licensing income	1,565	1.8	1,328	1.3
Royalty income	662	0.8	742	0.7
Other services	4	0.0	10	0.0
Subtotal	5,225	6.0	5,378	5.3
Total revenues	US$ 87,743	100.0%	US$ 100,540	100.0%

Our total revenues increased by 14.6% to US$100.5 million in 2011 from US$87.7 million in 2010, reflecting an increase in the revenue from the sales of our products.

Revenues from the sales of our products increased by 15.3% to US$95.2 million in 2011 from US$82.5 million in 2010, principally as a result of a significant increase in the shipment volume of smart cards and other related products, such as integrated chips and surface mounted device chips, which was partially offset by a decline of 1.0% in the average selling price, or the ASP, of smart cards.

Revenues from the sales of our services increased by 2.9% to US$5.4 million in 2011 from US$5.2 million in 2010.

Net Revenues. Our net revenues increased by 13.7% to US$99.1 million in 2011 from US$87.1 million in 2010.

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,			
	2010		2011	
	Amount	% of Net Revenues	Amount	% of Net Revenues
	(In thousands, except percentages)			
Products	US$ 15,148	17.4%	US$ 16,100	16.2%
Services	3,040	3.5	3,027	3.1
Total cost of revenues	US$ 18,188	20.9%	US$ 19,127	19.3%

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Cost of revenues increased by 5.2% to US$19.1 million in 2011 from US$18.2 million in 2010, primarily reflecting an increase in costs relating to our products, which was partially offset by a decrease in costs relating to our services. Cost of revenues relating to our products increased by 6.3% to US$16.1 million in 2011 from US$15.1 million in 2010, corresponding to the increases in shipment volumes of smart cards and other related products. Cost of revenues relating to our services slightly decreased by 0.4% to US$3.03 million in 2011 from US$3.04 million in 2010.

Gross Profit and Gross Margin. Gross profit increased by 16.0% to US$80.0 million in 2011 from US$68.9 million in 2010. Our gross margin increased to 80.7% in 2011 from 79.1% in 2010, principally as a result of a decrease in the unit cost of smart cards by 10.0% compared to 2010.

Operating Expenses. Our operating expenses increased by 39.2% to US$35.2 million in 2011 from US$25.3 million in 2010. This increase largely reflected increases in research and development expenses, selling and marketing expenses and general and administrative expenses. Operating expenses, as a percentage of net revenues, increased to 35.6% in 2011 from 29.1% in 2010. We expect operating expenses will increase as we continue to increase our spending on the research and development and commercialization of our new solutions and products.

Research and Development Expenses. Our research and development expenses increased by 26.0% to US$13.1 million in 2011 from US$10.4 million in 2010. This increase was primarily due to increases in the average salary of research and development staff and share-based compensation expenses relating to options granted to research and development staff in 2011. Our research and development expenses, as a percentage of net revenues, increased to 13.3% in 2011 from 12.0% in 2010.

Selling and Marketing Expenses. Our selling and marketing expenses increased by 45.5% to US$12.4 million in 2011 from US$8.5 million in 2010. This increase was mainly attributable to increases in marketing activities and the average salary of sales and marketing staff. Our selling and marketing expenses, as a percentage of net revenues, increased to 12.5% in 2011 from 9.8% in 2010.

General and Administrative Expenses. Our general and administrative expenses increased by 52.2% to US$9.7 million in 2011 from US$6.4 million in 2010. This increase was principally a result of an increase in share-based compensation expenses relating to options granted to general and administrative staff in 2011.

Income from Operations. As a result of the foregoing, our income from operations increased by 2.6% from US$43.6 million in 2010 to US$44.7 million in 2011.

Non-Operating Income (Expenses). We had non-operating income of US$6.4 million in 2011 compared to US$0.2 million in 2010. Our non-operating income in 2011 primarily consisted of interest income of US$6.8 million, gain from foreign currency forward contracts of US$0.4 million and other income of US$0.6 million, which was partially offset by interest expenses of US$1.5 million. Our interest income increased by 28.6% to US$6.8 million in 2011 from US$5.3 million in 2010, principally as a result of the increase in both the average balance of our bank deposits and the average interest rates. To facilitate the payment of the special cash dividend declared in November 2010, we entered into foreign currency forward contracts in April and May 2011, which met the definition of derivatives and were measured at fair value. The change in the forward rate for U.S. dollar against the RMB from the last date of each year to the expiration dates of the foreign currency forward contracts was recognized as gain from foreign currency forward contracts. In 2011, we also incurred interest expenses of US$1.5 million as we borrowed short-term loans in connection with the above-mentioned foreign currency forward contracts. In 2010, we incurred a US$5.0 million impairment charge as we wrote off our entire investment in OpenV.

Income Tax Expenses. Our income tax expenses decreased by 4.8% from US$10.3 million in 2010 to US$9.8 million in 2011. While our income tax expenses in 2010 reflected a US$5.4 million withholding tax in connection with the repatriation of dividends outside of the PRC, we generated higher taxable income and had less tax exemptions in 2011.

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Income /(Loss) from Equity Method Investments, Net of Income Taxes. Our loss from equity method investments increased from US$0.2 million in 2010 to US$1.1 million in 2011. The change was mainly as a result of the increased loss from our equity method investments in 3DiJoy and Guangzhou Rujia.

Net Loss Attributable to Noncontrolling Interest. Net loss attributable to noncontrolling interest increased from US$10,000 in 2010 to US$0.7 million in 2011. Net loss attributable to noncontrolling 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 the loss of majority-owned subsidiaries we established in 2011.

Net Income Attributable to Holders of Ordinary Shares. As a result of the foregoing, net income increased by 20.5% to US$40.3 million in 2011 from US$33.4 million in 2010. Our basic and diluted earnings per ordinary share in 2011 were US$0.70 and US$0.69, respectively.

Comparison of Years Ended December 31, 2010 and December 31, 2009

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,			
	2009		2010	
	Amount	% of Total Revenues	Amount	% of Total Revenues
	(In thousands, except percentages)			
Products				
Smart cards	US$ 49,005	89.0%	US$ 82,153	93.6%
Set-top boxes and others	141	0.3	365	0.4
Subtotal	49,146	89.3	82,518	94.0
Services				
Head-end system integration	3,265	5.9	2,399	2.7
Head-end system development	462	0.8	595	0.7
Licensing income	1,147	2.0	1,565	1.8
Royalty income	688	1.3	662	0.8
Other services	356	0.7	4	0.0
Subtotal	5,918	10.7	5,225	6.0
Total revenues	US$ 55,064	100.0%	US$ 87,743	100.0%

Our total revenues increased by 59.3% to US$87.7 million in 2010 from US$55.1 million in 2009, reflecting an increase in the revenue from the sales of our products, particularly, smart cards.

Revenues from the sales of our products increased by 67.9% to US$82.5 million in 2010 from US$49.1 million in 2009, principally as a result of a significant increase in smart card shipment reflecting growing market demand, which is partially offset by a decline in ASP. The decrease in the ASP of smart cards by 8.1% from 2009 to 2010 was primarily due to intensified competition within the industry.

Revenues from the sales of our services decreased by 11.7% to US$5.2 million in 2010 from US$5.9 million in 2009, mainly due to lower system integration income in 2010.

Net Revenues. Our net revenues increased by 59.3% to US$87.1 million in 2010 from US$54.7 million in 2009.

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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,			
	2009		2010	
	Amount	% of Net Revenues	Amount	% of Net Revenues
	(In thousands, except percentages)			
Products	US$ 9,716	17.8%	US$ 15,148	17.4%
Services	3,686	6.7	3,040	3.5
Total cost of revenues	US$ 13,402	24.5%	US$ 18,188	20.9%

Cost of revenues increased by 35.7% to US$18.2 million in 2010 from US$13.4 million in 2009, primarily reflecting an increase in the costs relating to our products, which was partially offset by a decrease in the costs relating to our services. Cost of revenues relating to our products increased by 55.9% to US$15.1 million in 2010 from US$9.7 million in 2009, corresponding to the increase in smart cards shipments. Cost of revenues relating to our services decreased by 17.5% to US$3.0 million in 2010 from US$3.7 million in 2009, corresponding to the decrease in the revenues from head-end system integration services.

Gross Profit and Gross Margin. Gross profit increased by 66.9% to US$68.9 million in 2010 from US$41.3 million in 2009. Our gross margin increased to 79.1% in 2010 from 75.5% in 2009, reflecting the higher percentage of revenues from smart cards sales as part of total revenues in 2010 compared to 2009. Smart cards sales generally have higher profit margins than the head-end system integration business.

Operating Expenses. Our operating expenses increased by 21.9% to US$25.3 million in 2010 from US$20.8 million in 2009. This increase primarily reflected increases in research and development expenses, marketing expenses and general and administrative expenses. Operating expenses, as a percentage of net revenues, decreased to 29.1% in 2010 from 38.0% in 2009.

Research and Development Expenses. Our research and development expenses increased by 18.8% to US$10.4 million in 2010 from US$8.8 million in 2009. This increase was primarily due to an increase in the number of our research and development staff and higher spending in new technologies such as cloud service solutions and integrated security chips. Our research and development expenses, as a percentage of net revenues, decreased to 12.0% in 2010 from 16.1% in 2009.

Selling and Marketing Expenses. Our selling and marketing expenses increased by 18.1% to US$8.5 million in 2010 from US$7.2 million in 2009. This increase was mainly attributable to higher compensation costs associated with sales force expansion and higher marketing expenditures. Our selling and marketing expenses, as a percentage of net revenues, decreased to 9.8% in 2010 from 13.2% in 2009.

General and Administrative Expenses. Our general and administrative expenses increased by 33.3% to US$6.4 million in 2010 from US$4.8 million in 2009. This increase was principally a result of an increase in compensation costs and lower reimbursement from the Company s ADR depositary bank.

Income from Operations. As a result of the foregoing, our income from operations increased by 112.5% from US$20.5 million in 2009 to US$43.6 million in 2010.

Non-Operating Income (Expenses). We had non-operating income of US$0.2 million in 2010 compared to US$6.0 million in 2009. Our non-operating income in 2010 primarily consisted of interest income of US$5.3 million, which was partially offset by impairment charges of US$5.0 million and other expenses of US$0.1 million. Our interest income decreased by 12.8% to US$5.3 million in 2010 from US$6.1 million in 2009. This decrease was principally a result of decreases in both the average balance of our bank deposits and the average interest rates. In the fourth quarter of 2010, we recorded an impairment charge equal to the entire amount of our US$5.0 million investment in OpenV. In October 2010, we were informed that OpenV was under investigation over alleged copyright infringements relating to some of its online video content. As of December 31, 2010, we understood that its executive officers were still in police custody in the PRC and that its normal online video services had not been restored. Based on the foregoing, we had doubts on OpenV s ability to continue as a going concern, and as a result, we wrote off the entire amount of our original US$5.0 million investment in OpenV.

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Income Tax Expenses. Our income tax expense increased from US$1.3 million in 2009 to US$10.3 million in 2010. The change was due to the significant increases of 65.1% in our pre-tax income from 2009 to 2010, the accrued withholding tax of US$5.4 million payable in connection with the repatriation of the dividends we declared in 2010 out of the PRC and the increases in the applicable tax rates during the same period.

Net Income Attributable to Holders of Ordinary Shares. As a result of the foregoing, net income increased by 32.1% to US$33.4 million in 2010 from US$25.3 million in 2009. Our basic and diluted earnings per ordinary share in 2010 were US$0.57 and US$0.57, respectively.

B. Liquidity and Capital Resources

Liquidity

	For the years ended December 31,		
	2009	**2010**	**2011**
		(In thousands)	
Cash and cash equivalents	US$ 131,087	US$ 148,944	US$ 201,557
Net cash provided by operating activities	18,471	32,573	37,685
Net cash (used in)/provided by investing activities	(33,755)	19,626	18,011
Net cash used in financing activities	US$ (56,537)	US$ (39,033)	US$ (15,048)

Operating Activities. Net cash provided by operating activities was US$37.7 million in 2011, which was primarily derived from our net income of US$40.3 million, adjusted to reflect the adding back of US$5.6 million share-based compensation charges, US$1.3 million in depreciation and amortization costs and US$1.1 million loss from equity method investment, a US$1.8 million increase in government subsidies, a US$1.8 million increase in income tax payable and a US$1.5 million increase in deferred revenues. Net income was partially offset by a US$13.7 million increase in accounts receivable. The significant increase in accounts receivable largely reflected more favorable credit terms awarded to our major customers due to intense competition and tighter bank lending policies to which our major customers are subject.

Net cash provided by operating activities was US$32.6 million in 2010, which was primarily derived from our net income of US$33.4 million, adjusted to reflect the adding back of US$5.0 million in impairment loss of cost method investment, US$1.3 million in depreciation and amortization costs and US$1.5 million share-based compensation charges. Net income was partially offset by a US$11.7 million increase in accounts receivable, a US$2.4 million increase in prepaid expenses and other current assets, and a US$1.4 million decrease in income tax payable. The significant increase in accounts receivable largely reflected a significant increase in revenues in the later part of 2010.

Net cash provided by operating activities was US$18.5 million in 2009, which was primarily derived from our net income of US$25.3 million, adjusted to reflect the adding back of US$1.7 million in depreciation and amortization costs and US$1.7 million share-based compensation charges. Net income was partially offset by a US$2.9 million increase in pre-paid expenses and other current assets, a US$2.6 million decrease in accrued expenses and other current liabilities and a US$1.5 million increase in accounts and notes receivable. The significant increase in prepaid expenses and other current assets was mainly due to an increase in accrued interest income. The significant decrease in accrued expenses and other current liabilities primarily reflected decreases in other tax payable and amount due to employees for share option exercise proceeds. The increase in accounts and notes receivable reflected more favorable credit terms awarded to our major customers due to intense competition and the economic downturn in the PRC.

Investing Activities. Net cash provided by investing activities was US$18.0 million in 2011, primarily consisting of a withdrawal of US$41.7 million from our bank deposits maturing over three months, an aggregate of US$26.6 million in proceeds from the disposal of held-to-maturity corporate and PRC government bonds and a US$6.8 million from refund of deposite for investment in Cyber Cloud, which was partially offset by (i) US$55.5 million bank deposits pledged as security for the short-term loans we borrowed in 2011 in connection with the foreign currency forward contracts and (ii) a US$2.0 million decrease in cash as a result of de-consolidating Dongguan SuperTV following its cessation to be a subsidiary in 2011 due to the disposition of our equity ownership in Dongguan.

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Net cash provided by investing activities was US$19.6 million in 2010, primarily consisting of an aggregate of US$37.8 million in proceeds from held to maturity corporate and PRC government bonds, a withdrawal of US$25.0 million from our bank deposits maturing over three months, interest income of US$1.4 million from held-to-maturity investments, which was partially offset by an aggregate of US$24.8 million used to purchase additional corporate and government bonds, an aggregate of US$13.5 million used in long term investment, US$6.8 million used in prepaid investment.

Net cash used in investing activities was US$33.8 million in 2009, primarily consisting of an aggregate of US$39.0 million used to purchase corporate and government bonds, an aggregate of US$1.5 million to purchase computers and other electronic equipment and motor vehicles and a US$1.4 million decrease in cash as a result of eliminating Dongguan SuperTV from our consolidated subsidiaries in 2009 due to transfer of a part of our equity ownership to another investor, which were partially offset by a withdrawal of US$7.7 million from our bank deposits maturing over three months.

Financing Activities. Net cash used in financing activities was US$15.0 million in 2011, primarily consisting of a US$77.2 million special cash dividend paid to our shareholders, which was partially offset by short-term loans in an aggregate principal amount of US$55.2 million we borrowed in connection with the foreign currency forward contracts and a US$6.5 million capital injection by noncontrolling shareholders of our majority-owned subsidiaries.

Net cash used in financing activities was US$39.0 million in 2010, consisting of a US$40.3 million special cash dividend paid to our shareholders, which was partially offset by US$1.3 million in proceeds from the exercise of our share options by employees.

Net cash used in financing activities was US$56.5 million in 2009, consisting of a US$57.3 million special cash dividend we declared in December 2008 and paid in early 2009, which was partially offset by US$0.8 million in proceeds from the exercise of our share options by employees and Tech Power Enterprises.

According to the revised *PRC Company Law,* which took effect on January 1, 2006, our subsidiaries and variable interest entities in the PRC are required to make appropriations to the statutory surplus reserve 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 entities 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. There were no appropriations to reserves other than to those of our subsidiaries and our variable interest entity in the PRC during any of the periods presented. However, as a result of these laws, approximately US$17.3 million and US$17.7 million of our retained earnings was not available for distribution as of December 31, 2010 and December 31, 2011, respectively.

Capital Expenditures

In 2009, 2010 and 2011, our capital expenditures totaled US$1.4 million**,** US$20.9 million and US$0.7 million, respectively. Our capital expenditures in 2010 primarily consisted of US$13.5 million in long-term investment, US$6.8 million in prepaid investment and US$0.6 million used to purchase computers and other electronic equipment and motor vehicles.

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 also may 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.

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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, 2009 to December 31, 2011 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 conditions.

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, 2011:

	Contractual Obligations				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
	(In thousands)				
Operating lease obligations[1]	434	9			443
Purchase obligations	300				300
Other contractual obligations[2]	159				159
Total	893	9			902

(1) Operating leases generally relate to the lease of our office premises.
(2) Other contractual obligations generally relate to certain research and development funding commitment.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth certain information concerning our directors and executive officers as of April 16, 2012.

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Name	Age	Position
Jianhua ZHU	42	Chairman and Chief Executive Officer
Zengxiang LU	41	Director
James Hsiang Ming HO	52	Director
Jianyue PAN	44	Independent Director
Ching Wah NG	62	Independent Director
Chaoyang XIA	42	Independent Director
Songzuo XIANG	47	Independent Director
Zhenwen LIANG	38	Chief Financial Officer
Dong LI	40	President and Chief Marketing Officer
Jian HAN	38	Chief Technology Officer
Huiqing CHEN	39	Chief Administrative Officer

Jianhua ZHU, one of our founders, has served as the chairman of our board of directors since November 2008 and as chief executive officer of our company since December 2006 and has been a director since 2004. He was the chairman of our board of directors from 2004 until December 2006. 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 bachelor s and master s degrees in precision instrumentation from Tsinghua University.

Zengxiang LU, one of our founders, has been a board member since 2004. He was chairman of our board of directors and our chief strategy officer from December 2006 until November 2008 and chief executive officer from 2004 until December 2006. Dr. Lu was the president of Guangdong R&D prior to April 2010 and was also a director from 2005 until 2007. Dr. Lu worked on the development of CA systems at Tsinghua Tongfang from 1999 to August 2001. He was deputy general manager of N-T Information Engineering from August 2001 until 2004, and has served on the board of N-T Information Engineering since 1998. Dr. Lu holds a bachelor s degree in automation and a doctorate degree in signal processing from Tsinghua University.

James Hsiang Ming HO has been a director of our company since November 2006. Mr. Ho is a vice president of Capital International, Inc., responsible for private equity in Asia. Prior to joining Capital International, Inc. in 1996, Mr. Ho was vice president of global equity investments at the Bank of America in Hong Kong. Mr. Ho was formerly a director of Pacific Textiles Holdings, Ltd., a Hong-Kong listed company, Renhe Commercial Holdings Company Limited, also a Hong Kong-listed company, and On*Media Corporation, a South Korea-listed company. He received a bachelor s degree in economics from the National Taiwan University and an MBA from the Wharton School of Business at the University of Pennsylvania.

Jianyue PAN has been an independent director of our company since December 2010. Mr. Pan serves as the global vice president and Asia Pacific president of Synopsys, Inc, a worldwide leading company in electronic design automation software and IP for semiconductor design. Since 1995, Mr. Pan has held different positions at Synopsys, including China chief representative and director of China sales. Prior to Synopsys, Mr. Pan held sales and management roles in Mentor Graphics, a U.S.-based company. Prior to that, he held research and development roles in the Chinese Academy of Sciences. Prior to March 2011, Mr. Pan was an independent director of Beijing Lanxum Technology Co. Ltd., a Chinese A-share listed company. Mr. Pan holds a master s degree and a bachelor s degree in engineering from Tsinghua University in Beijing, and an Executive MBA degree from China-Europe International Business School.

Ching Wah NG has been an independent director of our company since December 2010. Mr. Ng has served as the director and member of the executive committee for Advanced Info Service Public Company Limited, a Thailand-listed company, since 2008. He is also a non-executive independent director of Pacific Textiles Holdings Limited since 2007. From 2001 to 2007, Mr. Ng was the Chief Executive Officer of Hong Kong CSL Limited. Prior to CSL, he served as a managing director of PCCW Mobility Services Limited from 1999 to 2001. Prior to that, Mr. Ng was the chief executive officer of SmarTone Telecommunications Holdings Limited, a Hong Kong listed company from 1996 to 1999. Mr. Ng is the Honorary Advisor of the Communications Association of Hong Kong. He also served as a council member of Hong Kong Trade Development Council. Mr. Ng holds a bachelor s degree in Business and Administration from the Chinese University of Hong Kong.

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Chaoyang XIA has been an independent director of our company since March 2010. Dr. Xia is a founding partner of Tianjin Ivy Investment Management Center (Limited Partnership), a venture capital and growth equity firm in China. He is also a founding partner of Shanghai Ivy Investment Management Center (Limited Partnership). He has been chairman of Benxian Investment (Beijing) Ltd. since May 2008 and a director of China Newstar Energy Co., Ltd. since November 2009. From 2001 to 2008, he was chief financial officer and senior vice president of CapitalBio Corporation, a leading biochip company in the PRC. Before joining CapitalBio Corporation, Dr. Xia served as a General Manager of the Investment Department of Tsinghua Tongfang Co., Ltd., a technology company listed on the Shanghai Stock Exchange. Prior to that, Dr. Xia was a deputy general manager of the Investment Banking Division of CITIC Securities Company Limited. Dr. Xia holds a doctorate degree in engineering, a bachelor s degree in engineering and a bachelor s degree in economics, all from Tsinghua University.

