



Chairman's  
**Statement**  
主席報告



## DVN

**is making the transition from a headend equipment supplier to a system integrator and service provider as it quickens the pace of its digital rollouts.**

In 2002, the number of subscribers using DVN's STB's increased by 218% to 38,920 households as DVN has pushed its rollout efforts more aggressively in Suzhou, Zhongshan, and Wuxi. Trial rollouts have also begun in Hebei and Shandong. These subscribers allow DVN to receive recurrent income compared to the one off revenues from the sales of headend equipment. Over time, DVN expects to receive more revenues from subscriptions than from sales of headend equipment.

Already in Suzhou, DVN is earning enough from subscription revenues and from sales of set top boxes to support the local operation. DVN anticipates that other localities will also reach the breakeven point as the number of subscribers continue to increase.

## 天地數碼

**加快開展數碼電視業務，正從一家前端設備供應商轉型為系統集成及服務提供商**

二零零二年，隨著天地數碼在蘇州、中山及無錫大力推廣數碼電視服務，其用戶數增長218%至38,920戶。河北及山東的試驗性服務亦已展開。與銷售前端設備產生一次性收入相比，該等用戶為天地數碼帶來持續收入。預期一段時間後，從用戶取得的收入將超過前端設備的銷售收入。

天地數碼透過收取收視費及銷售機頂盒收入，已能在蘇州項目中達至自負盈虧。天地數碼估計在其他區域項目亦將快速達到收支平衡。

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二零零二年用戶數  
增長218%

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### **For 2003, DVN intends to work with other partners to leverage on their expertise and local knowledge.**

DVN recognizes that it will not be able to achieve a rapid rollout throughout China completely by itself. There are currently about 100 million cable subscribers throughout China — to reach a significant portion of these subscribers will take a significant investment.

It is for this reason that it has entered into a joint venture with Jiangsu Hongtu to rollout digital TV services in Guangzhou. Both DVN and Jiangsu Hongtu have contributed RMB15million in capital, with the funds used to purchase DVN headend equipment and to finance the rollout. The joint venture, called Hongtian, began its test rollout in March, 2003.

Through this type of arrangement, DVN will be able to leverage on local expertise, and capital, and therefore anticipates entering into more joint ventures with local companies. Qianfeng, a Sichuan Company listed on the Shanghai Stock Exchange, is another company involved in the digital cable business that DVN is forging close relationships with. DVN is also looking to working with other international companies who are seeking to expand into China's growing digital TV market.

### **However, 2002 results have been hampered by the inability of BCC to raise the necessary funding for its rollouts.**

In 2002, DVN has decided to take a HK\$68.1 million charge on its investment into BCC and the accounts receivables owed to DVN by BCC. DVN initially invested in BCC in 2000 as part of a strategy to gain rapid market share. DVN had already signed up enough contracts to keep itself busy, and did not feel the need to rollout more services on its own.

The idea in cooperating with BCC is that BCC would rollout services itself using DVN's hardware equipment and set top boxes. BCC would raise its own capital to fund the rollouts in these territories. However, given poor sentiment towards media and technology companies, and the fact that BCC was not as strong financially and technologically as DVN, BCC was not able to obtain the necessary financing for its rollouts in Foshan, Hubei, Hunan, and Henan.

The current plan is for DVN and perhaps a joint venture partner to take over management of BCC's operations. DVN has already implemented this model in Guangzhou. Hongtian, the joint venture between DVN and Jiangsu Hongtu, has purchased one headend and will manage the digital rollout in Guangzhou, one of BCC's original territories. The joint venture officially starting rolling out digital services in March, 2003. In DVN's agreement with Jiangsu Hongtu, Jiangsu Hongtu has agreed to invest in two more locations that involve BCC headends.

### **2003 is to be the beginning of a major effort by China to promote digital Pay TV**

China's State Administration of Radio, Film and Television ("SARFT"), the China's primary regulator for the cable TV industry, has announced that 2003 is to be the beginning of a major effort to create a more profitable Pay TV business through the conversion of China's cable broadcasting system from analog to digital.

In December, SARFT held its annual technology conference in Suzhou, the site of China's and DVN's first digital TV rollout. At this meeting and in a number of subsequent announcements, SARFT stated its intention to migrate 30 million cable subscribers to digital by 2005.

