

# President's Report

## 總裁報告



### DVN develops new business model for digital cable TV in China.

During early 2003, SARFT announced the migration plan for 'full digitilisation' of cable TV in China. The timetable called for 30 million digital cable subscribers by 2005, and for the cutoff of the analog signal by 2015. However, cable operators and technology suppliers faced one common challenge as to what would be the best business model to achieve these ambitious goals. Moreover, a major issue remained over who would finance the investment.

As a result, DVN devised a new model to address these issues. In this model, the analog service would be cutoff, with the government and banks financing the purchase of the set top boxes for use on an enhanced digital service. Use of government funds would be justified by the fact that the digital TV platform would be used as a 'Government to Citizen' communication platform. Given television is the most commonly accessible platform in China, television is the most cost effective means to communicate information and services from the government to citizens. By enhancing this platform through digital, the government would be able to more effectively get its message across to its citizens, while at the same time offering a variety of value added services.

### Cutoff of the analog signal, as reflected in the adoption of the Qingdao model, will result in rapid migration to digital.

As a result of DVN's proposal to the authorities, Qingdao CATV in cooperation with DVN, was the first to adopt this model, and began implementation of this model in late 2003. Other cities are now expected to emulate the Qingdao model. By cutting off the analog signal, cable television stations will be able to speed up the migration to digital, enabling SARFT to reach its target of full digitalization.

### 天地數碼發掘新業務模式運營中國有線數碼業務

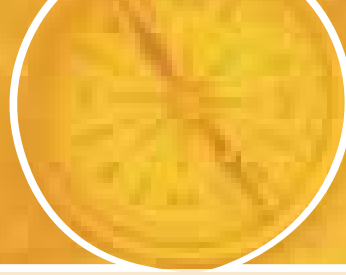
於二零零三年初，廣電總局公佈中國有線電視「數碼化平移」之時間表，並計劃在二零零五年前，有三千萬用戶轉為數碼有線電視用戶，在二零零一五年前，更終斷模擬訊號。但有線電視營運商及技術供應商都面對同一個挑戰，就是去找尋一個適合的業務模式去成就整個平移目標，及如何解決此項計劃的投資。

天地數碼因此而發掘了一個新業務模式作為解決方案。在此模式下，所有模擬訊號將會終斷，而政府與銀行則對分銷機頂盒作出融資，承擔機頂盒的購買成本。因有關數碼電視平台將用作「政府向人民」溝通之平台，政府資助將有效地推動及加速有線電視數碼化進程。因電視機是中國最廣泛接觸之平台，故此亦是最低成本的平台與群眾溝通，將政府的訊息及服務通過數碼化電視平台迅速而有效地轉達到市民中，及同時享用多元化的增值服務。

### 從青島模式顯示，切斷模擬訊號將加快開展數碼電視業務

天地數碼與青島有線網絡公司合作，開展中國首項有線電視數碼化平移業務。切斷模擬訊號後，有線電視台將加快數碼化步伐，使廣電總局能達致全面數碼化的目標。

在青島進行試驗時，數碼頻道由28個增至50個，只餘下5個頻道以模擬訊號傳播。有線電視網絡公司免費提供機頂盒，有關成本則透過將用戶費由每月12元人民幣，調升至每月22元人民幣而收回。收入較低的住戶則繼續獲許支付每月12元人民幣之費用。在試驗階段，反應良好，只收到一宗投訴。由於有關工作取得佳績，國務院有關部門於二零零四年三月在青島召開《全國有線電視數字化推進工作現場會》，要求所有有線電視營運商採納青島模式。



In its trial run in Qingdao, the number of basic digital channels has increased from 28 to 50. Only 5 analog channels remain. The set top boxes are given out by the CATV, but are paid for over the long term through an increase in the subscription fee from RMB12/month to RMB22/month. Lower income residents are allowed to continue paying RMB12/month. In the trial, the response was extremely favourable, with only one complaint. Because of this success, SARFT in November 2003; and all the relevant government departments under the state council in March 2004, gathered in Qingdao and asked all cable operators to consider adopting the Qingdao model to promote the migration to digital.