Songzuo XIANG has been an independent director of our company since September 2008. Dr. Xiang is the editor-in-chief of the Global Business & Finance magazine, a Chinese business publication sponsored by the Development Research Center of the State Council. Dr. Xiang is currently a director of AirMedia Group Inc., a company listed on the Nasdaq Global Market. Dr. Xiang was also a director of Hurray! Solutions Ltd. from 2000 to 2009 and its chief executive officer from March to October 2009, respectively. From 1995 to 1998, Dr. Xiang was deputy director of the Fund Planning Department at the Shenzhen branch office of the People s Bank of China. Dr. Xiang holds a master s degree in international affairs from Columbia University, a doctorate degree and a master s degree in economics from Renmin University of China and a bachelor s degree in mechanical engineering from Huazhong University of Science and Technology.

Zhenwen LIANG has served as the chief financial officer of our company since November 2010. 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.

Dong LI has served as our president since March 2009 and as the chief marketing officer of our company since our establishment in 2004. From 2001 to 2004, he was the assistant to the general manager and chief marketing officer of N-T Information Engineering. He previously worked at China Technology Import and Export Corp. Mr. Li holds a bachelor s degree in materials science and technology from Tsinghua University.

Jian HAN has served as the chief technology officer of our company since our establishment. Mr. Han is also the general manager of Yuewu Yuntian and Cyber Cloud. From 2001 until joining our company, Mr. Han was chief technology officer at N-T Information Engineering. From 2000 to 2001, he was the digital broadcasting center project manager working on the development of CA systems at the Tsinghua Novel-Tongfang Research and Development Center. From 1999 to 2000, he was an associate researcher at the Microsoft China Research Institute. Mr. Han holds a doctorate degree in engineering and dual bachelor s degrees in automation and mechanical engineering from Tsinghua University.

Huiqing CHEN has served as the chief administrative officer of our company since our establishment in 2004, and is responsible for administrative affairs and human resources management. From 1998 until 2004, she was manager of the general manager s office at N-T Information Engineering. Ms. Chen holds a master s degree in biochemical engineering from Tsinghua University.

Gongquan Wong and Rui Lu, each formerly an independent director of our company, retired from our board of directors on our annual general meeting of shareholders held on December 30, 2010. Songzuo Xiang was re-elected as director at the same meeting upon which his initial term expired. Each of Ching Wah Ng and Jianyue Pan was appointed as our independent director effective December 30, 2010.

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

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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 2011, the aggregate cash compensation to our directors and executive officers was US$1.2 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, and China Digital TV Holding Co., Ltd. 2010 Stock Incentive Plan, or the 2010 Stock Incentive Plan, are intended to provide incentives to our directors, officers and employees as well as consultants and advisers of our company and its present or future parent company or subsidiaries, or the 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 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, of which options to purchase 293,487 ordinary shares were subsequently forfeited. 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. Options to purchase 139,673 ordinary shares remained outstanding as of December 31, 2011 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.

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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.

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 648,290 ordinary shares remained outstanding as of December 31, 2011 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 optionee in the four years following the grant date. The original exercise price was US$6.96 per share.

2010 Stock Incentive Plan

The 2010 Stock Incentive Plan was adopted by our board of directors and approved by our shareholders 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.

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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 3,589,600 ordinary shares remained outstanding as of December 31, 2011 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 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 exercise price is US$4.34 per share.

The 2005, 2008 and 2010 Stock Incentive Plans

Our board of directors administers the 2005, 2008 and 2010 Stock Incentive Plans and 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.

Our board of directors may amend or terminate the 2005, 2008 and 2010 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 2005 Stock Incentive Plan will terminate on February 2, 2015, the 2008 Stock Incentive Plan will terminate on September 12, 2017 and the 2010 Stock Incentive Plan will terminate on November 19, 2020.

In addition to the options granted pursuant to the 2005, 2008 and 2010 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.

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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 shares, provided that the per share exercise price after adjustment shall not be less than US$0.01. Due to a special cash dividend of US$0.56 per ordinary share declared in May 2011, the per share exercise price of all of the options granted prior to and remaining outstanding as of June 20, 2011, the record date, was reduced by US$0.56 pursuant to such resolution of our board of directors referenced above, provided that the per share exercise price 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, 2012 pursuant to the 2005 Stock Incentive Plan, the 2008 Stock Incentive Plan and the 2010 Stock Incentive Plan:

	Number of Ordinary Shares Underlying Outstanding Options	Exercise Price per Ordinary Share**	Date of Grant	Date of Expiration
Directors and Executive Officers				
Jianghua ZHU	1,000,000	US$ 4.34	November 19, 2010	November 19, 2020
Zengxiang LU	1,000,000	US$ 4.34	May 16, 2011	May 15, 2021
Zhenwen LIANG	*	US$ 4.34	September 30, 2011	September 29, 2021
Dong LI	*	US$ 6.53	June 2, 2009	June 1, 2019
	*	US$ 5.33	October 5, 2008	October 4, 2018
	*	US$ 4.34	September 30, 2011	September 29, 2021
Jian HAN	*	US$ 6.53	June 2, 2009	June 1, 2019
	*	US$ 5.33	October 5, 2008	October 4, 2018
	*	US$ 4.34	November 19, 2011	November 18, 2021
Huiqing CHEN	*	US$ 6.53	June 2, 2009	June 1, 2019
	*	US$ 5.33	October 5, 2008	October 4, 2018
	*	US$ 4.34	September 30, 2011	September 29, 2021
Other Grantees				
Other grantees as a group (comprising 113 individuals)	1,585,297			

* The number of ordinary shares underlying the outstanding options held by each of the officers represents less than 1% of our ordinary shares.

** The exercise price per Ordinary Share has reflected the impact of the exercise price modifications in December 2010 and June 2011, respectively.

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;

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

Our Second Amended and Restated Memorandum and Articles of Association provide for three classes of directors, each with three-year terms. The term of the Class I directors, who are Dr. Zengxiang Lu and Jianhua Zhu, will expire upon the annual general meeting of shareholders to be held in 2014; the term of the Class II directors, who are James Hsiang Ming Ho and Dr. Chaoyang Xia, will expire upon the annual general meeting of shareholders to be held in 2012; and the term of the Class III directors, who are Jianyue Pan, Ching Wah Ng and Songzuo Xiang, will expire upon the annual general meeting of shareholders to be held in 2013.

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 also has 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.

Board Committees

To enhance our corporate governance, our board of directors established three board committees: an audit committee, a corporate governance and nominations committee and a compensation committee. The charters of each of our audit committee, corporate governance and nominations committee and compensation committee are publicly available on our website at http://ir.chinadtv.cn.

Audit Committee

Our audit committee is responsible for, among other things:

- recommending to our shareholders, if appropriate, the annual reappointment of our independent auditors and pre-approving all audit and non-audit services permitted to be performed by our independent auditors;

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annually reviewing with our independent auditors any audit problems or difficulties and management s response;

reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K promulgated by the SEC;

discussing the annual audited financial statements with management and our independent auditors;

discussing with management and the independent auditors major issues regarding accounting principles and financial statement presentations;

reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;

discussing policies with respect to risk assessment and risk management;

timely reviewing reports from the independent auditors regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within U.S. GAAP that have been discussed with management and all other material written communications between the independent auditors and management;

establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;

annually reviewing and reassessing the adequacy of our audit committee charter;

meeting separately and periodically with management and our internal and independent auditors; and

reporting regularly to our board of directors.

Our audit committee currently consists of Songzuo Xiang, Jianyue Pan and Chaoyang Xia, and has a formal written charter that sets forth its duties and powers. Our board has determined that each of Songzuo Xiang, Jianyue Pan and Chaoyang Xia qualifies as an independent director under the rules of the SEC and the NYSE. Our board also has determined that Songzuo Xiang qualifies as an audit committee financial expert within the meaning of the rules of the SEC. Our audit committee meets at least once each quarter.

Corporate Governance and Nominations Committee

Our corporate governance and nominations committee consists of Songzuo Xiang, Jianyue Pan and Chaoyang Xia, and has a formal written charter that sets forth its duties and powers. Our corporate governance and nominations committee is responsible for identifying individuals qualified to become members of our board of directors and recommending them to our board of directors for nomination. Our corporate governance and nominations committee is also responsible for implementing our Code of Business Conduct and Ethics.

Compensation Committee

Our compensation committee currently consists of Songzuo Xiang, Chaoyang Xia and Ching Wah Ng, and has a formal written charter that sets forth its duties and powers. Our compensation committee assists the board in reviewing and approving our compensation structure, including all

forms of compensation relating to our directors and executive officers, and administering our stock incentive plans.

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Corporate Governance Guidelines

Our board of directors has adopted a set of corporate governance guidelines. These guidelines reflect certain guiding principles with respect to the composition, selection and performance evaluation of our board of directors, the board committees, management succession and executive compensation. They are publicly available on our website at http://ir.chinadtv.cn.

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, 2012 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 58,995,688 ordinary shares outstanding (excluding the 527,404 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, 2012.

	Shares beneficially owned	
	Number	Percent
Directors and Executive Officers		
Jianhua ZHU[(1)]	2,868,411	4.9%
Zengxiang LU[(2)]	2,868,411	4.9%
James Hsiang Ming HO		
Ching Wah NG		
Jianyue PAN	*	*
Songzuo XIANG		
Chaoyang XIA		
Zhenwen LIANG[(3)]	**	**
Dong LI[(4)]	**	**
Jian HAN[(5)]	**	**
Huiqing CHEN[(6)]	**	**
Directors and executive officers as a group[(7)]	6,188,134	10.5%
Principal Shareholders		
Yuk Shing WONG[(8)]	4,396,832	7.5%
Capital Funds[(9)]	12,000,000	20.3%
SAIF[(10)]	11,885,820	20.1%

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

** Upon exercise of all share options exercisable within 60 days of March 31, 2012, would beneficially own less than 1% of our ordinary shares.

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(1) Represents: (i) the 2,663,393 ordinary shares held by Smart Live Group Limited, which is wholly owned by Jianhua Zhu; (ii) the 326,704 ordinary shares held by China Cast Investment Holdings Limited, or China Cast; and (iii) the 41,666 ordinary shares issuable upon exercise of options held by Mr. Zhu that are exercisable within 60 days of March 31, 2012. Mr. Zhu, together with Dr. Zengxiang Lu, exercises investment and voting powers over these shares held by China Cast. Mr. 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: (i) the 2,663,393 ordinary shares held by Polar Light Group Limited, which is wholly owned by Dr. Zengxiang Lu; (ii) the 326,704 ordinary shares held by China Cast; and (iii) the 41,666 ordinary shares issuable upon exercise of options held by Dr. Lu that are exercisable within 60 days of March 31, 2012. Dr. Lu, together with Jianhua Zhu, exercises investment and voting powers over these shares held by China Cast. Dr. 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.

(3) Represents the sum of ordinary shares owned by Mr. Liang and ordinary shares issuable upon exercise of options held by Mr. Liang.

(4) Represents the sum of ordinary shares owned by Mr. Li and ordinary shares issuable upon exercise of options held by Mr. Li.

(5) Represents the sum of ordinary shares owned by Mr. Han and ordinary shares issuable upon exercise of options held by Mr. Han.

(6) Represents the sum of ordinary shares owned by Ms. Chen and ordinary shares issuable upon exercise of options held by Ms. Chen.

(7) Represents 100% of the 326,704 ordinary shares held by China Cast (Jianhua Zhu and Dr. Zengxiang Lu jointly exercise investment and voting powers over the shares held by China Cast), ordinary shares held by Mr. Zhu (other than those ordinary shares held through China Cast), Dr. Lu (other than those ordinary shares held through China Cast), Mr. Liang, Mr. Li, Mr. Han and Ms. Chen and ordinary shares issuable upon exercise of options held by Mr. Zhu, Dr. Lu, Mr. Liang, Mr. Li, Mr. Han and Ms. Chen.

(8) Represents the sum of ADSs owned by Yuk Shing Wong.

(9) Includes 11,613,600 and 386,400 ordinary shares held by Capital International Private Equity Fund IV, L.P. and CGPE IV, L.P., respectively. Each of Capital International Private Equity Fund IV, L.P. and CGPE IV, L.P. is a limited partnership established in the State of Delaware, United States. The address of each of the Capital Funds is 6455 Irvine Center Drive, Irvine, California 92618, U.S.A. The general partner of Capital International Private Equity Fund IV, L.P. is Capital International Investments IV, L.P. The general partner of Capital International Investments IV, L.P. is Capital International Investments IV, LLC, which is also the general partner of CGPE IV, L.P. Capital International Inc. is the investment manager of Capital International Private Equity Fund IV, L.P. as well as the managing member of Capital International Investments IV, LLC. Capital International, Inc. is a wholly owned subsidiary of Capital Group International, Inc. and a wholly owned indirect subsidiary of The Capital Group Companies, Inc.

(10) Represents the ordinary shares held by SAIF. SAIF is a limited partnership organized in the Cayman Islands and has the following address: c/o Maples and Calder, Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands. SB Asia Pacific Partners L.P., or the GP, is the sole general partner of SAIF. SB Asia Pacific Investments Limited, or SB Investments, is the sole general partner of the GP. Asia Infrastructure Investments Limited, or Asia Investments, is the sole shareholder of SB Investments. Asia Investments is controlled, in respect of its authority over SB Investments, by SB First Singapore Pte. Ltd., or SB Singapore. SOFTBANK Corporation is the sole shareholder of SB Singapore. Mr. Ronald D. Fisher is the sole director of SB Investments.

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.

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B. Related Party Transactions

Super TV and N-S Digital TV Arrangements

We operate our business in the PRC through N-S Digital TV, a PRC company owned by PRC citizens. We do not own any equity interest in N-S Digital TV. Through Super TV, our indirectly wholly owned subsidiary in the PRC, we have entered into a series of contractual arrangements with N-S Digital TV and its shareholders, including contracts relating to transfer of assets, supply of smart cards and related software products, provision of equipment and technical support and related services, technology development and licenses, and certain shareholder rights and corporate governance matters. In addition, N-S Digital TV and N-T Information Engineering have entered into certain agreements relating to transfer of assets, assignment of intellectual property rights and equity interests.

The following is a summary of the material provisions of certain of these agreements. For more complete information you should read these agreements in their entirety.

Transfer of Assets and Equity Interests and Intellectual Property Rights

Equity Transfer Agreement, dated August 4, 2006, between N-T Information Engineering and N-S Digital TV. N-T Information Engineering agreed to transfer to N-S Digital TV its 51% equity interest in Guokai for a consideration of RMB2.4 million (US$0.3 million), which was subsequently reduced to RMB2.3 million (US$0.3 million) by an agreement among N-S Digital TV, N-T Information Engineering and the other shareholder of Guokai. This transaction was approved by the relevant PRC governmental authorities and completed on July 27, 2007.

Asset Transfer Agreement, dated August 5, 2006, between N-T Information Engineering and N-S Digital TV, as amended on April 6, 2007. N-T Information Engineering transferred its set-top box-related assets and employees to N-S Digital TV for an initial purchase price of RMB29.4 million (US$3.8 million). The initial purchase price is subject to an adjustment mechanism that will require N-T Information Engineering to refund to N-S Digital TV: (i) the difference between the initial purchase price and the first adjustment price, defined as ten times the total sales receipts during the period from August 1, 2006 through December 31, 2006 with respect to the transferred set-top box business, if such difference is a positive number; and (ii) the difference between the initial purchase price and the second adjustment price, defined as six times the net profit of the transferred set-top box business for the year ending December 31, 2007, if the initial purchase price is greater than the second adjustment price. The net profit of the transferred set-top box business for the year ending December 31, 2007 is required to be reviewed by a big-four accounting firm. As an adjustment to the initial purchase price, N-T Information Engineering refunded US$1.5 million to N-S Digital TV in April 2007. In November 2007, N-S Digital TV waived the remaining amount that may be payable by N-T Information Engineering to Super TV under the adjustment mechanism. N-T Information Engineering covenanted not to engage in any business activities in the PRC or outside of the PRC that directly or indirectly are in competition with the business transferred to N-S Digital TV under this agreement.

Fixed-assets Transfer Agreement, dated March 28, 2007, between N-S Digital TV and Super TV. Super TV sold to N-S Digital TV certain fixed assets relating to its digital television business for a cash consideration of RMB0.8 million (US$0.1 million).

Trademark Licensing Agreement entered into between N-T Information Engineering and N-S Digital TV in March 2007 and Transfer of a Graphic Logo by N-T Information Engineering to N-S Digital TV in December 2008. N-T Information Engineering granted N-S Digital TV a non-exclusive license to use certain trademarks free of charge. In December 2008, N-T Information Engineering transferred to Super TV, free of charge, the trademark for the graphic logo that was previously licensed to N-S Digital TV under this agreement. For details of this licensing agreement and the transfer of the trademark for the graphic logo, see Item 4. Information on the Company B. Business Overview Intellectual Property.

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Intellectual Property Rights Transfer Agreement, dated August 13, 2008, between N-T Information Engineering and Super TV. N-T Information Engineering transferred all of its intellectual property rights relating to the digital watermarking and image tracing technologies to Super TV, including one patent issued and five pending patent applications in the PRC. The transfer price is RMB21.2 million (US$3.1 million), which was fully paid by Super TV in September 2008. See Item 4. Information on the Company B. Business Overview Intellectual Property. A portion of the transfer price under this agreement in the amount of RMB8.8 million (US$1.3 million) was attributable to the acquisition of the intellectual property rights relating to the digital watermarking and image tracing technologies and the remainder was reallocated to the acquisition of N-T Information Engineering s equity interest in N-S Digital TV by two of our employees.

Technical Support, Smart Cards and Software, Licenses and Equipment

Technical Support and Related Services Agreement, dated June 7, 2004 and amended on February 9, 2012, between N-S Digital TV and Super TV. Super TV exclusively provides N-S Digital TV and/or its customers with technical support, technical training, personnel services relating to N-S Digital TV s marketing activities and services relating to the maintenance and optimization for the products and software of N-S Digital TV s customers at N-S Digital TV s request. The fees for such technical support and services are determined at Super TV s discretion and payable within five days after the delivery of the support and services or at any other time agreed to by the parties. The value of the transactions between N-S Digital TV and Super TV under this agreement was RMB12.2 million (US$1.9 million) in 2011. The term of this agreement is 15 years, which may not be terminated prior to its termination date without Super TV s written consent. The term of this agreement will be automatically renewed for an additional 15 years upon its termination date, unless written notice has been given by Super TV.

Technology License Agreement, dated June 7, 2004 and amended on February 9, 2012, between N-S Digital TV and Super TV. N-S Digital TV granted Super TV, free of charge, an exclusive license to use certain software copyrights, patents, unpatentable technology and technical secrets relating to the digital television business that was transferred from N-T Information Engineering to N-S Digital TV. The term of the license is ten years. This agreement may not be terminated or amended without the written consent of Super TV prior to its termination date and will be automatically renewed for an additional ten years upon its termination date, unless written notice has been given by Super TV.

Technology Development Agreement, dated June 7, 2004 and amended on February 9, 2012, between N-S Digital TV and Super TV. N-S Digital TV engaged Super TV to develop all technology required by N-S Digital TV or its customers. The fees payable by N-S Digital TV to Super TV under the agreement will be calculated according to the following formula:

The price at which N-S Digital TV sells the technology products developed by Super TV multiplied by a set percentage multiplied by the quantity of the products sold.

The set percentage is determined by Super TV. In 2011, N-S Digital TV paid nil to Super TV under this agreement. The term of the agreement is ten years, which may not be terminated prior to its termination date without Super TV s written consent. The term of this agreement will be automatically renewed for an additional ten years upon its termination date, unless written notice has been given by Super TV.

Products and Software Purchase Agreement, dated June 7, 2004 and amended on February 9, 2012, between N-S Digital TV and Super TV. N-S Digital TV exclusively purchased from Super TV all the smart cards and related software products required for its CA systems. The purchase price was RMB65 (US$9.5) for each smart card (including related software), which is determined by Super TV and may be adjusted annually by Super TV based on fair market value. The term of the agreement is 15 years, which may not be terminated prior to its termination date without Super TV s written consent. The term of this agreement will be automatically renewed for another 15 years upon its termination date, unless written notice has been given by Super TV. N-S Digital TV subsequently obtained Super TV s consent to produce by itself or purchase from a third party smart cards beginning March 2006. The aggregate value of transactions between N-S Digital TV and Super TV under this agreement was RMB381.8 million (US$59.1 million) in 2011.

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Framework Agreement for Purchase of Computer Chips, dated December 12, 2008, between N-S Digital TV and Super TV. Pursuant to this agreement, N-S Digital TV will purchase computer chips from Super TV, which in turn will source such computer chips from suppliers such as STM and Infineon. The term of this agreement is indefinite and is terminable by agreement between the parties. N-S Digital TV intends to purchase substantially all computer chips it needs through Super TV. The aggregate value of transactions between N-S Digital TV and Super TV under this agreement was RMB 15.9 million (US$2.5 million) in 2011.