### 二零零三年，天地數碼擬配合合夥人共同發展業務，以利用其技術及本地化優勢

天地數碼認為，僅依靠本身的能力無法在中國各地區全面、快速地開展業務。目前，中國約有一億有線電視用戶，要成功贏得這些用戶中的相當比例需要作出重大投資。

因此，天地數碼與江蘇宏圖建立一家合營公司，以在廣州開展數碼電視服務。天地數碼與江蘇宏圖已各自注資1,500萬元人民幣入該合營公司，向天地數碼購入設備，及用作合營公司的營運資金。合營公司名稱為宏天，於二零零三年三月份試驗性地開展業務。

透過這種安排，其他公司將與天地數碼分擔開展業務的風險。因此，預期將與地方公司共同建立更多合營公司。成都前峰電子股份有限公司，一間在上海上市之四川公司是另一家公司與天地數碼在數碼廣播業務上有緊密聯繫。天地數碼亦尋求與國際公司合作，共同拓展中國日益壯大的數碼電視市場。

### 然而，二零零二年業績受BCC未能籌得開展業務所需資金的不利影響

二零零二年，天地數碼決定對其於BCC的投資及其欠付的應收款項作出6,810萬港元撥備。在二零零零年前，天地數碼已簽定大量合約，業務繁忙，因此無法自行開展更多服務。故此天地數碼於二零零零年開始投資BCC，作為其快速攻佔市場策略之一部份。

與BCC合作之方案為BCC將使用天地數碼的硬件設備及機頂盒自行開展服務，並自行負責籌集開展相關地區業務的資金。然而，由於投資者當時不看好媒體及科技企業，以及BCC的財務實力及技術均較本公司遜色，BCC未能籌得在佛山、湖北、湖南及河南開展業務所需的資金。

*SARFT stated its intention to migrate 30 million cable subscribers to digital by 2005*

*廣電總局表明到二零零五年，計劃將三千萬有線電視用戶轉為數碼用戶。*

目前的計劃為由天地數碼及可能與一合營公司夥伴接管BCC的業務地區。天地數碼已在廣州實施這種模式。天地數碼向在BCC業務地區之一的廣州開展數碼有線電視服務的一間合營公司注入現金。中國最大的電子產品製造商之一的江蘇宏圖同時向該合營公司注入資金。合營公司名稱為宏天，並向天地數碼購入設備和技術，於二零零三年三月份正式推出數碼電視服務。在與江蘇宏圖訂立的協議中，江蘇宏圖同意投資涉及BCC前端業務的另外兩個地區。

### 二零零三年中國開始大力推廣數碼收費電視服務

中國有線電視行業的主要監管機構中國廣播電影電視總局（「廣電總局」）公佈，透過將中國的有線廣播系統從模擬製式轉為數碼製式，二零零三年開始大規模建立利潤更高的數碼收費電視業務。

於二零零二年十二月份，廣電總局在天地數碼首個開展數碼電視服務的城市，蘇州舉行年度科技大會。在會議上及其後多次刊發的公告中，廣電總局表明到二零零五年，計劃將三千萬有線電視用戶轉為數碼用戶。

# Chairman's Statement

## 主席報告

### **Given SARFT's ambitious plans, SARFT realizes the need to promote Pay TV.**

The major reason for the push to digital is SARFT's recognition that China's cable assets should be better utilized — that the assets should not only be used for propaganda, but should also be used to generate revenues that will make the industry more healthy and robust. Only if the cable networks are operating as a true "business" will it be able to function properly.

Given this recognition, SARFT now recognizes the cable industry cannot be sustained by advertising revenues alone. Under the current advertising based system, additional channels that are developed only take away advertising revenues from existing channels, as the size of the advertising pie is limited. As a result, growth in the industry is restricted. A better model, SARFT recognizes, is to expand the pie by creating Pay TV and Video on Demand ("VOD"), and value added service products. SARFT notes that in many other countries, the cable industry receives more money from Pay TV revenues than from advertising.

SARFT also recognizes that if it does not develop Pay TV, it will eventually face competition, noting the potential threat from competitors seeking to provide VOD using the telecommunications network. DVN's digital cable TV solution is viewed as the most cost efficient method to distribute video.