Given the positive results in the trial run, Qingdao is currently rolling out the service throughout the city. Given the success of the Qingdao model, and the government's support for this model, DVN expects more cities to adopt this model, resulting in even greater demand for DVN's services.

#### **In addition to Qingdao, DVN continues to expand, signing new contracts with Hangzhou, Urumqi, and Fujian.**

In January, DVN sold headend equipment to Fujian, and is currently supplying Fujian with set top boxes. A contract was signed with Shanghai in June to supply the municipality with set top boxes; while system integration contracts were signed with Urumqi, Hangzhou, and Qingdao.

The system integration contracts are a new development for DVN in which DVN agrees to supply all the middleware, software, and integration expertise to ensure that a digital platform is up and running for a cable operator. DVN does not supply the actual headend hardware, and therefore does not incur any capital expenses. DVN receives an integration fee, but does not receive any subscription fees in this arrangement. However, in exchange for providing software that enables various value added services, DVN receives 30-50% of the value added service revenues for the next 15-20 years. Value added services include: online gaming, long distance education, television shopping, stock market trading, etc. Through this new business model, DVN does not incur any financial risk, while ensuring that it receives significant financial upside if value added services succeed in China.

#### **Sales of set top boxes and subscriptions are accelerating**

DVN's set top box sales accelerated in 2003, with the number increasing nearly 100% year on year to 35,515 set top boxes. Set top box sales were particularly strong in Suzhou, Fujian, Shanghai, and Wuxi. Fujian began its digital rollout at the end of 2002, while Shanghai began its rollout in 1Q 2003.

#### **Set top box and subscription revenues now exceed headend revenues.**

In previous years, DVN received most of its revenues from the sale of headends. This year, revenues from sales of set top boxes and subscription revenues exceed those from sales of headends. For 2003, STB revenues and subscription revenues of HK\$32.3mn accounted for 44.1% of total sales compared to 29.0% in 2002 and 13.0% in 2001. On the other hand, headend revenues now account for only 31.8% of total revenues compared to 45.8% in 2002 and 64.3% in 2001.

This transition from headend sales to set top box and subscription sales is a natural progression as first cable operators must install the headends. Through these headend sales and through its leasing of headends in other localities, DVN is able to establish a base from which it can generate future revenues. After the headends are installed, the cable operator is able to sell set top boxes and subscriptions to customers. With this transition, DVN expects accelerated revenue growth as the company will be able to generate considerably more revenues from set top boxes and the provision of services as compared to sales of headends.

鑑於試驗成績良好，青島現正將服務普及至全市，並已簽訂定單，從天地數碼購買機頂盒。政府有見於青島模式成功，亦對此模式表示支持，天地數碼預期將有更多城市採納此模式，從而對天地數碼之服務產生更大的需求。

#### 除青島外，天地數碼亦繼續拓展工作，在杭州、烏魯木齊及福建獲得新的合約

一月，天地數碼向福建出售前端設備，並現正為福建提供機頂盒。天地數碼在六月與上海簽訂合約，提供機頂盒，另亦與烏魯木齊、杭州及青島簽訂系統集成服務合約。

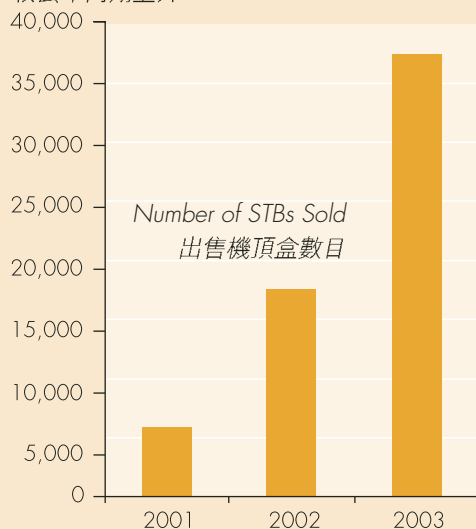
系統集成服務合約是天地數碼的新發展方向，根據有關合約，天地數碼同意提供所有中間件、軟件以及編輯專業知識，以確保有線電視營運商能建立及運作數碼平台。天地數碼並未提供實際之前端設備硬件，因此並未招致任何資本開支。天地數碼在此安排下，只收取編輯費，並未收取任何用戶費。然而，天地數碼將就提供能提供各項增值服務之軟件，在未來十五至二十年收取30-50%之增值服務收入。增值服務包括：網上遊戲、遙距教學、電視購物、股市交易等。天地數碼不會因此項新業務模式招致任何財務風險，但倘能成功在中國提供增值服務，則可確保其能獲取豐碩成果。