Framework Agreement for Sale of Software Products, dated July 14, 2009, between N-S Digital TV and Super TV. Super TV granted N-S Digital TV the exclusive right to sell its software products relating to advertisement editing and CA systems and other software products as agreed by the parties. The amount, price and related fees will be specified by each order provided by N-S Digital TV to Super TV. The agreement has a term of five years and is terminable by Super TV at any time. In 2011, Digital Rights Management, a content protection system for IPTV, was sold under the framework agreement. The aggregate value of transactions between N-S Digital TV and Super TV under this agreement was RMB 1.4 million (US$0.2 million) in 2011.

Shareholder Rights and Corporate Governance

Option to Purchase Ownership Interest

An equity transfer option agreement was entered into among Super TV, N-T Information Engineering and Li Yang on June 7, 2004, as amended by a supplemental agreement, dated September 1, 2005, among Super TV, N-T Information Engineering, Li Yang and N-S Digital TV, and further amended by a second supplemental agreement, dated August 18, 2007, among Super TV, N-T Information Engineering, Li Yang, N-S Digital TV and Wei Gao, a third supplemental agreement, dated June 20, 2008, among Super TV, N-S Digital TV, N-T Information Engineering, Wei Gao and Junming Wu, a fourth supplemental agreement, dated November 24, 2008, among Super TV, N-S Digital TV, N-T Information Engineering, Junming Wu, Lei Zhang and Shizhou Shen, a fifth supplemental agreement, dated July 11, 2011, among Super TV, N-S Digital TV, Junming Wu, Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang, and a supplemental agreement, dated February 9, 2012, among Super TV, N-S Digital TV, Wenjun Wang, Tianxing Wang, Lei Zhang and Shizhou Shen, referred to collectively as the Transfer Option Agreement. Pursuant to the Transfer Option Agreement, Wenjun Wang, Tianxing Wang, Lei Zhang and Shizhou Shen, being all the shareholders of N-S Digital TV, jointly grant Super TV an exclusive and irrevocable option to purchase all of their equity interests in N-S Digital TV at any time that Super TV deems fit. Super TV may purchase such equity interests by itself or designate another party to purchase such equity interests. The total consideration for the granting of the option was RMB10 (US$1.5). The exercise price of the option will be determined by Super TV or its designated third party at the time of the exercise, subject to the requirements of the PRC law or approval of relevant authorities with respect to the minimum purchase price and the basis for the determination of the purchase price. Following any exercise of the option, the parties will enter into a definitive equity interest transfer agreement within two days, or any period agreed to among the parties, after a written notice of exercise is delivered. The Transfer Option Agreement does not have a specified term and will remain in effect unless terminated with the written consent of Super TV.

Pursuant to the Transfer Option Agreement, at all times before Super TV acquires 100% of the equity interests in N-S Digital TV, without Super TV s consent, N-S Digital TV may not (i) amend its organizational documents, increase or reduce its registered capital or otherwise change its capital structure; (ii) sell, transfer, pledge or otherwise dispose of any legal or beneficial interest in any of its assets, business or revenues, or allow the creation of any encumbrance thereon; (iii) engage in any activities that may negatively impact its operations or the value of its assets; or (iv) incur, assume or guarantee any debts except in the ordinary course of business, extend any loan or credit to any person, enter into any material contracts, or engage in any merger or combination with, acquisition of, or make investment in, any other person.

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Under the Transfer Option Agreement, Wenjun Wang, Tianxing Wang, Lei Zhang and Shizhou Shen undertake not to do any of the following without Super TV s consent, at all times before Super TV acquires 100% of the equity interests in N-S Digital TV: (i) transfer or pledge to any third party their equity interests in N-S Digital TV; (ii) cause N-S Digital TV to issue new shares or engage in any transactions that will result in changes to their existing shareholding structures or transfer to any third party N-S Digital TV s equity interests in their respective associated companies; (iii) receive any dividends, loan interest or other benefits from N-S Digital TV; or (iv) make any material adjustment or change to N-S Digital TV s business and operations.

Voting, Financial Support and Other Arrangements

A business operating agreement, dated September 1, 2005, was entered into among Super TV, N-T Information Engineering, Li Yang and N-S Digital TV, as amended by a supplemental agreement, dated August 18, 2007, among Super TV, N-S Information Engineering, Li Yang, N-S Digital TV and Wei Gao, and further amended by a second supplemental agreement, dated June 20, 2008, among Super TV, N-S Digital TV, N-T Information Engineering, Wei Gao and Junming Wu, a third supplemental agreement, dated November 24, 2008, among Super TV, N-S Digital TV, N-T Information Engineering, Junming Wu, Lei Zhang and Shizhou Shen, a fourth supplemental agreement, dated July 11, 2011, among Super TV, N-S Digital TV, Junming Wu, Lei Zhang, Shizhou Shen, Wenjun Wang and Tianxing Wang, and a supplemental agreement, dated February 9, 2012, among Super TV, N-S Digital TV, Wenjun Wang, Tianxing Wang, Lei Zhang and Shizhou Shen, referred to collectively as the Business Operating Agreement. Pursuant to the Business Operating Agreement, N-S Digital TV and its shareholders agreed to (i) accept the policies and guidelines furnished by Super TV from time to time with respect to the hiring and dismissal of employees, operational management and financial system of N-S Digital TV; (ii) appoint the candidates recommended by Super TV as directors of N-S Digital TV and appoint the senior management personnel of Super TV as the general manager, chief financial officer and other senior officers of N-S Digital TV based on Super TV s recommendations; (iii) replace or remove any director or senior management personnel of N-S Digital TV at Super TV s request; and (iv) seek a guarantee from Super TV first when any guarantee is required to secure performance by N-S Digital TV of any contract or working capital loans borrowed by N-S Digital TV and pledge its assets and receivables to Super TV as a counter-guarantee. To date, N-S Digital TV has not sought any such guarantee from Super TV. In addition, Super TV has agreed with N-S Digital TV to serve as a guarantor of N-S Digital TV with respect to contracts or transactions entered into between N-S Digital TV and third parties in respect of N-S Digital TV s business operations. However, as of the date of this annual report, N-S Digital TV has not asked Super TV to provide, and Super TV has not provided, any such guarantee in favor of a third party. The Business Operating Agreement has a term of ten years and may be renewed at the option of Super TV by giving written notice for a term to be determined by Super TV. Super TV may terminate this agreement at any time by giving 30 days advance written notice to the other parties to this agreement.

Each of Wenjun Wang, Tianxing Wang, Lei Zhang and Shizhou Shen executed a power of attorney, dated January 16, 2012, to appoint Super TV or a third party designated by Super TV as an attorney-in-fact to exercise all its voting rights as a shareholder of N-S Digital TV. The term of the powers of attorney is ten years, subject to earlier termination in the event of the termination of the relevant share pledge agreement. The powers of attorney will be automatically renewed upon the extension of the term of the relevant share pledge agreement.

Share Pledge Agreements

N-T Information Engineering and Super TV entered into a share pledge agreement, dated September 1, 2005, pursuant to which N-T Information Engineering had pledged all of its equity interests in N-S Digital TV to Super TV to secure the payment obligations of N-S Digital TV under certain contractual arrangements between N-S Digital TV and Super TV. This agreement was terminated on November 24, 2008, following the transfer by N-T Information Engineering of all of its equity interests in N-S Digital TV to Lei Zhang and Shizhou Shen. On November 24, 2008, Mr. Zhang and Mr. Shen each entered into a share pledge agreement with Super TV, pursuant to which Mr. Zhang and Mr. Shen have pledged all of their respective equity interests in N-S Digital TV to Super TV to secure their respective payment obligations under their respective loan agreements with Super TV, each dated November 24, 2008.

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Pursuant to the share pledge agreement, dated September 1, 2005, between Super TV and Li Yang, as amended by a supplemental agreement, dated August 18, 2007, between Super TV, Li Yang and Wei Gao, and further amended by a second supplemental agreement, dated June 20, 2008, among Super TV, Wei Gao and Junming Wu, Mr. Wu has pledged all of his equity interests in N-S Digital TV to Super TV to secure the payment obligations of N-S Digital TV under certain contractual arrangements between N-S Digital TV and Super TV. This agreement was terminated on July 11, 2011, following the transfer by Mr. Wu of all of his equity interests in N-S Digital TV to Tianxing Wang.

Each of Wenjun Wang, Tianxing Wang, Lei Zhang and Shizhou Shen entered into a share pledge agreement with Super TV on July 11, 2011, which was superceded by another share pledge agreement with Super TV on January 16, 2012. Pursuant to the share pledge agreements, each of Wenjun Wang, Tianxing Wang, Lei Zhang and Shizhou Shen has pledged all his equity interests in N-S Digital TV to Super TV to secure his and N-S Digital TV s performance of their respective obligations under the VIE contractual arrangements between N-S Digital TV or its shareholders and Super TV. Under such share pledge agreements, each of Wenjun Wang, Tianxing Wang, Lei Zhang and Shizhou Shen has agreed not to transfer his equity interests in N-S Digital TV or create, or allow the creation of, any pledge on their respective equity interests in N-S Digital TV that may affect Super TV s interests without Super TV s consent. Pursuant to such agreements, Super TV is entitled to receive the dividends on the pledged equity interests during the term of the pledge. The duration of each of the share pledge agreements is equivalent to the maximum duration of the VIE contractual arrangements between N-S Digital TV and/or its shareholders and Super TV. The share pledge agreements may only be terminated: (i) by Super TV in writing; or (ii) upon the fulfillment of N-S Digital TV s and its shareholders respective obligations under the VIE contractual arrangements between N-S Digital TV and/or its shareholders and Super TV, which is subject to Super TV s written confirmation. The share pledge agreements were registered with the Beijing Administration of Industry and Commerce on February 1, 2012.

Loans to N-S Digital TV s Shareholders

Pursuant to two loan agreements, each dated November 24, 2008, between Super TV and each of Lei Zhang and Shizhou Shen, respectively, as amended by a supplemental agreement to the loan agreements, dated January 16, 2012, among Super TV, Wenjun Wang, Tianxing Wang, Lei Zhang and Shizhou Shen, Super TV provided a loan in the principal amount of RMB6.2 million (US$0.9 million) to each of Mr. Zhang and Mr. Shen. The term of each loan is ten years, which is automatically renewable for another ten years upon its termination date, unless a written notice has been provided by Super TV one month prior to such termination date. Mr. Zhang and Mr. Shen may not repay the loan prior to the termination date of the relevant loan agreement, unless so requested by Super TV, and may only repay the loan by (i) transferring all his equity interests in N-S Digital TV to Super TV or any third party designated by Super TV and (ii) paying Super TV with the entire proceeds obtained by himself from such transfer. The interest rate of each loan is nil. Super TV provided such loans to Mr. Zhang and Mr. Shen to fund their acquisitions of N-T Information Engineering s equity interests in N-S Digital TV.

Pursuant to three loan agreements, each dated July 11, 2011, between Super TV and each of Wenjun Wang, Tianxing Wang and Lei Zhang, respectively, as amended by a supplemental agreement to the loan agreements, dated January 16, 2012, among Super TV, Wenjun Wang, Tianxing Wang, Lei Zhang and Shizhou Shen, Super TV provided a loan in the principal amount of RMB43.3 million (US$6.7 million), RMB46.9 million (US$7.3 million) and RMB35.1 million (US$5.5 million) to each of Wenjun Wang, Tianxing Wang and Lei Zhang. The term of each loan is ten years, which is automatically renewable for another ten years upon its termination date, unless a written notice has been provided by Super TV one month prior to such termination date. Wenjun Wang, Tianxing Wang and Lei Zhang may not repay the loan prior to the termination date of the relevant loan agreement, unless so requested by Super TV, and may only repay the loan by (i) transferring all his equity interests in N-S Digital TV to Super TV or any third party designated by Super TV and (ii) paying Super TV with the entire proceeds obtained by himself from such transfer. The interest rate of each loan is nil. Super TV provided such loans to Wenjun Wang, Tianxing Wang and Lei Zhang in July 2011 to fund their additional contribution to N-S Digital TV s registered capital.

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Other 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 rights under the Shareholders Agreement shall terminate on June 14, 2015.

Interest Payment Agreement

Pursuant to an agreement, dated November 30, 2006, between Super TV and N-S Digital TV, N-S Digital TV agreed to pay interest at a rate equal to commercial banks lending rate for one-year loans on the payments payable by N-S Digital TV to Super TV for the purchases of products from Super TV. Interest payable will start to accrue from the first day of the month following the confirmation of the corresponding sales until the actual payment. No interest was accrued as of December 31, 2011 under this agreement.

Assets Transfer Agreement (Cyber Cloud)

Pursuant to an agreement for assets transfer, dated April 25, 2011, between Super TV and Cyber Cloud, Super TV transferred to Cyber Cloud the cloud computing technology related assets, for a consideration of RMB0.7 million (US$0.1 million). Pursuant to an agreement for assets transfer, dated April 25, 2011, between N-S Digital TV and Cyber Cloud, N-S Digital TV transferred to Cyber Cloud the cloud computing technology related assets, for a consideration of RMB6,177.3 (US$951.8). Pursuant to an agreement for assets transfer, dated April 25, 2011, between N-S Media Investment and Cyber Cloud, N-S Media Investment transferred to Cyber Cloud the cloud computing technology related assets, for a consideration of RMB833.1 (US$128.4).

Shareholder Investment Agreement (Joysee)

Pursuant to an agreement, dated May 24, 2011, among Super TV, N-S Digital TV and Ying Zhi Cheng Techonology, N-S Digital TV contributed cash of RMB6.0 million (US$0.9 million), representing a 16.7% equity interest in Joysee.

Assets Transfer Agreements (Joysee)

Pursuant to an assets restructuring agreement, dated July 25, 2011, between N-S Digital TV and Joysee, N-S Digital TV transferred to Joysee all of its intellectual terminal and valued-added services-related fixed-assets and inventories for a consideration of RMB0.2 million (US$0.03 million).

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Pursuant to an assets restructuring agreement, dated July 25, 2011, between Super TV and Joysee, Super TV transferred all of its intellectual terminal and valued-added services-related fixed-assets, inventories and personnel to Joysee, for a consideration of RMB0.2 million (US$0.03 million).

Assets Transfer Agreement (Super Movie)

Pursuant to an agreement, dated October 1, 2011, between N-S Digital TV and Super Movie, N-S Digital TV transferred to Super Movie the high-definition digital television distribution-related assets and personnel, for a consideration of RMB1.5 million (US$0.2 million).

Framework Cooperation Agreement (Shibo Movie and Xinghe Union)

Pursuant to a framework cooperation agreement, dated June 7, 2011, between Super TV and AirMedia, the parties agreed to establish Shibo Movie and Xinghe Union in the PRC, which mainly engage in movie-related content sourcing and distribution services. Pursuant to a supplemental agreement, dated December 21, 2011, among Super TV, N-S Digital TV and AirMedia, Super TV transferred its rights and obligations under the framework cooperation agreement to N-S Digital TV.

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 December 2008, in the belief that a special dividend is an efficient use of our cash to maximize shareholder value, our board of directors determined to declare and pay a special cash dividend of US$1.00 per ordinary share of the company. This special dividend in the amount of US$57.3 million was fully paid by the end of February 2009.

In November 2010, our board of directors declared a special cash dividend of US$2.00 per ordinary share to be paid in two installments of US$1.00 each. The special cash dividend was fully paid on May 31, 2011.

In May 2011, our board of directors declared a special cash dividend of US$0.56 per ordinary share. The dividend was fully paid by April 13, 2012.

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. In addition, our board of directors has determined to retain all the undistributed earnings of our operating

subsidiaries inside the PRC for use in the operation and expansion of our business within the PRC.

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We may rely on our operating subsidiary, Super TV, for our cash needs, including the funds necessary to pay dividends to our shareholders. The payment of dividends by Super TV is subject to limitations. See Item 3. Key Information D. Risk Factors Risks Relating to the People s Republic of China 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 on our ability to conduct our business.

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 in any means it deems legal, fair and practical.

B. Significant Changes

There have been no significant changes since December 31, 2011, 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, have been listed on the NYSE since October 5, 2007. Our ADSs trade under the symbol STV. The NYSE is the principal trading market for our ADSs, which are not listed on any other exchanges in or outside the United States.

The high and low closing prices of our ADSs on the NYSE since listing are as follows:

	Price per ADS (US$)	
	High	Low
Yearly:		
2007[(1)]	51.08	25.60
2008	27.55	4.25
2009	11.31	5.83
2010	9.21	5.30
2011	7.42	3.17
Quarterly:		
First Quarter, 2010	7.99	6.06
Second Quarter, 2010	7.62	5.30
Third Quarter, 2010	7.50	5.51
Fourth Quarter, 2010	9.21	6.22
First Quarter, 2011	7.42	5.82
Second Quarter, 2011	7.34	5.02
Third Quarter, 2011	5.44	3.88
Fourth Quarter, 2011	4.24	3.17
First Quarter, 2012	4.05	3.27
Monthly:		
October 2011	4.03	3.51
November 2011	4.24	3.52
December 2011	3.72	3.17
January 2012	3.59	3.27
February 2012	4.03	3.56
March 2012	4.05	3.42
April 2012 (through April 16)	3.49	3.25

(1) Our ADSs commenced trading on the NYSE on October 5, 2007.

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As of March 31, 2012, a total of 28,769,682 ADSs were outstanding, excluding the 527,404 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, 2011, 28,769,682 ordinary shares were registered in the name of Deutsche Bank Trust Company Americas, the depositary under the deposit agreement, excluding 527,404 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, have been listed on the NYSE since October 5, 2007 under the symbol STV.

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.

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. Also see Item 4. Information on the Company B. Business Overview Regulation Foreign Currency Exchange and Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions for information on foreign currency exchange in the PRC.

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E. Taxation

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 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 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 voting stock,

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.

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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 foreign 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 depositary 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 and you are:

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. The tax treatment of holding shares is identical to that of holding ADSs.

Taxation of Dividends

Under the United States federal income tax laws, and subject to 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. If you are a non-corporate U.S. holder, including an individual, dividends paid to you in taxable years beginning before January 1, 2013 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to the ADSs generally will be qualified dividend income provided that, in the year that you receive the dividend, the ADSs are readily tradable on an established securities market in the United States. The NYSE should qualify as an established securities market in the United States.

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 United States corporations in respect of dividends received from other United States corporations. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the ADSs and thereafter as capital gain.

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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 will generally 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 maximum 15% tax rate. 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.

Dividends will generally be 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.

Taxation of Capital Gains

Subject to the PFIC rules discussed below, if you sell or otherwise dispose of your ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your ADSs. Capital gain of a non-corporate U.S. holder, including an individual, is generally taxed at preferential rates where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

PFIC Rules

Based on an analysis of the value of our assets as of December 31 for the years 2009 through 2011, we were a PFIC during the taxable years 2009 through 2011 for U.S. federal income tax purposes. This conclusion is a factual determination that is made annually and thus we may or may not be a PFIC for the taxable year of 2012 and thereafter.

In general, we will be a PFIC with respect to you 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. 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 were classified as a PFIC for the years described above, you will generally be subject to the special PFIC tax rules or, if you make a mark-to-market election, the mark-to-market rules as described below.

Special PFIC Rules. If we are treated as a PFIC, and you are a U.S. holder that did not make a mark-to-market election, 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).

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Under these rules:

- the gain or excess distribution will be allocated ratably over your holding period for the ADSs,
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income,
- the amount allocated to each prior year, with certain exceptions, 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.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

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. For purposes of this rule, if you make a mark-to-market election with respect to your ADSs, you will be treated as having a new holding period in your ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. In addition, notwithstanding any election you make with regard to the ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for United States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

Mark-to-Market Rules. If you own ADSs in a PFIC that are treated as marketable stock, you should generally be able to make a mark-to-market election. We believe that our ADSs are and will continue to be marketable stock as long as they continue to be traded on NYSE, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your ADSs at the end of the taxable year over your adjusted basis in your ADSs. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the ADSs will be adjusted to reflect any such income or loss amounts.

If you own ADSs during any year that we are a PFIC with respect to you, you must file Internal Revenue Service Form 8621. In addition, pursuant to recently enacted legislation, if you are a U.S. person that is a shareholder in a PFIC, you will generally be required to file an annual report with the Internal Revenue Service. The content of this required statement and potential exemptions to this requirement are currently under development by the U.S. Internal Revenue Service.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

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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 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, 2011, we had US$55.2 million in short-term borrowings, which bear a fixed interest rate, and no 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.

Fluctuations in exchange rates may affect our costs, profit margins and net income. For example, in 2011, substantially all of our revenues were denominated in Renminbi and approximately 45.0% of our cost of revenues was denominated in U.S. dollars. In 2011, fluctuations in the exchange rates between the Renminbi and U.S. dollar and other foreign currencies resulted in a decrease in our net income of approximately US$0.1 million.

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, 2011, a 1.0% appreciation of the Renminbi against the U.S. dollar will result in an estimated increase of approximately US$1.9 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$1.9 million in our total cash and cash equivalents.

Also see Item 3. Key Information D. Risk Factors Risks Relating to the People s Public of China Fluctuations in exchange rates could result in foreign exchange currency 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.

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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 Consumer Price Index in the PRC was 0.7%, 3.3% and 5.4% in 2009, 2010 and 2011, 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 Deutsche Bank Trust Company Americas, or DBTCA, pursuant to a deposit agreement dated as of October 11, 2007, or the Deposit Agreement, by and among us, DBTCA, and holder 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; and

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).

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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;
- 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 Depositary 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, 2011, DBTCA reimbursed us US$0.6 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$28,851 on our behalf for organizing our annual general shareholders meeting for the year of 2011.

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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.