### **SARFT is starting to create the incentives for consumers to subscribe to digital Pay TV, intending to launch 30 new Pay TV channels.**

However, SARFT recognizes that proper incentives need to be in place in order to achieve a successful migration to a digital Pay TV model. SARFT has therefore devised a plan which assigns its various business entities responsibilities that are appropriate with the entities strengths.

The primary responsibility for the digitalization program will go to the local cable television operators ("CATV's") as it is the local CATV's that own the local network, and have the closest contact to the end customers. The division of responsibilities are to be as follows:

1. CCTV and Provincial CATV will be responsible for content supply to local TV stations for broadcast. Special programs will be designed to attract a Pay TV audience.
2. State and Provincial Network operators will be responsible for transmission of content to the city based networks.
3. Local CATV at each city will be responsible for services and integration of content supplied from CCTV and provincial CATVs.

Recognizing that quality content will be crucial to attracting a Pay TV audience, SARFT further announced at the 4th International Cable TV Forum in Beijing, that China intends to launch 30 new pay channels. It is expected that many of these new pay channels will include some foreign content.

### 廣電總局認識到要實現其宏偉的目標，必須提高有線電視業的商業化營運程度

中國有線電視業向數碼化發展的主要原因是廣電總局認識到應更加妥善利用中國的有線網絡資產-即不僅用於宣傳，而應用於產生收入，從而促進該行業健康發展。有線網絡只有作為一門真正的「生意」運作，才能發揮相應作用。

因此，廣電總局認識到有線電視業不能僅靠廣告收入維持。在目前基於廣告收入的體系下，開發其他頻道只會分薄現有頻道的廣告收入，因為廣告市場的規模是有限的。因此，限制了電視行業的發展。廣電總局認為，更理想的模式是增加收費電視、視頻點播("VOD")及其他增值服務，以擴大收入來源。廣電總局留意到許多國家有線電視業的收費電視收入超過廣告收入。

廣電總局亦意識到倘不發展收費電視，最終將面臨競爭，其已留意到潛在競爭對手將可能利用電訊網絡提供視頻點播服務。天地數碼的數碼有線電視解決方案被認為是最具成本效益的視頻播放方式。

### 廣電總局開始設立優惠措施，鼓勵消費者訂購數碼收費電視，並計劃推出30個新收費電視頻道

然而，廣電總局認為要成功向數碼收費電視模式轉型，必須設立相應的優惠措施。因此，廣電總局制定一項計劃，由企業按不同級別承擔相應任務。

數碼化方案主要由各地方有線電視營運商（「有線電視營運商」）負責實施，因為地方有線電視營運商擁有地方網絡，與終端顧客的接觸最密切。責任劃分如下：

1. 中央電視台及省級電視台負責向地方電視台提供播放的節目，將製作特別的節目以吸引收費電視觀眾。
2. 國家及省級網絡營運商負責向城市網絡傳輸節目。
3. 各城市的地方電視台負責編輯製作及播放中央電視台及省級電視台提供的節目，及提供有關的增值服務。

*China intends to launch 30 new pay TV channels.*

中國計劃推出  
30個新收費  
電視頻道。

廣電總局認為，高質量電視節目對吸引收費電視觀眾至關重要。在北京第四屆國際有線電視論壇上，廣電總局宣佈中國計劃推出30個新收費頻道。預期有相當數目的新收費頻道將包括一定數量的外國節目內容。





# Chairman's Statement

## 主席報告

### **DVN is uniquely positioned to benefit from the new policies.**

As the first company to have rolled out digital TV services in China, DVN is well positioned to take advantage of these new developments. DVN launched its first digital platform in Suzhou at the end of 2001, and subsequently rolled out to Zhongshan and Wuxi in 2002. Trial rollouts have also taken place in Shandong and Hebei. In 2003, a trial rollout through a 50% owned joint venture has also begun in Guangzhou, one of China's most prosperous cities.

The technical team from DVN, which has been researching the digital video broadcasting market since 1994, gives DVN a significant head start over companies just now entering the market. In addition, DVN's CEO is currently a key member of China's Digital Broadcasting Transmission Standards Committee, and DVN is also a member of the subcommittees on conditional access, middleware, SI, SMS, Hardware Specification, and Open CA. These memberships give DVN key insights as to how China's technical standards and regulatory policies are evolving.