#### 機頂盒銷量及用戶急升

天地數碼之機頂盒銷售在二零零三年急升，數目較去年上升100%至35,515個。機頂盒在蘇州、福建、上海及無錫之銷售尤為理想。福建於二零零二年底已開始進行電視數碼化工作，而上海則於二零零三年第一季開始有關工作。

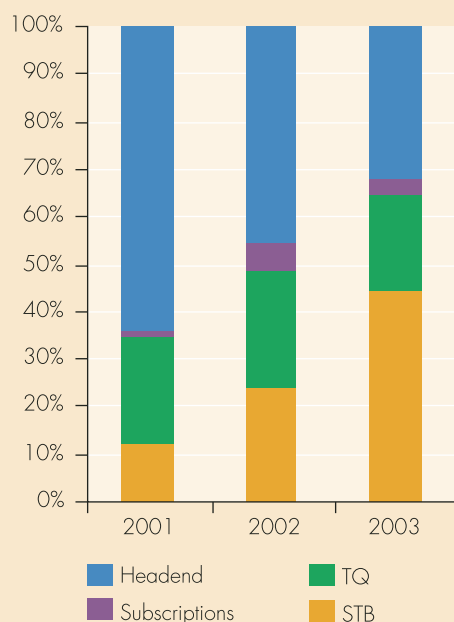
Number of STBs sold in 2003 surged 100% year on year...

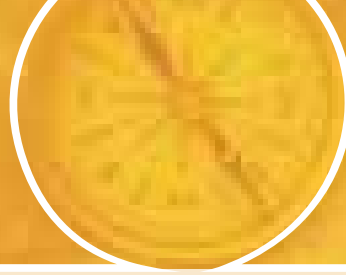
所出售之機頂盒數目在2003年急升，較去年同期上升100%。



Percentage breakdown of 2003, 2002 and 2001 revenues by product

按產品分析二零零三年、二零零二年及二零零一年的收入百分比





### Significantly reduced operational and STB costs.

DVN reduced its operational expenses in 2003 by nearly \$5 million. Despite the increase in turnover by 47%, the sales and marketing expenses only increased by around 12%, while general and administrative expenses dropped 10% year on year to HK\$55.2 million including depreciation charges.

DVN is also reducing the costs of its set top boxes. In 2003, DVN has been able to reduce STB costs by about 30%. As a result, DVN has been able to sign an increasing number of STB supply contracts. In addition to supplying STB to its own operational areas, DVN will also supply STB's to Fujian, Shanghai, Jiangxi, Hangzhou, and Urumqi.

### DVN's bottom line impacted by writeoffs.

Although DVN's operating loss improved, the net loss remained large due to provisions made on its investment into BCC and from the decreased value of its film rights. DVN originally made its investment into BCC in 2000 in anticipation that BCC would be able to rollout digital TV services in Hunan, Hubei, Foshan, and Henan. However, BCC has not been able to obtain the financing it had anticipated, and has discontinued most of its activities. Therefore, DVN has decided to take a provision on its investment in BCC. DVN has taken over management of BCC's operations in Foshan, Hubei, and Henan.

DVN's provision on the value of its film rights stems from the fact that China's Pay TV model did not develop as quickly as anticipated. As a result, the value of DVN's film library has depreciated. However, there are signs that SARFT is opening up the market, having recently announced that foreign media companies will be able to take a minority ownership stake in Chinese content companies.