Use of Proceeds

The following use of proceeds information relates to our registration statement on Form F-1 (File No. 333-146072) filed by us in connection with our initial public offering.

The net proceeds from our initial public offering to us, after deduction of fees and expenses, were approximately US$202.2 million. As of December 31, 2011, we had used all of the net proceeds from our initial public offering as follows: US$14.1 million to expand our business through acquisitions of or investment in other businesses and intellectual property (including US$3.1 million of the net proceeds to purchase the equity interest in N-S Digital TV from N-T Information Engineering and the digital watermarking and image tracing technologies from N-T Information Engineering and US$5 million to purchase equity interest in OpenV and US$6 million to purchase equity interest in 3DiJoy), US$56.5 million on general corporate purposes, US$16.1 million on purchasing of corporate bonds, US$16.3 million on our share repurchase plan and related transaction cost and US$99.2 million on payment of cash dividend.

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) and 15d-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) and 15d-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.

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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, 2011 using criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, our management has concluded that the internal control over financial reporting was effective as of December 31, 2011 based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm, as stated in their report included elsewhere in this annual report.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of China Digital TV Holding Co., Ltd.

We have audited the internal control over financial reporting of China Digital TV Holding Co. Ltd. (the Company), its subsidiaries, its variable interest entity (the VIE) and the VIE s subsidiaries (collectively, the Group) as of December 31, 2011, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting 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 the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011 of the Group and our report dated April 17, 2012 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Beijing, the People s Republic of China

April 17, 2012

Changes in Internal Control Over Financial Reporting

There were no significant changes in our internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of 17 CFR 240.13a-15 or 240.15d-15 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

Our board has determined that Mr. Songzuo Xiang, who is one of our independent directors under the applicable rules of the SEC and the NYSE, is an audit committee financial expert within the meaning of the rules of the SEC. Our board appointed Mr. Songzuo Xiang as an audit committee member, effective from December 30, 2009. See Item 6. Directors, Senior Management and Employees.

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

Deloitte Touche Tohmatsu CPA Ltd. has served as our independent registered public accounting firm for each of the fiscal years ended on December 31, 2010 and December 31, 2011, for which audited financial statements appear in this annual report on Form 20-F. The auditor is appointed by our board of directors and will hold office until our board of directors appoint another auditor.

Audit Fees

The aggregate fees billed in each of 2010 and 2011 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$0.8 million and US$0.9 million, respectively.

Audit-Related Fees

The aggregate fees billed in each of 2010 and 2011 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.

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Tax Fees

The aggregate fees billed in each of 2010 and 2011 for professional services relating to tax compliance, tax advice and tax planning rendered by our principal accountant were US$0.01 million and US$0.01 million, respectively.

All Other Fees

The aggregate fees billed in each of 2010 and 2011 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.

Audit Committee s Pre-approval Policies and Procedures

The audit committee of our board of directors is directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditors. Pursuant to the audit committee charter adopted by the board of directors on September 13, 2007, the committee has the authority and responsibility to appoint, retain and terminate our independent auditors (subject, if applicable, to shareholder approval), and has sole authority to approve all audit engagement fees and terms. The audit committee has the power to preapprove, or to adopt appropriate procedures to preapprove, all audit and non-audit services to be provided by the independent auditors, and to consider whether the outside auditor s provision of non-audit services to us is compatible with maintaining the independence of the outside auditors. The audit committee may, in its discretion, delegate to one or more of its members the authority to preapprove any audit or non-audit services to be performed by the independent auditors, provided that such approvals are presented to the audit committee at its next scheduled meeting.

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

There has been no change in our certifying accountant during our two most recent fiscal years or any subsequent interim period.

Item 16G. Corporate Governance

As our ADSs are registered with the SEC and are listed on the NYSE, we are subject to corporate governance requirements imposed by both the SEC and the NYSE.

We are incorporated in the Cayman Islands. Under Section 303A of the NYSE Listed Company Manual, NYSE-listed non-U.S. companies may, in general, follow their home country corporate governance practices in lieu of some of the NYSE corporate governance requirements. A NYSE-listed non-U.S. company is required to provide a general summary of the significant differences to its U.S. investors either on the company website or its annual report distributed to its U.S. investors.

Our board of directors continued to consist of a majority of independent directors.

As a general matter, we are committed to a high standard of corporate governance and endeavor to comply with most of the NYSE corporate governance practices. Other than what is disclosed in the preceding paragraph, we believe that there are no significant differences with our corporate governance policies as compared to what the NYSE requires of domestic listed companies.

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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.
2.1*	Specimen of Share Certificate.
2.2*	Form of Deposit Agreement, including form of American Depositary Receipts.
2.3*	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*	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*	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*	Asset Purchase Agreement, dated June 8, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.4*	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*	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.

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Number	Description of Exhibit
4.6*	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*	Equipment Leasing Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.8*	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*	Technology License Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.10*	Technology Development Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.11*	Products and Software Purchase Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.12+	Letter of Consent, dated April 30, 2009, issued by Beijing Super TV Co., Ltd. to Beijing Novel-Super Digital TV Technology Co., Ltd.
4.13+	Equity Transfer Agreement, dated June 20, 2008 between Wei Gao and Junming Wu for Beijing Novel-Super Digital TV Technology Co., Ltd.
4.14+	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.
4.15+	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.
4.16	Equity Transfer Option Agreement, dated June 7, 2004, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Li Yang*; 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.*; 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*; 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+; 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+; 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.
4.17*	Share Pledge Agreement, dated September 1, 2005, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Super TV Co., Ltd.
4.18+	Termination Agreement of Share Pledge, dated November 24, 2008, between Beijing Super TV Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd.

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Number	Description of Exhibit
4.19	Share Pledge Agreement, dated September 1, 2005, between Li Yang and Beijing Super TV Co., Ltd.*; the Supplemental Agreement thereto, dated August 18, 2007, among Li Yang, Beijing Super TV Co., Ltd. and Wei Gao*; the No. 2 Supplemental Agreement thereto, dated June 20, 2008, among Beijing Super TV Co., Ltd., Wei Gao and Junming Wu+; and the Share Pledge Termination Agreement, dated July 11, 2011 between Beijing Super TV Co., Ltd. and Junming Wu.
4.20+	Share Pledge Agreement, dated November 24, 2008, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.21+	Share Pledge Agreement, dated November 24, 2008, between Lei Zhang and Beijing Super TV Co., Ltd.
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. *; 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*; 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+; 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+; 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.
4.23*	Power of Attorney, dated September 1, 2005, of Novel-Tongfang Information Engineering Co., Ltd.
4.24*	Power of Attorney, dated August 18, 2007, of Wei Gao.
4.25+	Power of Attorney, dated June 20, 2008, of Junming Wu.
4.26+	Power of Attorney, dated November 24, 2008, of Shizhou Shen.
4.27+	Power of Attorney, dated November 24, 2008, of Lei Zhang.
4.28*	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*	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*	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*	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+	Loan Agreement, dated November 24, 2008, between Shizhou Shen and Beijing Super TV Co., Ltd.

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Number	Description of Exhibit
4.33+	Loan Agreement, dated November 24, 2008, between Lei Zhang and Beijing Super TV Co., Ltd.
4.34*	Service Agreement, dated April 2, 2007, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.
4.35*	Interest Payment Agreement, dated November 30, 2006, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.36*	Form of Property Lease Agreement.
4.37*	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*	Form of Employment Agreement and related Form of Agreement on Confidentiality and Intellectual Property.
4.39*	Form of Non-Disclosure, Non-Competition, Commitment and Proprietary Information Agreement.
4.40*	Form of Indemnification Agreement for Directors.
4.41*	Amended and Restated 2005 Stock Incentive Plan of China Digital TV Holding Co., Ltd. and form of share option agreement.
4.42 *	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*	Cooperation Agreement, dated July 18, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and China Electronics Smart Card Co., Ltd.
4.44*	2008 Stock Incentive Plan of China Digital TV Holding Co., Ltd.
4.45#	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+	Intellectual Property Transfer Agreement, dated August 13, 2008, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Super TV Co., Ltd.
4.47+	Equity Transfer Agreement, dated October 5, 2008, between Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
4.48+	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**	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**	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##	Shareholders Agreement, dated December 1, 2010, between Beijing Super TV Co., Ltd. and Beijing Yuewu Yuntian Software Technology Co., Ltd.

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Number	Description of Exhibit
4.52##	Shareholders Agreement, dated April 29, 2011, between Beijing Super TV Co., Ltd. and Beijing Ying Zhi Cheng Technology Co., Ltd.
4.53##	2010 Stock Incentive Plan of China Digital TV Holding Co., Ltd.
4.54	Loan Agreement, dated July 11, 2011, between Lei Zhang and Beijing Super TV Co., Ltd.
4.55	Loan Agreement, dated July 11, 2011, between Tianxing Wang and Beijing Super TV Co., Ltd.
4.56	Loan Agreement, dated July 11, 2011, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.57	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.
4.58	Power of Attorney, dated July 11, 2011, of Lei Zhang.
4.59	Power of Attorney, dated July 11, 2011, of Shizhou Shen.
4.60	Power of Attorney, dated July 11, 2011, of Tianxing Wang.
4.61	Power of Attorney, dated July 11, 2011, of Wenjun Wang.
4.62	Share Pledge Agreement, dated July 11, 2011, between Lei Zhang and Beijing Super TV Co., Ltd.
4.63	Share Pledge Agreement, dated July 11, 2011, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.64	Share Pledge Agreement, dated July 11, 2011, between Tianxing Wang and Beijing Super TV Co., Ltd.
4.65	Share Pledge Agreement, dated July 11, 2011, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.66	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	Power of Attorney, dated January 16, 2012, of Lei Zhang.
4.68	Power of Attorney, dated January 16, 2012, of Shizhou Shen.
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4.70	Power of Attorney, dated January 16, 2012, of Wenjun Wang.
4.71	Share Pledge Agreement, dated January 16, 2012, between Lei Zhang and Beijing Super TV Co., Ltd.
4.72	Share Pledge Agreement, dated January 16, 2012, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.73	Share Pledge Agreement, dated January 16, 2012, between Tianxing Wang and Beijing Super TV Co., Ltd.

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Number	Description of Exhibit
4.74	Share Pledge Agreement, dated January 16, 2012, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.75	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	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	Cooperation Termination Agreement, dated November 9, 2011, between Dongguan SuperTV Video Info Co., Ltd. and the Dongguan branch of the Guangdong Broadcasting TV Network Co., Ltd.
4.78	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.
4.79	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.
8.1	List of Subsidiaries of China Digital TV Holding Co., Ltd.
11.1*	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).
23.1	Consent of Deloitte Touche Tohmatsu CPA Ltd.
23.2	Consent of King & Wood Mallesons, 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

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* 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.

\# 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.

\+ 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.

** 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.

\## 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.

XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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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: Chairman and Chief Executive Officer

Date: April 17, 2012

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EXHIBIT INDEX

Number	Description of Exhibit
1.1*	Second Amended and Restated Memorandum and Articles of Association of China Digital TV Holding Co., Ltd.
2.1*	Specimen of Share Certificate.
2.2*	Form of Deposit Agreement, including form of American Depositary Receipts.
2.3*	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*	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*	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*	Asset Purchase Agreement, dated June 8, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.4*	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*	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*	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*	Equipment Leasing Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.8*	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*	Technology License Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.10*	Technology Development Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.

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Number	Description of Exhibit
4.11*	Products and Software Purchase Agreement, dated June 7, 2004, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.12+	Letter of Consent, dated April 30, 2009, issued by Beijing Super TV Co., Ltd. to Beijing Novel-Super Digital TV Technology Co., Ltd.
4.13+	Equity Transfer Agreement, dated June 20, 2008 between Wei Gao and Junming Wu for Beijing Novel-Super Digital TV Technology Co., Ltd.
4.14+	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.
4.15+	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.
4.16	Equity Transfer Option Agreement, dated June 7, 2004, among Beijing Super TV Co., Ltd., Novel-Tongfang Information Engineering Co., Ltd. and Li Yang*; 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.*; 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*; 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+; 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+; 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.
4.17*	Share Pledge Agreement, dated September 1, 2005, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Super TV Co., Ltd.
4.18+	Termination Agreement of Share Pledge, dated November 24, 2008, between Beijing Super TV Co., Ltd. and Novel-Tongfang Information Engineering Co., Ltd.
4.19	Share Pledge Agreement, dated September 1, 2005, between Li Yang and Beijing Super TV Co., Ltd.*; the Supplemental Agreement thereto, dated August 18, 2007, among Li Yang, Beijing Super TV Co., Ltd. and Wei Gao*; the No. 2 Supplemental Agreement thereto, dated June 20, 2008, among Beijing Super TV Co., Ltd., Wei Gao and Junming Wu+; and the Share Pledge Termination Agreement, dated July 11, 2011 between Beijing Super TV Co., Ltd. and Junming Wu.
4.20+	Share Pledge Agreement, dated November 24, 2008, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.21+	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. *; 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*; 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+; 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+; 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.
4.23*	Power of Attorney, dated September 1, 2005, of Novel-Tongfang Information Engineering Co., Ltd.
4.24*	Power of Attorney, dated August 18, 2007, of Wei Gao.
4.25+	Power of Attorney, dated June 20, 2008, of Junming Wu.
4.26+	Power of Attorney, dated November 24, 2008, of Shizhou Shen.
4.27+	Power of Attorney, dated November 24, 2008, of Lei Zhang.
4.28*	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*	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*	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*	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+	Loan Agreement, dated November 24, 2008, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.33+	Loan Agreement, dated November 24, 2008, between Lei Zhang and Beijing Super TV Co., Ltd.
4.34*	Service Agreement, dated April 2, 2007, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Novel-Tongfang Digital TV Technology Co., Ltd.
4.35*	Interest Payment Agreement, dated November 30, 2006, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.
4.36*	Form of Property Lease Agreement.
4.37*	Fixed Assets Transfer Agreement, dated March 28, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and Beijing Super TV Co., Ltd.

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Number	Description of Exhibit
4.38*	Form of Employment Agreement and related Form of Agreement on Confidentiality and Intellectual Property.
4.39*	Form of Non-Disclosure, Non-Competition, Commitment and Proprietary Information Agreement.
4.40*	Form of Indemnification Agreement for Directors.
4.41*	Amended and Restated 2005 Stock Incentive Plan of China Digital TV Holding Co., Ltd. and form of share option agreement.
4.42 *	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*	Cooperation Agreement, dated July 18, 2007, between Beijing Novel-Tongfang Digital TV Technology Co., Ltd. and China Electronics Smart Card Co., Ltd.
4.44*	2008 Stock Incentive Plan of China Digital TV Holding Co., Ltd.
4.45#	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+	Intellectual Property Transfer Agreement, dated August 13, 2008, between Novel-Tongfang Information Engineering Co., Ltd. and Beijing Super TV Co., Ltd.
4.47+	Equity Transfer Agreement, dated October 5, 2008, between Beijing Super TV Co., Ltd. and Beijing Novel-Super Digital TV Technology Co., Ltd.
4.48+	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**	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**	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##	Shareholders Agreement, dated December 1, 2010, between Beijing Super TV Co., Ltd. and Beijing Yuewu Yuntian Software Technology Co., Ltd.
4.52##	Shareholders Agreement, dated April 29, 2011, between Beijing Super TV Co., Ltd. and Beijing Ying Zhi Cheng Technology Co., Ltd.
4.53##	2010 Stock Incentive Plan of China Digital TV Holding Co., Ltd.
4.54	Loan Agreement, dated July 11, 2011, between Lei Zhang and Beijing Super TV Co., Ltd.
4.55	Loan Agreement, dated July 11, 2011, between Tianxing Wang and Beijing Super TV Co., Ltd.
4.56	Loan Agreement, dated July 11, 2011, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.57	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.

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Number	Description of Exhibit
4.58	Power of Attorney, dated July 11, 2011, of Lei Zhang.
4.59	Power of Attorney, dated July 11, 2011, of Shizhou Shen.
4.60	Power of Attorney, dated July 11, 2011, of Tianxing Wang.
4.61	Power of Attorney, dated July 11, 2011, of Wenjun Wang.
4.62	Share Pledge Agreement, dated July 11, 2011, between Lei Zhang and Beijing Super TV Co., Ltd.
4.63	Share Pledge Agreement, dated July 11, 2011, between Shizhou Shen and Beijing Super TV Co., Ltd.
4.64	Share Pledge Agreement, dated July 11, 2011, between Tianxing Wang and Beijing Super TV Co., Ltd.
4.65	Share Pledge Agreement, dated July 11, 2011, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.66	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	Power of Attorney, dated January 16, 2012, of Lei Zhang.
4.68	Power of Attorney, dated January 16, 2012, of Shizhou Shen.
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4.74	Share Pledge Agreement, dated January 16, 2012, between Wenjun Wang and Beijing Super TV Co., Ltd.
4.75	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	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	Cooperation Termination Agreement, dated November 9, 2011, between Dongguan SuperTV Video Info Co., Ltd. and the Dongguan branch of the Guangdong Broadcasting TV Network Co., Ltd.

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Number	Description of Exhibit
4.78	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.
4.79	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.
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11.1*	Code of Business Conduct and Ethics of China Digital TV Holding Co., Ltd.
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\# 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.

\+ 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.

** 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.

\## 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.

XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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CHINA DIGITAL TV HOLDING CO., LTD.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF

CHINA DIGITAL TV HOLDING CO., LTD.

We have audited the accompanying consolidated balance sheets of China Digital TV Holding Co., Ltd. (the Company), its subsidiaries, and its variable interest entity (the VIE) and the VIE s subsidiaries (collectively, the Group) as of December 31, 2010 and 2011, and the related consolidated statements of operations, equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2010 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group s internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 17, 2012 expressed an unqualified opinion on the Group s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Beijing, The People s Republic of China

April 17, 2012

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CHINA DIGITAL TV HOLDING CO., LTD.

CONSOLIDATED BALANCE SHEETS

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

	As of December 31, 2010	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 148,944	$ 201,557
Restricted cash	16	55,679
Bank deposits maturing over three months	41,667	
Held-to-maturity securities	26,984	
Notes receivable	2,387	9,168
Accounts receivable, net of allowance for doubtful accounts of $758 and $845 as of December 31, 2010 and 2011, respectively	24,214	31,030
Inventories	3,001	3,918
Prepaid expenses and other current assets	12,063	6,768
Deferred costs-current	323	524
Deferred income tax assets-current	941	1,352
Total current assets	260,540	309,996
Property and equipment, net	2,329	1,751
Intangible assets, net	675	450
Goodwill	516	541
Equity method investments	8,824	7,766
Deferred costs-non-current	515	379
Deferred income tax assets - non-current	243	455
Total assets	$ 273,642	$ 321,338
TOTAL LIABILITIES AND EQUITY		
Current liabilities:		
Short-term loan (of which nil as of December 31, 2010 and 2011 belonging to the consolidated VIE and VIE s subsidiaries without recourse to the Company, respectively)	$	$ 55,193
Accounts payable (of which $1,074 and $1,222 as of December 31, 2010 and 2011 belonging to the consolidated VIE and VIE s subsidiaries without recourse to the Company, respectively)	1,540	1,487
Accrued expenses and other current liabilities (of which $3,503 and $3,754 as of December 31, 2010 and 2011 belonging to the consolidated VIE and VIE s subsidiaries without recourse to the Company, respectively)	8,848	9,313
Deferred revenue-current (of which $5,240 and $6,005 as of December 31, 2010 and 2011 belonging to the consolidated VIE and VIE s subsidiaries without recourse to the Company, respectively)	5,904	7,745
Dividend payable (of which nil as of December 31, 2010 and 2011 belonging to the consolidated VIE and VIE s subsidiaries without recourse to the Company, respectively)	77,333	33,172
Income tax payable (of which $189 and $353 as of December 31, 2010 and 2011 belonging to the consolidated VIE and VIE s subsidiaries without recourse to the Company, respectively	220	1,902
Total current liabilities	93,845	108,812
Deferred revenue-non-current (of which $777 and $401 as of December 31, 2010 and 2011 belonging to the consolidated VIE and VIE s subsidiaries without recourse to the Company, respectively)	777	401
		1,803

Government subsidies (of which nil as of December 31, 2010 and 2011 belonging to the consolidated VIE and VIE s subsidiaries without recourse to the Company, respectively)		
Total Liabilities	94,622	111,016

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CHINA DIGITAL TV HOLDING CO., LTD.