DVN's research expertise, practical field experience, and knowledge of China's regulatory policies, have given DVN an intricate understanding of China's cable TV needs and have enabled it to develop solutions to meet these needs. Potential competitor's are only now getting up on the learning curve. DVN's first mover advantage has allowed it to place headends in locations that give DVN potential access to over 30 million subscribers.

### **DVN recognizes that much work needs to be done to achieve the government's ambitious goal, and anticipates working with other partners to accelerate the digital rollout.**

The government's goals to migrate 30 million subscribers to digital by 2005 are extremely ambitious. Currently, analog subscribers are only paying about RMB12/subscriber. Convincing these subscribers to pay substantially more for digital TV is the biggest obstacle to a successful migration. To overcome this problem, DVN intends to work closely with local cable operators to devise an effective implementation plan. SARFT's recent decision to create 30 new Pay TV channels, some with foreign content, will help tremendously.

In addition, given the digitalization trend, some local cable operators are looking to accelerate the rollout by cutting off the analog signal. Initial plans are to conduct trial cutoffs for a small population. Local banks would provide financing and local operators would increase fees slightly in order to pay for the set top boxes. If these experiments are successful, DVN may experience much more rapid growth.

### **Gratitude to Shareholders, Management and Staff**

I would like to thank all DVN's staff for their hard work and commitment, which gives the Group the dynamism to succeed in this cutting edge industry. I would also like to extend my appreciation to the other Board members for their invaluable contributions and to our shareholders for their continued support.

### 天地數碼的特殊定位令其成為新政策的受益者

作為國內首家推廣數碼電視服務的公司，天地數碼已校準定位，充分利用最新的科技進展。二〇〇一年底，天地數碼在蘇州建立首個數碼平台，其後於二零零二年推廣至中山及無錫，並於山東及河北進行試驗服務。於二零零三年，天地數碼透過其持股50%的一間合營公司開始在中國最富庶城市之一廣州推出數碼電視試驗服務。

天地數碼的技術人員自一九九四年開始研究數碼視像廣播市場，令天地數碼較剛進入該市場的其他公司具備先行優勢。此外，天地數碼的行政總裁目前為中國數碼廣播傳送標準委員會的主要成員之一。天地數碼亦是有條件接收、中間件、SI、用戶管理系統、硬體規格及開放式有條件接收系統委員會成員。這些會員資格令天地數碼得以洞悉中國的技術標準及監管政策動態。

天地數碼的科研技術、實踐經驗以及熟悉中國的監管政策等優勢均令天地數碼得以透徹瞭解中國有線電視的需求狀況，並提供符合該等需求的解決方案。而潛在競爭對手現在還處於起步學習階段。由於天地數碼佔據先行優勢，因此可率先在若干地區安裝前端設備，掌握先機，爭取三千萬的用戶市場。

### 天地數碼認為，欲實現政府的宏偉目標還需作出巨大努力。預期將與其他夥伴合作，以加快數碼化進程

政府制定雄心勃勃的目標是到二零零五年令三千萬用戶改用數碼電視。目前，模擬電視用戶每戶僅需支付12元人民幣。實現這一目標的最大困難是說服該等用戶支付更多費用使用數碼電視。為克服這一困難，天地數碼擬訂加強與地方有線電視營運商的合作，以制訂有效的實施計劃。廣電總局近期決定新增30個收費電視頻道，部份頻道播放外國節目，將有助吸引用戶轉用數碼電視。

此外，有鑑於數碼化趨勢，部份地方有線電視營運商研究停止發送模擬電視訊號，以加快數碼化進程。初部計劃為試驗性中止少數地區的訊號。地方銀行將提供貸款，地方營運商亦將略增用戶收視費作機頂盒的補貼。倘該等試驗獲得成功，天地數碼的業務將出現更快增長。

### 向股東、管理層及員工致謝

本人謹對天地數碼所有員工致謝。他們勤奮工作、精誠奉獻，為本集團在這高科技行業之成功做出貢獻。本人亦對其他董事局成員所做的寶貴貢獻，以及股東們不間斷的支持，致以深深謝意。