CONSOLIDATED BALANCE SHEETS - continued

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

	As of December 31,	
	2010	2011
Commitments (Note 24)		
Equity:		
China Digital TV Holding Co., Ltd. Shareholders equity:		
Ordinary shares ($0.0005 par value; 200,000,000 and 200,000,000 shares authorized, 58,817,987 and 58,981,890 shares issued and outstanding as of December 31, 2010 and 2011, respectively)	29	29
Additional paid-in capital	118,799	126,583
Statutory reserve	17,324	17,694
Retained earnings	28,788	36,401
Accumulated other comprehensive income	13,560	25,735
Total China Digital TV Holding Co., Ltd. shareholders equity	178,500	206,442
Noncontrolling interest	520	3,880
Total equity	179,020	210,322
TOTAL LIABILITIES AND EQUITY	$ 273,642	$ 321,338

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 OPERATIONS

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

	For the years ended December 31,		
	2009	2010	2011
Revenues			
Products	$ 49,146	$ 82,518	$ 95,162
Services	5,918	5,225	5,378
Total revenues	55,064	87,743	100,540
Business taxes	(360)	(620)	(1,445)
Net revenues	54,704	87,123	99,095
Cost of revenues (including share-based compensation of $30, $10 and $52 for 2009, 2010 and 2011, respectively)			
Products	9,716	15,148	16,100
Services	3,686	3,040	3,027
Total cost of revenues	13,402	18,188	19,127
Gross profit	41,302	68,935	79,968
Operating expenses:			
Research and development (including share-based compensation of $713, $393, and $1,025 for 2009, 2010 and 2011, respectively)	8,779	10,432	13,140
Selling and marketing (including share-based compensation of $447, $384 and $633 for 2009, 2010 and 2011, respectively)	7,203	8,504	12,377
General and administrative (including share-based compensation of $472, $691, and $3,852 for 2009, 2010 and 2011, respectively)	4,793	6,389	9,723
Total operating expenses	20,775	25,325	35,240
Income from operations	20,527	43,610	44,728
Interest income	6,070	5,294	6,810
Interest expense			(1,452)
Gain from forward contract			404
Impairment loss of cost method investment		(5,000)	
Other (expense)/ income	(65)	(92)	594
Income before income taxes	26,532	43,812	51,084
Income tax (expenses)/benefits:			
Income tax-current	(1,661)	(10,714)	(10,344)

Income tax-deferred	400	464	582
Total income tax expenses	(1,261)	(10,250)	(9,762)
Net income before income/ (loss) from equity method investments	25,271	33,562	41,322
Income/(loss) from equity method investments, net of income taxes	20	(151)	(1,052)
Net income	25,291	33,411	40,270
Net loss attributable to noncontrolling interest	13	10	730
Net income attributable to China Digital TV Holding Co., Ltd	$ 25,304	$ 33,421	$ 41,000
Net income per share attributable to ordinary shareholders of China Digital TV Holding Co., Ltd.			
Basic	$ 0.44	$ 0.57	$ 0.70
Diluted	$ 0.43	$ 0.57	$ 0.69
Weighted average shares used in calculating net income per ordinary share			
Basic	57,728,009	58,313,467	58,934,912
Diluted	58,591,072	58,779,027	59,075,466

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 EQUITY AND COMPREHENSIVE INCOME

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

	China Digital TV Holding Co., Ltd. Shareholders									
	Ordinary Shares	Amount	Additional paid-in capital	Accumulated other comprehensive income	Statutory reserve	Retained earnings	Total China Digital TV Holding Co., Ltd Shareholders equity	Noncontrolling Interest	Total equity	Total comprehensive income
Balance at January 1, 2009	57,209,548	$ 29	$ 154,643	$ 6,696	$ 10,184	$ 52,910	$ 224,462	$ 1,564	$ 226,026	
Share-based compensation			1,662				1,662		1,662	
Provision for statutory reserve					2,507	(2,507)				
Exercise of stock option	835,092		762				762		762	
Special cash dividend to shareholders			(87)				(87)		(87)	
Transfer of noncontrolling interest			1,000				1,000	(1,000)		
Dongguan SuperTV deconsolidation								(551)	(551)	
Comprehensive income:										
Net income						25,304	25,304	(13)	25,291	25,291
Foreign currency translation adjustment				(79)			(79)		(79)	(79)
Total comprehensive income				(79)		25,304	25,225	(13)	25,212	25,212
Balance at December 31, 2009	58,044,640	29	157,980	6,617	12,691	75,707	253,024		253,024	$ 25,212
Share-based compensation			1,478				1,478		1,478	
Provision for statutory reserve					4,633	(4,633)				
Exercise of stock option	773,347		1,270				1,270		1,270	
Special cash dividend to shareholders			(41,929)			(75,707)	(117,636)		(117,636)	
Noncontrolling interest of Dongguan Super TV								530	530	
Comprehensive income:										
Net income						33,421	33,421	(10)	33,411	33,411
Foreign currency translation adjustment				6,943			6,943		6,943	6,943
Total comprehensive income				6,943		33,421	40,364	(10)	40,354	40,354
Balance at December 31, 2010	58,817,987	29	118,799	13,560	17,324	28,788	178,500	520	179,020	$ 40,354
Share-based compensation			5,562				5,562		5,562	
Provision for statutory reserve					370	(370)				
Exercise of stock option	163,903		400				400		400	
Special cash dividend to shareholders						(33,017)	(33,017)		(33,017)	
Disposal of Dongguan Super TV								(625)	(625)	
Capital injection by noncontrolling shareholders								6,537	6,537	

Transfer of noncontrolling interest			1,822				1,822	(1,822)		
Comprehensive income:										
Net income						41,000	41,000	(730)	40,270	40,270
Foreign currency translation adjustment				12,175			12,175		12,175	12,175
Total comprehensive income				12,175		41,000	53,175	(730)	52,445	52,445
Balance at December 31, 2011	58,981,890	$ 29	$ 126,583	$ 25,735	$ 17,694	$ 36,401	$ 206,442	$ 3,880	$ 210,322	$ 52,445

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

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

	For the years ended December 31,		
	2009	2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 25,291	$ 33,411	$ 40,270
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,691	1,272	1,343
Share-based compensation	1,662	1,478	5,562
(Gain) /loss from disposal of property and equipment	(9)	18	(297)
Allowance for doubtful accounts	(89)	182	87
Write-down of inventory value	59	35	45
Warranty accrual	45	81	84
(Income)/loss from equity method investments	(7)	151	1,052
(Income)/loss from deconsolidation of a subsidiary	(13)	(32)	129
Impairment loss of an intangible asset	271	20	
Impairment loss of cost method investment		5,000	
Interest income in held-to-maturity securities	(553)	(1,218)	(319)
Gain from forward contract			(404)
Changes in assets and liabilities:			
Accounts receivable and notes receivable	(1,468)	(11,692)	(13,684)
Inventories	(731)	1,767	(967)
Prepaid expenses and other current assets	(2,899)	(2,360)	(73)
Deferred cost	(92)	(56)	(65)
Accounts payable	(443)	790	3
Income tax payable	(835)	(1,385)	1,768
Accrued expenses and other current liabilities	(2,563)	3,298	465
Deferred revenue	(446)	2,277	1,465
Government subsidies			1,803
Deferred income taxes	(400)	(464)	(582)
Net cash provided by operating activities	18,471	32,573	37,685
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(1,475)	(606)	(694)
Bank deposits maturing over three months	7,743	25,041	41,667
Restricted cash for investing activities	8		(55,663)
Interest income from held-to-maturity securities	346	1,364	677
Purchase of held-to-maturity corporate and the PRC government bonds	(38,964)	(24,770)	
Proceeds from maturity of held to maturity corporate and the PRC government bonds		37,841	26,626
Cash in a deconsolidated entity	(1,422)		(1,963)
Cash in an acquired entity		922	
Proceeds from disposal of property and equipment	9	152	543
Purchase of equity method investment		(8,500)	
Purchase of cost method investment		(5,000)	
Deposit for investment in Cyber Cloud		(6,818)	
Refund of deposit for investment in Cyber Cloud			6,818
Net cash (used in) / provided by investing activities	(33,755)	19,626	18,011

CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from stock option exercise	759	1,270	400
Short-term loan			55,193
Capital injection by noncontrolling shareholders			6,537
Special cash dividend paid to shareholders	(57,296)	(40,303)	(77,178)
Net cash used in financing activities	(56,537)	(39,033)	(15,048)
Effect of exchange rate changes	(39)	4,691	11,965
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(71,860)	17,857	52,613
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	202,947	131,087	148,944
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 131,087	$ 148,944	$ 201,557
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATIONS			
Income tax paid	2,488	6,680	8,194
Withholding tax paid		5,380	
	$ 2,488	$ 12,060	$ 8,194
Non-cash investing and financing activities			
Disposition of equity interest	$ 293	$	$
Acquisition of equity interest	$	$ 262	$
Receivable on disposal of Dongguan Super TV	$	$	$ 1,046
Dividend payable	$	$ 77,333	$ 33,172

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

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CHINA DIGITAL TV HOLDING CO., LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

China Digital TV Technology Co., Ltd. (CDTV BVI) was incorporated in the British Virgin Islands (BVI) as a limited liability company on March 9, 2004 by the shareholders of Novel-Tongfang Information Engineering Co., Ltd. (N-T Information Engineering) and SB Asia Infrastructure Fund L.P. (SAIF), a third-party investor. The principal activities of CDTV BVI are to install and integrate conditional access systems (CA Systems), subscriber management systems and electronic program guidance systems to cable TV operators in the People s Republic of China (PRC) and to sell digital TV intelligent cards (smart cards) to these operators.

The development, production and sale of commercial encryption products in the PRC are regulated by the PRC National Encryption Administrative Bureau. Currently, foreign-invested enterprises incorporated in the PRC are not expressly prohibited from conducting encryption-related businesses; however, they may have difficulty obtaining the licenses or permits required for conducting such businesses from the Encryption Bureau due to the PRC Encryption Authority s generally restrictive approach towards foreign participation in the PRC encryption industry. In addition, the PRC State Administration of Radio, Film and Television (SARFT) has a policy to require any cable television network operator who uses non-PRC CA systems to install parallel PRC CA systems. Such policy does not expressly indicate whether the CA systems produced by a foreign-invested company incorporated in the PRC fall into the category of non-PRC CA systems. In consideration of the PRC Encryption Authority s preferences and the SARFT s policy, CDTV BVI conducts substantially all of its operations through its subsidiary, Beijing Super TV Co., Ltd. (Super TV), and Novel-Tongfang Digital TV Technology Co., Ltd. (N-T Digital TV), a variable interest entity (VIE), which is 100% owned by PRC citizens and has obtained the license to operate such business in the PRC.

N-T Digital TV was established in the PRC on May 31, 2004 by N-T Information Engineering (who contributed 75% of the paid-in capital) and Ms. Li Yang, who is a PRC citizen representing SAIF (which contributed 25% of the paid-in capital). N-T Digital TV was subsequently renamed to Beijing Novel-Super Digital TV Technology Co., Ltd. (N-S Digital TV) in December 2007. In August 2007, Ms. Li Yang transferred her entire equity interest in N-S Digital TV to Ms. Wei Gao, a PRC citizen representing SAIF. In June 2008, Ms. Wei Gao transferred her entire equity interest in N-S Digital TV to Mr. Junming Wu, a PRC citizen employed by Super TV and the business registration was completed in 2009. In November 2008, N-T Information Engineering transferred its entire equity interest in N-S Digital TV to Mr. Lei Zhang and Mr. Shizhou Shen, two PRC citizens employed by Super TV. In July 2011, Mr. Junming Wu transferred his entire equity interest in N-S Digital TV to Mr. Tianxing Wang. Meanwhile, Mr. Lei Zhang, Mr. Tianxing Wang and Mr. Wenjun Wang, all of whom are PRC citizens employed by Super TV, contributed cash to increase the registered capital of N-S Digital TV by $18,170 using the loans proceeds from Super TV. After these transactions, N-S Digital TV is owned by Mr. Shizhou Shen, Mr. Lei Zhang, Mr. Tianxing Wang and Mr. Wenjun Wang with equity interest of 8.3%, 31.6%, 31.2% and 28.9%, respectively. CDTV BVI does not have direct equity interest in N-S Digital TV, but it obtains control and enjoys the economic benefits of N-S Digital TV through a series of contractual arrangements entered into among Super TV, N-S Digital TV and its equity holders.

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CHINA DIGITAL TV HOLDING CO., LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

In 2007, the shareholders of CDTV BVI established China Digital TV Holding Co., Ltd. (the Company or CDTV Holding), as the holding Company of CDTV BVI and its subsidiary and VIE, CDTV Holding was incorporated in the Cayman Islands. The shareholders of CDTV BVI exchanged all of their shares of CDTV BVI for shares of CDTV Holding in proportion to their percentage interests in CDTV BVI. As a result, CDTV BVI became a wholly owned subsidiary of CDTV Holding.

VIE contractual agreements

A majority of the Group s customers are provincial and municipal cable network operators in the PRC, which are primarily state-owned enterprises (SOEs). Due to the above-mentioned regulatory considerations, these SOEs tend to purchase CA systems from PRC local companies, rather than from companies with foreign investment such as Super TV. In order to accommodate the PRC regulations and participate in the smart card and CA systems business (for the benefit of the Group), the Group arranged for Super TV to enter into the following agreements with N-S Digital TV and its equity holders:

Asset Purchase Agreement: N-T Information Engineering transferred to Super TV the fixed assets relating to its smart card and CA systems business for a purchase price of $698.

Technical Support and Related Services Agreement: Super TV exclusively provides N-S Digital TV and/or its customers with technical support, technical training and personnel services relating to N-S Digital TV s marketing activities and services relating to the maintenance and optimization for the products and software of N-S Digital TV s customers at N-S Digital TV s request. The fees for such technical support and services are determined at Super TV s discretion. The term of this agreement is 15 years, which may not be terminated prior to its termination date without Super TV s written consent. The term of this agreement will be automatically renewed for another 15 years upon its expiration date, unless written notice has been given by Super TV.

Technology License Agreement: N-S Digital TV granted Super TV, free of charge, an exclusive license to use certain software copyrights, patents, unpatentable technology and technical secrets relating to the digital television business that was transferred from N-T Information Engineering to N-S Digital TV. The term of the license is ten years, which may not be terminated or amended without the written consent of Super TV prior to its termination date and will be automatically renewed for an additional ten years upon its termination date, unless written notice has been given by Super TV.

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CHINA DIGITAL TV HOLDING CO., LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

VIE contractual agreements - continued

Technology Development Agreement: N-S Digital TV engaged Super TV to develop all technology required by N-S Digital TV or its customers. The fees payable by N-S Digital TV to Super TV under the agreement will be based on the price and quantity of the technology products, and a set percentage determined by Super TV. The term of the agreement is ten years, which may not be terminated prior to its termination date without Super TV s written consent. The term of this agreement will be automatically renewed for an additional ten years upon its termination date, unless written notice has been given by Super TV.

Products and Software Purchase Agreement: N-S Digital TV exclusively purchased from Super TV all the smart cards and related software products required for its CA systems. The purchase price is determined by Super TV. The term of the agreement is 15 years, which may not be terminated prior to its termination date without Super TV s written consent. The term of this agreement will be automatically renewed for an additional 15 years upon its termination date, unless written notice has been given by Super TV.

Equity Transfer Option Agreement: Under this agreement, Mr. Lei Zhang, Mr. Shizhou Shen, Mr. Wenjun Wang and Mr. Tianxing Wang (the Shareholders) jointly granted Super TV an exclusive and irrevocable option to purchase all of the equity interests held by them in N-S Digital TV at any time that Super TV deems fit. Super TV may purchase these equity interests itself or designate another party to purchase the equity interests. The exercise price of the option will be determined by Super TV at the time of the exercise, subject to the minimum purchase price requirements pursuant to applicable PRC law or otherwise permitted by the relevant PRC authorities. This agreement does not have a specified term and will remain in effect unless terminated with the written consent of Super TV.

Business Operating Agreement: Each of the Shareholders agreed to (i) accept the policies and guidelines furnished by Super TV with respect to the hiring and dismissal of employees, operational management and financial management systems of N-S Digital TV; (ii) appoint the candidates recommended by Super TV as directors of N-S Digital TV and appoint the senior management personnel of Super TV as the general manager, chief financial officer and other senior officers of N-S Digital TV based on Super TV s recommendations; (iii) replace or remove any director or senior management personnel of N-S Digital TV upon Super TV s request; and (iv) seek a guarantee from Super TV first when any guarantee is required to secure performance by N-S Digital TV of any contract or working capital loan borrowed by N-S Digital TV and pledge its assets and receivables to Super TV as a counter-guarantee. This agreement has a term of ten years and may be renewed at the option of Super TV by giving written notice for a term to be determined by Super TV. Super TV may terminate this agreement at any time by giving 30 days advance written notice to the other parties to this agreement.

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CHINA DIGITAL TV HOLDING CO., LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

VIE contractual agreements - continued

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

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

The articles of association of N-S Digital TV provides that the shareholders of N-S Digital TV have 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, through the irrevocable powers of attorney, Super TV has the ability to exercise effective control over N-S Digital TV through shareholders votes and, through such votes, to also control the compensation of the board of directors of N-S Digital TV. In addition, the senior management team of N-S Digital TV are the same as those of Super TV. As a result of these contractual arrangements, Super TV has the power to direct the activities of N-S Digital TV that most significantly impact its economic performance.

Pursuant to the powers of attorney and the share pledge agreements, Super TV holds 100% of the shareholders voting interests in N-S Digital TV and has the right to receive any dividends declared and paid by N-S Digital TV. In addition, since its formation in May 2004, N-S Digital TV has not declared or distributed any dividends to any shareholders. Super TV enjoys substantially all of the rewards of ownership and exercises control over N-S Digital TV. As Super TV is the primary beneficiary of the VIE arrangements, the VIE and VIE s subsidiaries results of operations are consolidated in the Group s financial statements.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

VIE contractual agreements - continued

Because the Company, through Super TV and through the series of contractual agreements, has (1) the power to direct the activities of the VIE that most significantly affect the entity s economic performance and (2) the right to receive benefits from the VIE, the Company had consolidated N-S Digital TV.

Risks in relation to the VIE structure

The Company believes that Super TV s contractual arrangements with equity holders of N-S Digital TV are in compliance with PRC law and are legally enforceable. The equity holders of N-S Digital TV are all employees of Super TV and therefore have no current interest in seeking to act contrary to the contractual arrangements. However, uncertainties in the PRC legal system could limit the Company s ability to enforce these contractual arrangements and if the equity holders of N-S Digital TV were to reduce their interest in the Company, their interests may diverge from that of the Company and that may potentially increase the risk that they would seek to act contrary to the contractual terms, for example by influencing N-S Digital TV not to pay the service fees when required to do so.

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

	As of December 31,	
	2010	2011
Total current assets	$ 37,465	$ 52,490
Total non-current assets	2,928	1,923
Total assets	$ 40,393	$ 54,413
Total current liabilities	$ 10,006	$ 11,334
Total non-current liabilities	777	401
Total liabilities	$ 10,783	$ 11,735

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Risks in relation to the VIE structure - continued

	000,000	000,000	000,000
	For the years ended December 31,		
	2009	2010	2011
Net revenues	$ 50,756	$ 79,591	$ 92,298
Net income	$ 806	$ 137	$ 3,512

	000,000	000,000	000,000
	For the years ended December 31,		
	2009	2010	2011
Net cash (used in)/provided by operating activities	$ (1,576)	$ 172	$ 1,880
Net cash (used in)/provided by investing activities	(2,173)	1,228	(2,026)
Net cash provided by financing activities	$	$	$

There are no consolidated VIE s assets that are collateral for the VIE s obligations and can only be used to settle the VIE s obligations.

As of December 31, 2011, CDTV Holding s subsidiaries, VIE and VIE s subsidiaries include the following entities:

Subsidiaries	Date of incorporation /establishment	Place of incorporation /establishment	Percentage of economic ownership
CDTV BVI	March 9, 2004	BVI	100%
Super TV	May 31, 2004	the PRC	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%
N-S Investment Holdings Co., Ltd (N-S Investment Holdings)	July 23, 2010	the PRC	100%
Beijing Cyber Cloud Co., Ltd. (Cyber Cloud)	January 19, 2011	the PRC	90%
Beijing Joysee Technology Co., Ltd (Joysee)	May 13, 2011	the PRC	64.8%
Beijing Super Movie Technology Co., LTD (Super Movie)	September 23, 2011	the PRC	90%
VIE			
N-S Digital TV	May 31, 2004	the PRC	100%

VIE s subsidiaries			
Guangdong Digital Media Technology Research & Development Institute Co., Ltd (Guangdong R&D)	January 20, 2005	the PRC	100%
N-S Media Investment Co., Ltd (N-S Media Investment)	December 19, 2007	the PRC	100%

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements of the Group 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 Group include the financial statements of CDTV Holding, its subsidiaries, VIE and VIE s subsidiaries. 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 financial statements and accompanying notes. Significant accounting estimates reflected in the Group s consolidated financial statements include allowance for doubtful accounts, accrual of warranty, the useful lives and impairment of property and equipment, useful lives and impairment of intangible assets, allowance for obsolete inventories, valuation allowance for deferred tax assets, impairment of goodwill and impairment of long-term investments.

(d) Cash and cash equivalents

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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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(e) Investment

Held-to-maturity investments

Investments are classified as held-to-maturity when the Group has the positive intent and ability to hold the debt security to maturity.

The Group reviews its held-to-maturity investments in securities for other-than-temporary impairment (OTTI) based on the specific identification method. The Group considers available quantitative and qualitative evidence in evaluating the potential impairment of its investments. If the carrying amount of an investment exceeds the investment s fair value, the Group considers, among other factors, general market conditions, the duration and the extent to which the fair value of the investment is less than the carrying amount, and the Group s intent and ability to hold the investment. OTTI is recognized as a loss in the income statement.

The Group separates the amount of the OTTI for investments in debt securities into the amount that is credit related (credit loss component) and the amount that is due to all other factors. The credit loss component is recognized in earnings, which represents the difference between a security s amortized cost basis and the discounted present value of expected future cash flows. The amount due to other factors is recognized in other comprehensive income if the entity neither intends to sell nor will more likely than not be required to sell the security before recovery. The difference between the amortized cost basis and the cash flows expected to be collected is accreted as interest income.

There has not been any OTTI recognized for the years ended December 31, 2009, 2010 and 2011.

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 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.

Investee companies over which the Group has equity interest over 50%, but the noncontrolling shareholders have substantive rights to participate in significant operating decisions are accounted for using the equity method.

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, 2009, 2010 and 2011.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(e) Investment - continued

Cost method investments

Investee companies over which the Group does not have significant influence and a controlling interest, the Group carries the investment at cost and recognizes 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.

(f) Financial instruments

Financial instruments of the Group primarily consist of cash and cash equivalents, restricted cash, bank deposits maturing over three months, held-to-maturity investments, notes receivable, accounts receivable, accounts payable, short term loan, forward contracts, and income tax payable. The carrying values of the Group s financial instruments, except for held-to-maturity investments, approximate their fair values, principally because of the short-term maturity of these instruments or their terms. The held-to-maturity investments are stated at amortized cost.

(g) 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, bank deposits maturing over three months, held-to-maturity investments and accounts receivable. The Group places their cash and cash equivalents, restricted cash, bank deposits maturing over three months and held-to-maturity investments with financial institutions with high-credit ratings and quality.

Approximately 96.2% of the Group s deposits were placed with three commercial banks in the PRC as of December 31, 2011. 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, bank deposits maturing over three months and held-to-maturity investments. The following table sets forth information relating to the three largest proportions of the Group s total deposits held by a single bank as of December 31, 2010 and 2011, respectively.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(g) Concentration of credit risk - continued

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

Bank	As of December 31, 2010 %	2011 %
Bank A	44.0	*
Bank B	31.8	15.6
Bank C	*	57.8
Bank D		22.8

The Group conducts credit 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.

Details of the customer accounting for 10% or more of total revenues are as follows:

Customer	For the years ended December 31, 2009 %	2010 %	2011 %
Customer A	12.8	14.2	*

For the year ended December 31, 2011, there are no revenues from customers that individually represent greater than 10% of the total revenues.

Details of the customer accounting for 10% or more of accounts receivable are as follows:

Customer	As of December 31, 2010 %	2011 %
Customer A	13.8	*
Customer B	*	10.9

* The amount was less than 10%.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(h) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the weighted average method. Inventories are written down for provisions for obsolescence to net realizable value based upon estimates of future demand, technology developments, and market conditions. The write-down of inventory value charged to income was of $59, $35 and $45 in 2009, 2010 and 2011, respectively.

(i) Property and equipment, net

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are 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

(j) Intangible assets, net

Intangible assets, other than goodwill, resulting from the acquisitions of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets acquired.

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

Core technology	7.5 years
Complete technology	2.5 years
Contract backlogs	1 year
Customer relationship	3.5 years
Digital watermarking technology	5 years
Image tracing technology	5 years

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(k) Impairment of long-lived assets

Long-lived assets, such as property and equipment and definite-lived intangible assets are stated at cost less accumulated depreciation or amortization. Depreciation and amortization is computed principally by the straight-line method.

The Group evaluates the recoverability of long-lived assets, including identifiable intangible assets, with determinable useful lives whenever events or changes in circumstances indicate that an intangible asset s carrying amount may not be recoverable. The Group measures the carrying amount of long-lived asset against the estimated undiscounted future cash flows associated with it. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated.

Impairment loss for the years ended December 31, 2009, 2010 and 2011 was $271, $20 and nil, respectively.

(l) Goodwill

Goodwill is not amortized but tested for impairment on an annual basis and between annual tests in certain circumstances. Goodwill impairment is tested using a two-step approach. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test measures the amount of the impairment loss, if any, by comparing the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. The implied fair value of goodwill is calculated in the same manner that goodwill is calculated in a business combination, whereby the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit, with the excess purchase price over the amounts assigned to assets and liability representing the implied fair value of goodwill. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being a discounted cash flow. The Group has one reporting unit and has determined to perform the annual impairment test on December 31 of each year. The Group did not incur any impairment loss on goodwill for the years ended December 31, 2009, 2010 or 2011. Exchange realignment of nil, $17 and $25 were debited to goodwill for years ended December 31, 2009, 2010 and 2011, respectively.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(m) Revenue recognition

The Group s revenues are principally derived from sales of products and services.

Specifically, sales of products include:

(1) Sales of smart cards; and

(2) Sales of set-top boxes and other products.

Sales of services include the following four arrangements:

(1) Head-end software, hardware and related system integration service (SI service);

(2) Head-end system development service (SD service);

(3) Licensing income; and

(4) Royalty income.

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. Revenue is recognized after a sales agreement is signed, the price is fixed or determinable, products are delivered to customers, and collection of the resulting receivables is assured. The Group also offers some of its customers a lower price or 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 cumulative volume customer 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.

Set-top box and others

The Group also derives revenues from the sales of products other than smart cards, such as set-top boxes and other related products. Revenue is recognized after a sales agreement is signed, the price is fixed or determinable, products are delivered to customers, and collection of the resulting receivables is assured.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(m) Revenue recognition - continued

SI service

For the SI service, 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. The Group s software includes CA systems software, subscriber management system software and head-end electronic program guide software.

CA systems software consists of software that is installed at the premises of the television network operator, or the head end. CA systems enable television network operators to deliver secured contents and services to their subscribers.

Subscriber management system is software used by television network operators to support their operation, archive subscriber information and operational information, and to generate billings to subscribers.

Head-end electronic program guide software is software that enables television network operators to distribute Digital Video Broadcasting standard program specific information and service information to the subscribers.

Deliverables of SI service include: software, hardware, integration, installation, training and post-contract customer support (PCS). When the provision of services is substantially completed, i.e., when the Group delivers its software, purchases the hardware and software from third-party suppliers, integrates them together, and provides installation and training 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. In limited situations, there is only one acceptance from the customer, rather than a preliminary and a final acceptance. Software is considered delivered to customers when preliminary acceptance or single acceptance is signed because only at that time customers are able to use the software in the integrated system. For majority of the contracts, the Group offers one-year free PCS, including telephone support and bug-fixing beginning from preliminary acceptance or single acceptance. However, in some of the contracts, the Group offers free PCS for a period of more than one year beginning from preliminary acceptance or single acceptance; while in some other contracts, the PCS does not have a specified definite period.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(m) Revenue recognition - continued

SI service - continued

The SI service includes a significant software portion. The software is not regarded as incidental to the provision of services as a whole because the marketing of such services focuses on the internally developed technologies included in the software. Revenue is recognized when the last deliverable in the arrangement is delivered and when all of the following criteria have been met:

(1) Persuasive evidence of an arrangement exists;

(2) Delivery has occurred;

(3) The vendor s fee is fixed or determinable; and

(4) Collectability is probable.

The systems are installed and tested at the customers sites. Generally all the technical issues are identified and resolved before the preliminary acceptance is signed by the customers. Afterwards, the customers will begin to use the installed systems for operation.

For the contracts where the Group offers free PCS for one year or less, the cost incurred between the preliminary acceptance and the end of the free PCS period has historically been insignificant. Therefore, revenue is recognized when the entire installation and integration of software is completed, which is indicated by obtaining the preliminary acceptance from customers. In limited situations, where there is only one acceptance from the customer, rather than a preliminary and final acceptance, revenue is recognized when the single acceptance is obtained. For contracts where the Group offers free PCS for more than one year, the Group defers the revenue for the contracts and recognizes it over the PCS term although the cost incurred during the PCS term has been historically insignificant. Where the PCS term has no specified definite period, the Group recognizes such revenue over the estimated useful life of the CA systems, which the Group has determined to be five years.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(m) Revenue recognition - continued

SD service

The Group develops head-end system applications relating to digital TV technology for its customers.

Deliverables in SD service include the completed software application. A few arrangements also include one-year free PCS starting from customer acceptance, but no arrangement includes free PCS for more than one year. 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 FASB Accounting Standards Codification (ASC) 605-35, *Construction-Type and Production-Type Contracts* for revenue recognition. As the Group cannot properly measure progress toward completion, the completed-contract method is used. Revenue for system development is recognized when the system development is finished and accepted by the customer.

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 customers and provides these manufacturers with CA systems terminal-end software 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 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 in the form of software. 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 issuance of a certificate to the set-top box manufacturer by the Group.

In addition, the Group produces a design for set-top boxes, and licenses it to set-box manufacturers. The licensing income is recognized when the acceptance is signed by customers and received by the Group.

All advances from customers and prepaid fees received from customers or set-top box manufacturers are initially recognized as deferred revenue and revenue is recognized when the above revenue recognition criteria are met.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(m) Revenue recognition - continued

Royalty income

The Group receives royalties on sales of CA systems terminal-end software, and set-top box design and operating system.

Royalties are received either from set-top box manufacturers, or from television network operators depending on which party the Group enters the contracts with.

Royalty revenue is recognized when earned and collectability is reasonably assured.

For royalty income collected from set-top box manufacturers, royalty revenue is recognized upon the receipt of sales reports from set-top box manufacturers and when payment is received.

For royalty income received from television network operators, the Group requests the television network operators to pay the royalty to the Group directly when they purchase the Group s smart cards, in which case all the revenue is recognized as part of the smart card sales when these smart cards are delivered to the customers.

(n) Deferred costs

Deferred costs are recognized mainly for cost incurred, which consist of hardware and software purchased from third-party suppliers directly associated with revenue from SI service contracts that provide free PCS for more than one year.

Deferred costs from SI service are recoverable through the future revenue streams and are recorded as an asset and amortized to cost of revenue over the same period that the revenue is recognized. Amortization of deferred costs for the years ended December 31, 2009, 2010 and 2011 totaled $437, $401 and $535, respectively.

(o) Value added tax (VAT) and VAT refund

VAT on sales is calculated at 17% on revenue from product sales and SI Services and paid after deducting input VAT on purchases. The net VAT balance between input VAT and output VAT is reflected in the accounts under other taxes payable.

For certain software related products that are qualified as software products by PRC tax authorities, the Group can pay VAT at 17% first and then receive 14% refund after it is paid. The Group records VAT refund receivables on accrual basis. VAT refund is recorded in revenue in the statement of operations.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(p) Business tax

The Group s PRC subsidiary, VIE and VIE s subsidiaries are subject to business taxes, surcharges or cultural business construction fees on revenues related to certain types of services, and the net revenues are presented net of those taxes and fees incurred.

(q) Government subsidies

Government subsidies mainly represent amounts granted by local government authorities as an incentive for companies to promote 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 of the obligation. Subsidy income of nil, $89 and $168 were recognized for the years ended December 31, 2009, 2010 and 2011, respectively.

(r) 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 operations on a straight-line basis over the lease periods.

(s) Foreign currency translation

The functional and reporting currency of the Company and CDTV BVI is US dollar. The functional currency of the Company s subsidiaries, VIE and VIE s subsidiaries in the PRC is Renminbi (RMB), and the functional currency of the Company s subsidiaries in Hong Kong is Hong Kong dollar.

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 operations.

For translating the results of the PRC subsidiaries into the reporting currency of the Company, 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 in the consolidated statements of equity and comprehensive income.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(t) Income taxes

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 significant 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 year in which the differences are expected to reverse. Deferred tax assets and liabilities are classified as current or non-current based upon the classification of the related asset or liability in the financial statements or the expected timing of their reversal if they do not relate to a specific asset or liability. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred 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 must be 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. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes. The Group had not have any significant liabilities nor any interest or penalties associated with unrecognized tax position.

(u) Comprehensive income

Comprehensive income includes net income and foreign currency translation adjustments. Comprehensive income is reported in the consolidated statements of equity and comprehensive income.

(v) Net income per share

Basic earnings per ordinary share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per ordinary share reflects the potential dilution that could occur if securities were exercised or converted into ordinary shares. The Group had stock options which could potentially dilute basic earnings per share in the future. To calculate the number of shares for diluted income per share, the effect of the stock options is computed using the treasury stock method.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(w) Research and development expenses

Research and development expenses are 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, such as share options, are measured based on the grant date fair value of the equity instrument issued. Share-based compensation expenses, net of forfeitures, 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 Group recognizes the compensation expenses, net of estimated forfeitures, over the performance period. The Group also adjusts the compensation expenses based on the probability of performance goal achievement at the end of each reporting period.

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 of 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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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.

Authoritative literature provides a fair value hierarchy, which 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(z) Recently issued accounting pronouncements

In May 2011, the FASB issued an authoritative pronouncement on fair value measurement. The guidance is the result of joint efforts by the FASB and IASB to develop a single, converged fair value framework. The guidance is largely consistent with existing fair value measurement principles in U.S. GAAP. The guidance expands the existing disclosure requirements for fair value measurements and makes other amendments, mainly including:

Highest-and-best-use and valuation-premise concepts for nonfinancial assets- the guidance indicates that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of nonfinancial assets.

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk - the guidance permits an exception to fair value measurement principles for financial assets and financial liabilities (and derivatives) with offsetting positions in market risks or counterparty credit risk when several criteria are met. When the criteria are met, an entity can measure the fair value of the net risk position.

Premiums or discounts in fair value measure - the guidance states that premiums or discounts that reflect size as a characteristic of the reporting entity s holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market s normal daily trading volume is not sufficient to absorb the quantity held by the entity) rather than as a characteristic of the asset or liability (for example, a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement.

Fair value of an instrument classified in a reporting entity s shareholders equity - the guidance prescribes a model for measuring the fair value of an instrument classified in shareholders equity; this model is consistent with the guidance on measuring the fair value of liabilities.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(z) Recently issued accounting pronouncements - continued

Disclosures about fair value measurements - the guidance expands disclosure requirements, particularly for Level 3 inputs. Required disclosures include:

For fair value measurements categorized in level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation process in place (e.g., how the entity decides its valuation policies and procedures, as well as changes in its analyses of fair value measurements, from period to period), and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs.

The level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed.

The guidance is to be applied prospective and effective for interim and annual periods beginning after December 15, 2011, for public entities. Early application by public entities is not permitted. The Group does not expect the adoption of this pronouncement to have a significant impact on its consolidated financial statements.

In June 2011, the FASB issued an authoritative pronouncement to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders equity. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance should be applied retrospectively. For public entities, the amendments are effective for fiscal years and interim periods within those years, beginning after December 15, 2011. The Group does not expect the adoption of this pronouncement to have a significant impact on its consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

(z) Recently issued accounting pronouncements - continued

In December 2011, the FASB issued a further authoritative pronouncement, Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items out of Accumulated Other Comprehensive Income. Under the amendments, entities are required to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income is presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income. In addition, the amendments require that reclassification adjustments be presented in interim financial periods. The amendments supersede changes to those paragraphs that pertain to how, when, and where reclassification adjustments are presented. The amendments in this Update are effective for public entities for fiscal years beginning after December 15, 2011. The Group does not expect the adoption of this pronouncement to have a significant impact on its consolidated financial statements.

In September 2011, the FASB issued an authoritative pronouncement related to testing goodwill for impairment. The pronouncement is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. The pronouncement permits an entity to 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. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Group does not expect the adoption of this pronouncement will have a significant effect on its financial position, results of operations or cash flows.

In December 2011, the FASB issued an authoritative pronouncement on disclosures about offsetting assets and liabilities. Under this pronouncement, entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Group is in the process of evaluating the effect of adoption of this pronouncement.

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3. SEGMENT INFORMATION AND REVENUE ANALYSIS

The Group s chief operating decision maker is the Chief Executive Officer, who reviews consolidated results of operations prepared in accordance with U.S. GAAP when making decisions about allocating resources and assessing performance of the Group. The Group has only one operating segment.

The Group operates in the PRC and all of the Group s long-lived assets are located in the PRC.

The gross revenues consist of the following products and services:

	For the years ended December 31,		
	2009	2010	2011
Products:			
Smart cards	$ 49,005	$ 82,153	$ 91,960
Set-top box and others	141	365	3,202
Subtotal	49,146	82,518	95,162
Services:			
Head-end system integration	3,265	2,399	2,562
System development	462	595	736
Licensing income	1,147	1,565	1,328
Royalty income	688	662	742
Other services	356	4	10
Subtotal	5,918	5,225	5,378
Total	$ 55,064	$ 87,743	$ 100,540

VAT refunds of $4,076, $7,624, and $8,377 were included in revenues for the years ended December 31, 2009, 2010 and 2011, respectively.

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4. ACQUISITION

(a) Dongguan SuperTV Video Info Co., Ltd (Dongguan Super TV) was a 60% subsidiary of the Group in 2008 and became a 40% equity method investee after July 2009 when the Group sold 20% of its interest. In August 2010, the Group entered into an agreement with Guangdong Jiacai Digital Technology Co., Ltd (Guangdong Jiacai) to purchase an additional 20% equity interest in Dongguan Super TV with consideration of $262. After this transaction, the equity interest of Dongguan Super TV held by the Group was increased to 60% and the Group was entitled to 70% of shareholders voting rights and controls three out of five seats in the board of directors of Dongguan Super TV. Therefore, the Group had control over Dongguan Super TV and accounted for it as a consolidated subsidiary after this transaction in 2010.

The purchase price for this 20% equity interest was allocated based on the fair value of the acquired assets and liabilities on the date of acquisition as follows:

Current assets	$ 181
Property and equipment	98
Current liabilities	(17)
Total	262
Total consideration	$ 262

The results of the operations for the 100% interest of Dongguan Super TV were included in the Group s financial statements from the acquisition date.

The following unaudited pro forma information summarizes the effect of the acquisition, as if the group has consolidated Dongguan Super TV from January 1, 2009. This pro forma information is presented for information purpose only. It is based on historical information and does not purport to represent the actual results that may have occurred had the Company did not sell Dongguan Super TV, nor is it necessarily indicative of future results of operations of the consolidation enterprises:

	For the years ended December 31,	
	2009	2010
Pro forma net revenue	$ 54,704	$ 87,123
Pro forma net income attributable to China Digital TV Holding Co., Ltd.	25,301	33,302
Pro forma earnings per ordinary share-basic	0.44	0.57
Pro forma earnings per ordinary share-diluted	$ 0.43	$ 0.57

In December 2011, the Group entered into an agreement with a third party to sell all of its 60% equity interest in Dongguan Super TV with consideration of $1,046 (Note 9). As a result, Dongguan Super TV ceased to be a consolidated subsidiary of the Group as of December 31, 2011. Loss of $129 was recognized in consolidated statements of operations for the year ended December 31, 2011.

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4. ACQUISITION - continued

(b) On February 26, 2010, the Group entered into an agreement with Beijing Shi Xun Hu Lian Technology Co, Ltd. (Beijing Shi Xun), a related party of the Group, to acquire its 90% equity interest in Guangdong R&D for a cash consideration of $396. On the same day, the Group entered into an agreement with the holder of the remaining 10% equity interest in Guangdong R&D, an independent third party of the Group, for a cash consideration of $44. Guangdong R&D is a china-based company with limited operation. The purpose of the acquisition is to use this company to conduct research and development in TV digitalization. These transactions were closed on February 28, 2010 and Guangdong R&D became a wholly owned subsidiary of the Group after March 2010.

The transaction was accounted for as a business combination using the purchase method of accounting. The purchase price allocation of the transaction was allocated to assets acquired as of the date of acquisition as follows:

Fair value of net asset acquired	$ 440
Total consideration	$ 440

No intangible assets and goodwill were recognized.

It is not practical without unreasonable efforts to present the supplemental unaudited pro forma results of operations of the Group for the years ended December 31, 2009 and 2010 assuming that the acquisition of Guangdong R&D had been completed on January 1, 2009.

5. RESTRICTED CASH

Restricted cash represents: i) bank deposits pledged as security for issuing letters of credit to overseas suppliers of $16 and $210 as of December 31, 2010 and 2011, respectively; and ii) bank deposits pledged as security for short term loan borrowed from banks of nil and $55,469 as of December 31, 2010 and 2011, respectively (Note 15). The use of cash in such an account is normally restricted for more than three months.

6. NOTES RECEIVABLE

Notes receivable represents bank acceptance drafts that are non-interest bearing and due within six months.

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7. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, consists of the following:

	As of December 31,	
	2010	2011
Billed accounts receivable	$ 18,359	$ 20,539
Unbilled accounts receivable	6,613	11,336
Accounts receivable	24,972	31,875
Less: allowance for doubtful accounts	(758)	(845)
Accounts receivable, net	$ 24,214	$ 31,030

Revenue recognized in excess of billings is recorded as unbilled receivable. The unbilled amounts become billable according to the contract terms. The Group generally anticipates that substantially all unbilled amounts as of a given balance sheet date would be billed within twelve months of such balance sheet dates.

Movement of allowance for doubtful accounts is as follows:

	Balance at beginning of the year	Charge to expenses	Deductions	Balance at end of the year
2010	$ 576	$ 182	$	$ 758
2011	$ 758	$ 87	$	$ 845

8. INVENTORIES

Inventories, net consist of the following:

	As of December 31,	
	2010	2011
Raw materials	$ 1,747	$ 2,193
Finished goods	1,659	2,175
	3,406	4,368
Less: write-down of inventory value	(405)	(450)

Inventories, net	$ 3,001	$ 3,918

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9. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	As of December 31,	
	2010	2011
Interest receivables	$ 2,061	$ 1,619
Receivable from disposal of Dongguan Super TV (Note 4)		1,046
Deposits	597	654
VAT refund receivables	1,017	920
Prepayments to suppliers	91	979
Fair value of the Forward Contracts (Note 15)		404
Deposit for investment in Cyber Cloud (Note 26(c))	6,818	
Prepaid income tax	1,347	
Other prepaid expenses	132	1,146
	$ 12,063	$ 6,768

10. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following:

	As of December 31,	
	2010	2011
Computers and other electronic equipment	$ 4,388	$ 4,048
Furniture and fixtures	209	184
Leasehold improvements	1,092	1,241
Motor vehicles	595	587
	6,284	6,060
Less: accumulated depreciation and amortization	(3,955)	(4,309)
	$ 2,329	$ 1,751

For the years ended December 31, 2009, 2010 and 2011, depreciation expense was $1,041, $1,005 and $1,092, respectively.

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11. INTANGIBLE ASSETS, NET

Intangible assets, net, consist of the following:

	As of December 31,	
	2010	2011
Core technology	$ 455	$ 477
Complete technology	73	73
Contract backlogs	336	336
Customer relationship	1,188	1,188
Digital watermarking technology	908	952
Image tracing technology	410	410
	3,370	3,436
Less: accumulated amortization		
Core technology	(260)	(322)
Complete technology	(73)	(73)
Contract backlogs	(336)	(336)
Customer relationship	(1,188)	(1,188)
Digital watermarking technology	(414)	(603)
Image tracing technology	(119)	(119)
	(2,390)	(2,641)
Less: impairment loss of image tracing technology	(291)	(291)
Foreign exchange difference	(14)	(54)
	$ 675	$ 450

Image tracing technology is primarily used for remote controls of personal computers, set-top boxes and televisions as well as gaming consoles. In 2010, the market for those products did not develop as expected. As a result, image tracing technology, with a carrying amount of $20, was written off, resulting in an impairment charge of $20. The impairment charge was recorded in research and development expense in the consolidated statements of operations of 2010.

The Group recorded amortization expense of $650, $267 and $251 for the years ended December 31, 2009, 2010 and 2011, respectively. Estimated amortization expenses of the existing intangible assets for the next five years are $254, $190, $6, nil and nil, respectively.

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12. EQUITY METHOD INVESTMENTS

Equity method investments consist of the following:

	Notes	As of December 31, 2010	2011
Nanjing Qingda Yongxin Culture Media Co., Ltd. (Qingda Yongxin)	(a)	$ 70	$ 67
Foshan Nanhai Guokai Digital TV Technology Co., Ltd. (Nanhai Guokai)	(b)	353	348
3DiJoy Corp. (3DiJoy)	(c)	5,826	5,065
Guangzhou Rujia Network Technology Co., Ltd., (Rujia)	(d)	2,575	2,286
		$ 8,824	$ 7,766

(a) In March, 2007, the Group and Jiangsu Qingda Technology Co. Limited (Jiangsu Qingda), one of its customers, set up a joint venture Qingda Yongxin, in which the Group contributed cash of $103, representing 40% of equity interest in the joint venture. Jiangsu Qingda contributed cash of $155 representing 60% of equity interest in the joint venture.

The Group has accounted for this long-term investment using equity method of accounting because the Group does not control the investee but has the ability to exercise significant influence over the operating and financial policies of the investee.

(b) The Group acquired 51% equity interest in Nanhai Guokai from N-T Information Engineering at the cash consideration of $296. Nanhai Guokai is a company primarily engaged in research, development and sales of digital TV-related systems, software and products. A Japanese multinational company holds the remaining 49% equity interest in Nanhai Guokai. This transaction was completed in July 2007.

The Group has accounted for this long-term investment using equity method of accounting because the Group does not control the investee but has the ability to exercise significant influence over operating and financial policies of the investee. The Group controls three out of five seats in the board of directors of Nanhai Guokai. The remaining two seats are controlled by the noncontrolling shareholder. According to the article of association of Nanhai Guokai, two-thirds of directors approval is required for the appointment and dismissal of the general manager and vice general manager. Therefore the noncontrolling shareholder has substantive rights to participate in significant operating decisions in Nanhai Guokai. Accordingly, the Group accounts for its investment in Nanhai Guokai using the equity method of accounting.

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12. EQUITY METHOD INVESTMENTS - continued

(c) In May 2010, the Group entered into a share subscription agreement to purchase 24% of equity interest in 3DiJoy with a consideration of $6,000. The Group has accounted for this long-term investment using equity method of accounting because the Group does not control the investee but has the ability to exercise significant influence over the operating and financial policies of the investee.

(d) In June 2010, the Group acquired 34.45% of equity interest in Rujia through purchase of existing shares from a shareholder of Ruijia and contribution to its capital increase, for a total consideration of $2,500.The Group has accounted for this long-term investment using equity method of accounting because the Group does not control the investee but has the ability to exercise significant influence over the operating and financial policies of the investee.

The combined financial information for the equity method investments as of and for the periods presented is as follows:

	As of December 31,	
	2010	2011
Total current assets	$ 9,941	$ 7,711
Total assets	10,509	8,614
Total current liabilities	700	1,032
Total liabilities	$ 904	$ 1,196

	For the years ended December 31,		
	2009	2010	2011
Total net revenue	$ 99	$ 2,791	$ 1,628
(Loss)/income from operations	$ (52)	$ 99	$ (3,310)

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13. COST METHOD INVESTMENTS

On January 4, 2010, the Group, together with several other third parties entered into a share purchase agreement with OpenV China Holdings Company (OpenV) for a strategic investment in OpenV. According to the share purchase agreement and related transaction arrangements, the Group acquired 11.5% (subject to adjustment based on OpenV s performance) equity interest in Open V for a consideration of $5,000 and obtained a warrant to purchase additional ordinary shares of OpenV, with total exercise price of $4,500 subject to certain conditions. As part of this transaction, the Group also agreed to extend to OpenV a $2,500 interest-free convertible loan, which can be converted to ordinary shares of OpenV, subject to certain conditions. As of December 31, 2010, the warrant was expired without being exercised and the convertible loan was not effected based on OpenV s performance in 2010.

The Group accounted for this long-term investment under the cost method of accounting because the Group does not have significant influence and a controlling interest over OpenV.

In October 2010, the Group was informed that OpenV was under investigation over alleged copyright infringements relating to some of its online video content. Its normal online video services had been suspended since. Based on the foregoing, the Group has doubts on the going concern of OpenV. As a result, the Group wrote off the entire amount of original $5,000 investment in OpenV.

14. HELD-TO-MATURITY INVESTMENTS

In September 2009, the Group purchased certain long-term corporate bond from one renowned international bank at the amount of $1,213 and classified the investment as held to maturity security. The annual interest rate of 3.02% with maturity date in 496 days was computed on a daily basis and paid together with principals when matured. The financial product s underlying investment was high credit rating bonds. The Group recognized the interest income for this investment of $11, $36 and $2 for the years ended December 31, 2009, 2010 and 2011, respectively.

Since September 2009, the Group purchased certain PRC government bonds from five renowned Chinese banks at the amount of $22,906 and $24,770 in fiscal year 2009 and 2010, respectively, and classified the investments as held to maturity securities. The annual interest rate of 2.6% with maturity date in 365 days was computed on a daily basis and paid together with principals when matured. The Group recognized the interest income for this investment of $157, $832 and $317 for the years ended December 31, 2009, 2010 and 2011, respectively.

In 2011, the above held to maturity securities were matured and no additional investment of held-to-maturity securities were made.

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15. FORWARD CONTRACTS

To facilitate the cash payment of special cash dividend that the Group declared in November 2010, the Group entered into foreign currency forward contracts with two banks, respectively, in April and May 2011. Pursuant to those contracts, the Group made short-term loan in US dollar from these two banks with an aggregated amount of $55,193 for a period of one year. Meanwhile, the amount of $55,469 of the Group s bank deposit was restricted until the short-term loan is fully paid back in April and May 2012 (Note 5). The forward contracts were determined to be a derivative. The Group carries the forward contracts at fair value in its balance sheet and the changes in the forward contract fair value during each period end are recorded in the statement of operations. The Group carries the forward contract as either assets or liabilities at fair value.

The Group measures the fair value of the forward contract on a recurring basis based on a level 2 measure, i.e. the Group uses the market forward exchange rate to assess the fair value of the forward contract and recognizes the changes in fair value attributable to the difference between the market forward exchange rate and contractual exchange rate in change in fair value of forward contract. For the year ended December 31, 2011, the Group recorded a gain of $404 in change in fair value of forward contract.

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	As of December 31,	
	2010	2011
Accrued payroll and bonus	$ 2,334	$ 3,662
Other taxes payable	2,228	1,570
Amount due to employees for stock option exercise proceeds	888	77
Social insurance withholding	386	475
Accrued warranty	183	230
Other accrued expenses	2,829	3,299
	$ 8,848	$ 9,313

Movement of warranty accrual is as follows:

	Balance at beginning of the year	Charge to expenses	Deductions	Balance at end of the year
2010	$ 113	$ 81	$ (11)	$ 183
2011	$ 183	$ 84	$ (37)	$ 230

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17. DEFERRED REVENUE

Deferred revenue consists of the following:

	As of December 31,	
	2010	2011
Current:		
Advance from customers	$ 3,499	$ 5,028
Incentive offered to customers	1,361	1,727
Deferred revenue for SI service contracts with remaining PCS period within one year	1,044	990
	5,904	7,745
Non-current:		
Deferred revenue for SI service contracts with remaining PCS period greater than one year	777	401
Total	$ 6,681	$ 8,146

Incentive offered to customers represents the deferred revenue relating to free smart cards committed to customers when cumulative purchase volume from the same customers reached certain level as of December 31, 2010 and 2011. Such deferred revenue is deducted from the initial revenue and to be recognized as revenue when free cards are delivered.

18. INCOME TAXES

CDTV Holdings and CDTV BVI are tax-exempted companies incorporated in the Cayman Islands and the British Virgin Islands, respectively.

Golden Benefit and CSM Holdings are subject to Hong Kong Profits Tax on its activities conducted in Hong Kong. No provision for Hong Kong Profits tax has been made in the consolidated financial statements as they both have no assessable profits for the years presented.

Super TV, N-S Digital TV, N-S Media Investment, Guangdong R&D, N-S Investment Holdings, Joysee, Cyber Cloud and Super Movie were registered in the PRC and are subject to PRC Enterprise Income Tax (EIT) on the taxable income in accordance with the relevant PRC income tax laws.

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18. INCOME TAXES - continued

Both Super TV and N-S Digital TV were qualified as New and High-Tech Enterprise (NHTE) under the Enterprise Income Tax Law effective from January 1, 2008 (the 2008 EIT law) and therefore both of them were qualified for a preferential tax rate of 15% for a three year period. In addition, since these two entities are both located in a high tech zone in Beijing, they were entitled to a three year exemption from EIT from 2004 to 2006 and a 50% further deduction of 15% tax rate from 2007 to 2009. In October 2011, Super TV and N-S Digital TV renewed for NHTE qualification and both entities were entitled to a preferential tax rate of 15% for a further three year period.

Super TV was qualified as Key Software Enterprise in 2010 under the 2008 EIT law and entitled for a preferential tax rate of 10% in 2010.

N-S Media Investment was subject to the statutory tax rate of 25% in 2009, 2010, and 2011.

N-S Investment Holdings, established in 2010, and Guangdong R&D, acquired in 2010, were subject to the statutory tax rate of 25% in 2010 and 2011.

Joysee, Cyber Cloud and Super Movie, established in 2011, were subject to the statutory tax rate of 25% in 2011.

Deferred income taxes result principally from differences in the recognition of certain assets and liabilities for tax and financial reporting purposes and the tax effect of tax loss carry forwards.

Income tax expenses/(benefits) are as follows:

	For the years ended December 31,		
	2009	2010	2011
Income tax expenses/(benefits)			
Current	$ 1,661	$ 10,714	$ 10,344
Deferred	(400)	(464)	(582)
Total	$ 1,261	$ 10,250	$ 9,762

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18. INCOME TAXES - continued

The principal components of the deferred income tax assets (liabilities) are as follows:

	As of December 31,	
	2010	2011
Current		
Write-down of inventory value	$ 61	$ 64
Allowance for doubtful accounts	115	127
Accrued expenses	170	471
Accrued bonus	333	305
Deferred revenue-current	293	394
Deferred cost-current	(59)	(44)
Warranty	28	35
Current deferred tax assets	941	1,352
Non-current		
Deferred revenue-non-current	137	120
Government subsidies		271
Intangible assets amortization	36	73
Intangible assets impairment	45	47
Deferred cost-non-current	(36)	(56)
Property and equipment	61	
Tax loss carry-forward deferred tax assets	1,901	3,161
Valuation allowance	(1,901)	(3,161)
Non current deferred tax assets	$ 243	$ 455

The Group s subsidiaries registered in the PRC have total net operating loss carry forwards of $12,644 as of December 31, 2011 which will expire on various dates between December 31, 2012 and December 31, 2016. The net operating loss carry forwards generated by a particular entity in the Group cannot be transferred or utilized by other entities within the Group. Valuation allowances have been established because the Group believes that either it is more likely than not that its deferred tax assets will not be realized as it does not expect to generate sufficient taxable income in future.

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18. INCOME TAXES - continued

Reconciliation between the provision for income taxes computed by applying the PRC EIT rates of 25% to income before income taxes and the actual provision of income taxes is as follows:

	For the years ended December 31,		
	2009	2010	2011
Net income before provision for income taxes	$ 26,532	$ 43,812	$ 51,084
PRC statutory tax rate	25%	25%	25%
Income tax at statutory tax rate	6,633	10,953	12,771
Expenses not deductible for tax purposes	147	194	230
Effect of income tax exemptions	(5,887)	(8,829)	(6,567)
Effect of income tax rate difference in other jurisdictions	99	1,627	1,901
Change in valuation allowance	269	925	1,427
Withholding tax		5,380	
Income tax expenses	$ 1,261	$ 10,250	$ 9,762

If N-S Digital TV and Super TV were not in a tax holiday period for the years ended December 31, 2009, 2010 and 2011, the impact to the earnings per share amounts would be as follows:

	For the years ended December 31,		
	2009	2010	2011
Increase in income tax expense	$ 5,887	$ 8,829	$ 6,567
Decrease in net income per share-basic	0.10	0.15	0.11
Decrease in net income per share-diluted	$ 0.10	$ 0.15	$ 0.11

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group s overall operations, and more specifically, with regard to tax residency status. The 2008 EIT Law includes a provision specifying that legal entities organized outside the PRC will be considered residents for Chinese income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the New EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc, occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the legal entities organized outside the PRC should be treated as residents for 2008 EIT law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

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18. INCOME TAXES - continued

If the Company were to be non-resident for PRC tax purpose, dividends paid to it from profits earned by the PRC subsidiary after January 1, 2008 would be subject to a withholding tax. In the case of dividends paid by PRC subsidiaries, the withholding tax would be 10% and in the case of a subsidiary 25% or more directly owned by the resident in Hong Kong, the withholding tax would be 5%, but that will be subject to the interpretation of Circular No. 601 issued by the State Administration of Taxation, under which the Company s Hong Kong subsidiary might not be considered to be the beneficial owner of any such dividends and in that case the withholding tax rate would be 10%.

Under the applicable accounting principles, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting over tax basis, including those differences attributable to an investment in a subsidiary. However, recognition is not required in situations where the tax law provides means by which reported amount of that investment in subsidiary can be recovered tax-free and the enterprise expects that it will ultimately use that means.

The 2008 EIT law imposes a 10% withholding income tax for dividends distributed by a foreign invested enterprise to its immediate holding company outside China, which were exempted under the previous income tax laws and rules. In November 2010, Super TV distributed $85,185 dividend to its immediate foreign holding company, Golden Benefit, for purpose of special cash dividend distribution to shareholders of the Company (Note 20). Among the total cash dividend of $85,185, $31,382 was attributable to undistributed earnings accumulated prior to January 1, 2008, and the balance of $53,803 was undistributed earnings earned by the Group after January 1, 2008 but prior to January 1, 2010. As a result, withholding tax of $5,380 was imposed.

Because the Company determines that the undistributed earnings of the Company s subsidiaries located in the PRC will be indefinitely reinvested for use in the operation and expansion of its business within PRC, no further deferred tax liability has been accrued for the Chinese dividend withholding tax for the undistributed retained earnings.

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19. NET INCOME PER SHARE

	For the years ended December 31,		
	2009	2010	2011
Net income (numerator), basic and diluted	$ 25,304	$ 33,421	$ 41,000
Shares (denominator):			
Weighted average ordinary shares outstanding used in computing basic net income (loss) per share	57,728,009	58,313,467	58,934,912
Effect of dilutive securities:			
Plus incremental weighted average ordinary shares from assumed exercise of stock options using the treasury stock method	863,063	465,560	140,554
Total Weighted average ordinary shares outstanding used in computing diluted net income per ordinary share	58,591,072	58,779,027	59,075,466
Net income per share-basic	$ 0.44	$ 0.57	$ 0.70
Net income per share-diluted	$ 0.43	$ 0.57	$ 0.69

20. SPECIAL CASH DIVIDEND TO SHAREHOLDERS

In December 2008, the Group declared a special cash dividend of $1.00 per ordinary share to shareholders of record as of the close of business on January 8, 2009. Each of the Company s American depositary shares represents one ordinary share. As of the record date, the number of ordinary shares outstanding was 57,296,413, among which 86,865 shares were issued between January 1, 2009 and the record date. By the end of February 2009, an aggregate amount of $57,296 was fully paid to shareholders.

In November 2010, the Group declared a special cash dividend of $2.00 per share on the Company s ordinary shares to be paid in two installments of $1.00 each. The dividend was fully paid by May 31, 2011.

In May 2011, the Group declared a special cash dividend of $0.56 per share on the Company s ordinary shares. The dividend was fully paid by April 13, 2012.

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21. SHARE-BASED COMPENSATION

Option granted to employees

Pursuant to the directors resolution, the Group adopted Share Incentive Plans in 2005, under which the Group may grant options to purchase up to 4,444,440 ordinary shares of the Group, to its employees, directors, and consultants, subject to vesting requirements. Under Share Incentive Plans in 2005, there are four schemes of the options granted: Scheme I, Scheme II, Scheme III and Scheme IV, which were granted on February 3, 2005, September 22, 2006, December 5, 2006 and October 5, 2008, respectively.

On September 13, 2007, the board of directors of CDTV Holding approved the 2008 Stock Incentive Plan, pursuant to which the Group may grant options to purchase up 1,200,000 ordinary shares to its employees and other eligible people. Under Share Incentive Plans in 2008, there are four schemes of the options granted: Scheme V, Scheme VI, Scheme VII and Scheme VIII, which were granted on October 5, 2008, June 2, 2009, February 10, 2010 and November 15, 2010, respectively.

On November 19, 2010, the board of directors of CDTV Holding approved the 2010 Stock Incentive Plan, pursuant to which the Group may grant options to purchase up to 3,600,000 ordinary shares to its employees and other eligible people. Scheme IX, Scheme X, Scheme XI and Scheme XII, which were granted on November 19, 2010, May 16, 2011, September 30, 2011 and November 19, 2011, respectively.

Modification of option plans

On November 19, 2010, the board of directors of CDTV Holding approved the exercise price of all options which are granted under the 2005 Plan, the 2008 Plan and the 2010 Plan prior to December 23, 2010 (the Adjusted Options) and remain outstanding as of December 23, 2010 shall be adjusted as follows to reflect the declaration and payment of the special cash dividend.

The per share exercise price of all Adjusted Options with a per share exercise price higher than $2.00 shall be reduced by $2.00 on December 23, 2010; the per share exercise price of all Adjusted Options with a per share exercise price no more than $2.00 shall be reduced to $0.01. The modification to the share exercise price did not have any incremental compensation cost. The Board also determined that if any future dividend is declared by the Board of the Company on all Ordinary Shares of the Company, 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 Shares, provided that the per share exercise price after adjustment shall not be less than $0.01.

On May 20, 2011, as the Company declared a special cash dividend of $0.56 per share on the Company s ordinary shares, the per share exercise price of all options granted prior to and remaining outstanding as of June 20, 2011, the record date, was reduced by $0.56, provided that the per share exercise price after adjustment shall not be less than $0.01.

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21. SHARE-BASED COMPENSATION - continued

Details of the Share Incentive Plans:

Scheme I

Grant date: February 3, 2005

Exercise price per share - original: $0.543

Exercise price per share after modification: $0.01

Expiration date: February 2, 2015

Number of options granted: 2,971,942

Type I under Scheme I:

Number of options granted: 2,303,054

Vesting schedule: 50% of the total number of option shares at the end of the six-month period after the grant date, and the remaining 50% of the option shares shall vest in a series of 42 successive equal monthly installments over the 42-month period measured from the end of the six-month period after the grant date, with the first installment vesting on the first day of the month following the end of the six-month period of after the Grant date and an additional installment vesting on the first day of each of the 41 months thereafter.

Type II under Scheme I:

Number of options granted: 668,888

Vesting schedule: The options shall become vested as to 25% of the total number of ordinary shares subject to the options on the first anniversary of the grant date. The remaining 75% of the total number of ordinary shares subject to the options shall 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 first anniversary of the grant date occurs and an additional installment vesting on the last day of each of the 35 months thereafter.

Scheme II

Grant date: September 22, 2006

Exercise price per share - original: $1.771

Exercise price per share after modification: $0.01

Expiration date: September 21, 2016

Number of options granted: 543,674

Vesting schedule: The option shall become vested as to (1) 25% of the total number of ordinary shares subject to the option shares on the first anniversary of the grant date and (2) the remaining 75% of the option shares shall 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 first anniversary of the grant date occurs and an additional installment vesting on the last day of each of the 35 months thereafter.

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21. SHARE-BASED COMPENSATION - continued

Details of the Share Incentive Plans - continued

Scheme III

Grant date: December 5, 2006

Exercise price per share - original: $4.172

Exercise price per share after modification: $1.612

Expiration date: December 4, 2016

Number of options granted: 620,212

Among the 620,212 Scheme III options granted, 352,000 options were granted to one officer of the Group and the remaining 268,212 options were granted to other employees and directors.

Vesting schedule of the 268,212 options granted to employees and directors:

The option shall become vested as to (1) 25% of the total number of the option shares on the first anniversary of the grant date and (2) the remaining 75% of the Option Shares shall 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 first anniversary of the Grant date occurs and an additional installment vesting on the last day of each of the 35 months thereafter.

Vesting schedule of the 352,000 options granted to the officer:

320,000 shares subject to the options shall become vested as to (1) 25% of such 320,000 ordinary shares on the closing of an initial public offering in an international stock exchange, provided such initial public offering shall occur within 3 years from the grant date, and (2) the remaining 75% of such 320,000 shall 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 officer starts its employment and an additional installment vesting on the last day of each of the 35 months thereafter. The vesting of the remaining 32,000 shares is conditional upon whether the performance of non-smart card and CA systems business in the fiscal years from 2007 to 2009 can meet certain financial targets. In July 2010, these 32,000 shares were forfeited as the financial targets were not met.

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21. SHARE-BASED COMPENSATION - continued

Details of the Share Incentive Plans - continued

Scheme IV

Grant date: October 5, 2008

Exercise price per share - original: $0.543

Exercise price per share after modification: $0.01

Expiration date: October 4, 2018

Number of options granted: 53,280

Vesting schedule: The options shall become vested as to 25% of the total number of ordinary shares subject to the options on the first anniversary of the grant date. The remaining 75% of the total number of ordinary shares subject to the options shall 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 first anniversary of the grant date occurs and an additional installment vesting on the last day of each of the 35 months thereafter.

Scheme V

Grant date: October 5, 2008

Exercise price per share - original: $7.89

Exercise price per share after modification: $5.33

Expiration date: October 4, 2018

Number of options granted: 406,776

Vesting schedule: (1) 25% of the total number of the option shares on the first anniversary of the grant date and (2) the remaining 75% of the Option Shares shall 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 first anniversary of the Grant date occurs and an additional installment vesting on the last day of each of the 35 months thereafter.

Scheme VI

Grant date: June 2, 2009

Exercise price per share - original: $9.09

Exercise price per share after modification: $6.53

Expiration date: June 1, 2019

Number of options granted: 357,548

Vesting schedule: (1) 25% of the total number of the option shares on the first anniversary of the grant date and (2) the remaining 75% of the Option Shares shall 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 first anniversary of the Grant date occurs and an additional installment vesting on the last day of each of the 35 months thereafter.

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21. SHARE-BASED COMPENSATION - continued

Details of the Share Incentive Plans - continued

Scheme VII

Grant date: February 10, 2010

Exercise price per share - original: $0.543

Exercise price per share after modification: $0.01

Expiration date: February 9, 2020

Number of options granted: 42,880

Vesting schedule: All of the above stock options shall vest and become exercisable on the award date.

Scheme VIII

Grant date: November 15, 2010

Exercise price per share - original: $6.96

Exercise price per share after modification: $4.4

Expiration date: November 14, 2020

Number of options granted: 50,000

Vesting schedule: The vesting of the options is conditional upon whether the performance of the optionee in the four years after the option grant can meet certain performance targets.

Scheme IX

Grant date: November 19, 2010

Exercise price per share - original: $6.90

Exercise price per share after modification: $4.34

Expiration date: November 19, 2020

Number of options granted: 1,000,000

Vesting schedule: (1) 25% of the total number of option shares on the first anniversary of the grant date; and (2) the remaining 75% of the option shares shall 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 first anniversary of the grant date occurs and an additional installment vesting on the last day of each of the 35 months thereafter.

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21. SHARE-BASED COMPENSATION - continued

Details of the Share Incentive Plans - continued

Scheme X

Grant date: May 16, 2011

Exercise price per share - original: $4.90

Exercise price per share after modification: $4.34

Expiration date: May 15, 2021

Number of options granted: 1,600,000

Type I under Scheme X:

Number of options granted: 1,457,000

Vesting schedule: (1) 25% of the total number of option shares on November 19, 2011; and (2) the remaining 75% of the option shares shall vest in 36 substantially equal monthly installments, with the first installment vesting on the last day of the month following November 19, 2011 and an additional installment vesting on the last day of each of the 35 months thereafter.

Type II under Scheme X:

Number of options granted: 143,000

Vesting schedule: The vesting of the options is conditional upon whether the performance of the optionee can meet certain performance targets as of April 1, 2012.

Scheme XI

Grant date: September 30, 2011

Exercise price per share: $4.34

Expiration date: September 29, 2021

Number of options granted: 700,000

Vesting schedule: (1) 25% of the total number of option shares on November 19, 2011; and (2) the remaining 75% of the option shares shall vest in 36 substantially equal monthly installments, with the first installment vesting on the last day of the month following November 19, 2011 and an additional installment vesting on the last day of each of the 35 months thereafter.

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21. SHARE-BASED COMPENSATION - continued

Details of the Share Incentive Plans - continued

Scheme XII

Grant date: November 19, 2011

Exercise price per share: $4.34

Expiration date: November 18, 2021

Number of options granted: 300,000

Vesting schedule: (1) 25% of the total number of option shares immediately on November 19, 2011; and (2) the remaining 75% of the option shares shall vest in 36 substantially equal monthly installments, with the first installment vesting on the last day of the month following November 19, 2011 and an additional installment vesting on the last day of each of the 35 months thereafter.

Options granted to non-employees

Option granted to an independent director

The Group granted 40,000 options to an independent director who became the Company s independent director upon the IPO of the Company.

Grant date: May 15, 2007

Exercise price per share - original: $4.172

Exercise price per share after modification: $1.612

Expiration date: May 14, 2017

The option shall become vested as to (1) 50% on the day of the IPO, and (2) the remaining 50% would be vested in 36 substantially equal monthly installments thereafter, with the first installment vesting on the last day of the month following the month of the IPO and an additional installment vesting on the last day of each of the 35 months thereafter.

Option granted to Tech Power Enterprises

The Group granted 143,474 options to Tech Power Enterprises, an affiliated company of SAIF. The vesting schedule and other details of the options are the same as those in Type I options under Scheme I of Share Incentive Plans.

Termination of options

If the grantee ceases to be employed by or ceases to provide services to the Group, (a) the grantee will have until the date that is 30 days after his or her severance date to exercise the options (or portion thereof) to the extent that they were vested on the severance date; (b) the options, to the extent not vested on the severance date, shall terminate on the severance date; (c) the options, to the extent exercisable for the 30-day period following the severance date and not exercised during such period, shall terminate at the close of the business on the last day of the 30-day period.

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21. SHARE-BASED COMPENSATION - continued

Option exercise

The option shall be exercisable by the delivery to the secretary of corporation of a written notice, in the form approved by the Group, stating the number of ordinary shares to be purchased pursuant to the option and payment in full for the exercise price of the shares to be purchased in cash, by check or by electronic funds transfer to the Group.

Management used the Black-Scholes option pricing model to estimate the fair value of the following options on their respective grant date with the following assumptions:

	Expected price volatility range	Risk-free interest rate range	Expected life range	Expected dividends	Fair value of ordinary share at grant date
Scheme I/Options granted to Tech Power Enterprise	56.3%-58.1%	4.17%-4.36%	5.25-6.33	0%	$ 0.27
Scheme II	50.5%-50.6%	5.77%-5.81%	5.50-6.26	1.00%	$ 3.56
Scheme III	49.8%-52.4%	5.77%-5.83%	5.28-6.54	1.00%	$ 3.56
Options granted to an independent director	45.4%-48.1%	4.99%-5.03%	5.19-5.94	0%	$ 9.15
Scheme IV	56.20%	2.92%	6.25	0%	$ 7.66
Scheme V	56.20%	2.92%	6.25	0%	$ 7.66
Scheme VI	51.50%	3.28%	6.25	2.50%	$ 9.09
Scheme VII	51.54%	3.28%	0	0%	$ 6.36

Management used Binomial model to estimate the fair value of the following options on their respective grant date with the following assumptions:

	Expected price volatility range	Risk-free interest rate range	Time to vest	Expected dividends	Fair value of ordinary share at grant date
Scheme VIII	38.91%	3.91%	2.13	0%	$ 6.96
Scheme IX	38.89%	3.82%	2.16	0%	$ 7.26
Scheme X	45.17%	3.99%	0.88-1.69	0%	$ 6.39
Scheme XI	73.61%	3.91%	1.32	9%	$ 3.9
Scheme XII	72.80%	3.68%	1.18	9%	$ 3.89

The fair value of the option at the grant date was $0.11, $2.38, $1.67, $6.48, $7.22, $4.24, $3.83, $5.82, $2.93-$2.95, $3.16, $3.11-$3.42, $1.57-$1.65 and $1.54-$1.62 for each option for Scheme I, Scheme II, and Scheme III option plans, options granted to the independent director, Scheme IV, Scheme V, Scheme VI, Scheme VII, Scheme VIII, Scheme IX, Scheme X, Scheme XI and Scheme XII, respectively.

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21. SHARE-BASED COMPENSATION - continued

In calculating the fair value of the options using the Black-Scholes or Binomial option pricing model, the following major assumptions were used:

(1) Volatility

The volatility of the underlying ordinary shares during the life of the options was estimated based on the historical stock prices volatility of listed comparable companies over a period comparable to the expected term of the options or the Company s own historical stock price volatility. The companies selected for reference were Comcast Corporation, Cablevision Systems Corporation and Thomson.

(2) Risk free interest rate

Risk free interest rate was estimated based on the yield to maturity of government bonds with a maturity period close to the expected term of the options.

(3) Expected term

The Company estimated the expected term as the average between the vesting term of the options and the original contractual term.

(4) Time to vest

The Company estimated the time to vest as the weighted average remaining vesting period of the options based on the vesting schedule of the options.

(5) Dividend yield

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options and its historical special cash dividend payments.

(6) Exercise price

The exercise price of the options was determined by the Company s board of directors.

(7) Fair value of underlying ordinary shares

The fair value of ADSs representing its ordinary shares on the grant date is determined by the closing trade price of ordinary shares on the grant date.

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21. SHARE-BASED COMPENSATION - continued

A summary of stock option activity is as follows:

	Number of options	Weighted average exercise price
Options outstanding as at December 31, 2009	1,766,318	$ 4.75
Granted	1,092,880	6.65
Exercised	(773,347)	1.64
Forfeited	(70,470)	5.68
Options outstanding as at December 31, 2010	2,015,381	4.43*
Granted	2,600,000	4.34
Exercised	(163,903)	2.12
Forfeited	(73,915)	5.43
Options outstanding as at December 31, 2011	4,377,563	4.45
Options exercisable as at December 31, 2011	1,124,647	4.40

* The weighted average exercise price per option as of December 31, 2010 was retrospectively adjusted to reflect the impact of the exercise price modification in June 2011.

The following table summarizes information with respect to share options outstanding at December 31, 2011:

	Weighted-average exercise price	Number outstanding	Number exercisable	Weighted-average remaining contractual life	Intrinsic value
Scheme I	$ 0.01	1,888		3.09 years	$ 3.16
Scheme II	0.01	65,745	42,857	4.73 years	3.16
Scheme III	1.61	66,840	42,862	4.93 years	1.56
Scheme IV	0.01	5,200		6.76 years	3.16
Scheme V	5.33	286,376	120,287	6.76 years	
Scheme VI	6.53	311,914	114,224	7.42 years	
Scheme VIII	4.40	50,000		8.88 years	
Scheme IX	4.34	1,000,000	270,833	8.89 years	
Scheme X	4.34	1,589,600	349,140	9.37 years	

Scheme XI	4.34	700,000	151,939	9.75 years
Scheme XII	4.34	300,000	32,505	9.88 years
		4,377,563	1,124,647	

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21. SHARE-BASED COMPENSATION - continued

The weighted-average grant-date/ modification date fair value of options granted during the years of 2009, 2010 and 2011 was $3.83, $3.61 and $2.66, respectively.

The aggregate intrinsic value of options outstanding, vested and exercisable as of December 31, 2011 was $334, $327 and $202, respectively. The total intrinsic value of options exercised during the years ended December 31, 2009, 2010 and 2011 was $4,334, $5,116 and $288, respectively.

A summary of unvested stock option activity as of December 31, 2011, and changes during the year ended December 31, 2011 are presented below:

Unvested Stock Option	Number of Shares	Weighted average Grant-date Fair Value
Unvested at January 1, 2011	1,439,517	$ 3.40
Granted	2,600,000	2.66
Vested	(1,099,639)	2.98
Forfeited	(58,461)	4.00
Unvested at December 31, 2011	2,881,417	2.88

The Group recorded the share-based compensation expense of $1,662, $1,478 and $5,562 for the years ended December 31, 2009, 2010 and 2011, respectively.

As of December 31, 2011, total unrecognized compensation expense related to the unvested share options was $4,751, which is expected to be recognized over a weighted-average period of 1.67 years according to the graded vesting schedule. Total fair value of shares vested during the year ended December 31, 2009, 2010 and 2011 was $1,168, $1,653 and $3,277, respectively.

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22. FAIR VALUE MEASUREMENT

Measured at fair value on a recurring basis

The Group s financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 include forward contracts. There was no financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2010.

The following table summarizes the Group s financial assets and liabilities measured at fair value on recurring basis.

		Fair value measurement at reporting date using		
	December 31, 2011	Quoted prices in active market for identical instruments (Level 1)	Significant other observable (Level 2)	Significant unobservable inputs (Level 3)
Forward contracts	$ 404		$ 404	

Measured at fair value on a non-recurring basis

The Group s financial assets and liabilities measured at fair value on a non-recurring basis include cost method investment and acquired assets and liabilities in connection with the business acquisition and the cost method investment based on Level 3 inputs.

The Group measured the cost method investment at fair value on a nonrecurring basis when it wrote down the carrying amounts of the investments to their fair value as a result of the impairment assessments (Note 13). The determination of fair value of the investment involves judgment as to the severity and duration of the decline below fair value. The fair value was determined using models with significant unobservable inputs (Level 3 inputs), primarily the management estimation on the future performance of the investees and the recoverability of the investment.

The Group measured the fair value of the acquired intangible assets using the cost , income approach excess earnings and with & without valuation methods. The Group also re-measured certain intangible assets at their value on a nonrecurring basis as results of the impairment loss recognized in 2010, as set out in Note 11. These acquired intangible assets are considered Level 3 assets and liabilities because the Group used unobservable inputs, such as forecasted financial performance of the acquired business and discount rates, to determine the fair value of these purchased assets and liabilities.

23. MAINLAND CHINA CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees salaries. The total contribution for such employee benefits was $2,147, $2,805 and $3,365 for the years ended December 31, 2009, 2010 and 2011, respectively.

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24. COMMITMENTS

Operating lease commitment

The Group has operating lease agreements principally for its office spaces in the PRC. These leases expire through 2014 and are renewable upon negotiation. Rental expense under operating leases for the years ended December 31, 2009 and 2010 and 2011 was $1,301, $1,401, and $1,589, respectively.

Future minimum lease payments under non-cancelable operating lease agreements are as follows:

2012	$ 434
2013	9
2014	
	$ 443

Purchase commitments

As of December 31, 2011, purchase commitments are $300, mainly for service.

Other contractual commitment

According to an agreement signed between the Group and Tsing Hua University in May 2010, the Group will sponsor certain R& D program of Tsing Hua University up to $794 from 2010 to 2013. There will be $159 remained to be paid in 2012.

25. NONCONTROLLING INTEREST

	N-S Digital TV (Note 1)	Dongguan Super TV (Note 4(a))	Cyber Cloud (Note 26(c))	Joysee (a)	Super Movie (b)	Total
Balance as of January 1, 2009	$ 1,000	$ 564	$	$	$	$ 1,564
Net loss		(13)				(13)
Transfer of noncontrolling interest	(1,000)					(1,000)
Disposal		(551)				(551)
Balance as of December 31, 2009						
Acquisition		530				530
Net loss		(10)				(10)

Balance as of December 31, 2010		520				520
Capital injection			759	5,542	236	6,537
Transfer of noncontrolling interest				(1,822)		(1,822)
Net income /(loss)		105	(221)	(491)	(123)	(730)
Disposal		(625)				(625)
Balance as of December 31, 2011	$	$	$ 538	$ 3,229	$ 113	$ 3,880

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25. NONCONTROLLING INTEREST - continued

a. Pursuant to an agreement, dated April 29, 2011, between Super TV and Beijing Ying Zhi Cheng Technology Co., Ltd. (Ying Zhi Cheng Technology), to establish Joysee in Beijing mainly engaging in the research and development of advanced digital television terminals. Super TV and Ying Zhi Cheng Technology contributed cash of $4,154 and $462, representing 90% and 10% of the equity interest in Joysee, respectively.

Pursuant to an agreement, dated May 24, 2011, among Super TV, N-S Digital TV and Ying Zhi Cheng Technology, N-S Digital TV contributed capital injection of $923 in cash, representing a 16.7% equity interest in Joysee.

Pursuant to an agreement, dated June 13, 2011, among Super TV, N-S Digital TV, Ying Zhi Cheng Technology and Intel Semiconductor (Dalian) Ltd. (Intel), Intel contributed capital injection of $5,080 in cash, representing a 37.5% equity interest in Joysee. Pursuant to an equity transfer agreement, dated June 13, 2011, between N-S Digital TV and Intel, Intel transferred 7.5% of its equity investment in Joysee to N-S Digital TV for a nominal consideration. The difference of Intel s contributed amount and the equity interest obtained by Intel was $1,822, and it was recorded in additional paid in capital of the consolidated financial statement of the Group.

As a result of above series of transactions, the Group holds 64.8% equity interest in Joysee, of which Super TV and N-S Digital TV holds 46.9% and 17.9%, respectively.

b. Pursuant to a shareholder investment agreement, dated August 26, 2011, between Super TV and Beijing Chaoying Weichuang Technology Ltd. (Chaoying Weichuang), the parties agreed to establish Super Movie, which mainly engages in video program delivery services. Super TV and Chaoying Weichuang contributed cash in the amount of US$2,111 and US$236, respectively, representing 90% and 10% of the equity interest in Super Movie, respectively.

26. RELATED PARTY BALANCES AND TRANSACTIONS

a. On February 26, 2010, the Group entered into an agreement with Beijing Shi Xun, to acquire its 90% equity interest in Guangdong R&D for a cash consideration of $396. On the same day, the Group entered into an agreement with the holder of the remaining 10% equity interest in Guangdong R&D, an independent third party of the Group, for a cash consideration of $44. Guangdong R&D became a wholly owned subsidiary of the Group after the transaction (Note 4(b)). At the time of the transaction, Zengxiang Lu, the Company s director, was the president of Guangdong R&D, and Jianhua Zhu, the Company s chairman, was the executive director of Guangdong R&D. 80% of equity interest of Beijing Shi Xun was held by two family members of the Company s two major shareholders.

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26. RELATED PARTY BALANCES AND TRANSACTIONS - continued

b. In August 2010, the Group entered into an agreement with Rujia, an equity method investee of the Group, to sell 100% equity interest in Guangdong SuperTV Digital Media Co., Ltd. (Guangdong SuperTV) at a total consideration of $4,585. Gain of $32 generated from the disposal of the investment in Guangdong SuperTV was recorded in income from equity method investments in the consolidated statements of operations in 2010.

As the Group still has significant continuing involvement in the operations of Guangdong SuperTV through Rujia after the above transaction, disposal of Guangdong SuperTV was not considered discontinued business.

For the year ended 31 December 2011, the Group made purchase of certain media information system amounted to $122 from Rujia, of which $70 was not paid as of December 31, 2011.

c. In December 2010, the Group entered into an agreement with Beijing Yuewu Yuntian Software Technology Ltd. (Yuewu Yuntian), which was established by one of the management of the Company, to set up Cyber Cloud that engages in research and development of cloud computing technology and operation. The Group and Yuewu Yuntian contributed cash of $6,818 and $759, respectively, in December 2010, representing 90% and 10% of the equity interest in Cyber Cloud. Cyber Cloud was legally established on January 19, 2011.

27. STATUTORY RESERVES AND RESTRICTED NET ASSETS

As stipulated by the relevant law and regulations in the PRC, the Company s subsidiary, VIE and VIE s subsidiaries in the PRC are required to maintain non-distributable statutory reserve. Appropriations to the statutory reserve are required to be made at 10% of profit after taxes as reported in these entities statutory financial statements prepared under PRC GAAP. Once appropriated, these amounts are not available for future distribution to owners or shareholders. Once the statutory reserve is accumulated to 50% of these entities registered capital, these entities can choose not to provide further statutory reserves. The statutory reserve may be applied against prior year losses, if any, and may be used for general business expansion and production and an increase in registered capital of these entities. Amounts contributed to the statutory reserve were $2,507, $4,633 and $370 for 2009, 2010 and 2011, respectively.

As a result of PRC laws and regulations, which require that distributions by PRC entities can only be paid out of distributable profits computed in accordance with PRC GAAP, the PRC entities are restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital and the statutory reserves of the Company s PRC subsidiaries, VIEs and VIE s subsidiary. As of December 31, 2011, the aggregate amounts of capital and statutory reserves restricted which represented the amount of net assets of the relevant subsidiaries, VIEs and VIE s subsidiary in the Group not available for distribution was $25,516.

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28. SUBSEQUENT EVENT

The Group evaluated all events subsequent to the balance sheet date of December 31, 2011 through the date the consolidated financial statements were issued.

In June 2011, the Group entered into a framework agreement with Beijing AirMedia Advertising Co., Ltd. (AirMedia), to set up two joint ventures (JVs) in the PRC to engage in movie contents distribution related business. In December 2011, the Group and AirMedia entered into a supplemental agreement, pursuant to which the Group and AirMedia each contributed cash of $794 in February 2012, representing 50% of the equity interest in each of the JVs. The JVs were legally established on February 15, 2012 and March 13, 2012, respectively.