### Outlook is positive given rising order book.

Given the government's push to promote digital TV, more cable operators are beginning their rollouts. As a result, DVN's order book is rising.

### Conclusion

The government has made a firm decision to convert its analog cable system to digital, with an initial goal of migrating 30 million digital cable subscribers to digital by 2005. Implementation of this decision will result in multibillion opportunities to sell set top boxes, to generate subscription revenues, and to generate other value added services such as home shopping and online gaming.

DVN, as the first company to have rolled out digital services is well positioned to take advantage of this opportunity. For 2004, DVN expects to rollout digital services into more areas throughout China. As more locations take the step to cutoff analog services, DVN expects that STB sales and subscription revenues will rise.

*DVN, as the first company to have rolled out digital services, is well positioned to take advantage of this full digitisation opportunity.*

作為首間推出數碼服務之公司，天地數碼已準備就緒，  
把握此有線電視數碼化平移所帶來之商機。

### 機頂盒及用戶費收入現已超逾前端設備收入

在過往年度，天地數碼從銷售前端設備收取大部份收入。本年度，出售機頂盒及用戶費的收入，已超逾銷售前端設備之收入。二零零三年，機頂盒收入及用戶費的收入為3,230萬港元，佔總銷售之44.1%，而於二零零二年及二零零一年則分別為29.0%及13.0%。另一方面，前端設備之收入僅佔總銷售之38.1%，而於二零零二年及二零零一年則分別為45.8%及64.3%。

由前端設備銷售過渡至機頂盒及用戶費銷售，是一項自然進程，因為有線電視營運商必須首先裝置前端設備。天地數碼透過前端設備銷售以及在其他地方租賃前端設備，已能確立一個使其能賺取未來溢利之基礎。裝置前端設備後，有線電視營運商已能向客戶銷售機頂盒及收取用戶費。在此過渡下，天地數碼預期可從機頂盒的銷售以及提供有關服務，較銷售前端設備賺取更多收入，從而加快收益增長。

### 營運開支及機頂盒成本顯著減少

天地數碼在二零零三年的經營開支明顯減少約500萬港元。隨著總收入增長47%，銷售及市場推廣開支卻只增加了12%，而一般及行政開支包括折舊較去年同期卻減少10%至5,520萬港元。

天地數碼致力減低其機頂盒成本。於二零零三年內，天地數碼已將機頂盒成本減少約30%。因此，天地數碼所簽訂的機頂盒供應合約日增。除在本身經營地區供應機頂盒外，天地數碼亦將向福建、上海、江西、杭州及烏魯木齊各地供應機頂盒。

### 天地數碼之溢利受撇賬影響

雖然天地數碼之經營虧損減少，但由於須就其於BCC的投資以及影片權益減值作撥備，故仍然出現較大之虧損淨額。天地數碼預期BCC能在湖南、湖北、佛山及河南推出數碼電視服務，故於二零零零年在BCC作出投資。然而，BCC未能如預期獲得融資，故終止其大部份業務。因此，天地數碼已決定就其於BCC之投資作出減值撥備。天地數碼亦已接管BCC在佛山、湖北及河南之業務。

天地數碼就影片權益減值之撥備，原自中國收費電視模式未能如期開展。故引致天地數碼之電影庫的價值減少。然而，有跡象顯示廣電總局正逐漸開放此市場，最近更宣佈外個媒體公司可以在中國節目公司擁有少數股東權益。

### 定單上升，前景明朗

鑑於政府致力推廣數碼電視，將有更多有線電視營運商開展其數碼服務。因此，天地數碼的定單數量日漸上升。

### 結論

政府已明確決定將模擬有線電視系統轉為數碼化，初步目標為在二零零五前，有三千萬用戶將轉為數碼有線電視用戶。落實此項決定將締造龐大商機，使天地數碼能賺取銷售機頂盒、用戶費、以及提供其他增值服務（例如家居購物及網上遊戲）等收入。

作為首間推出數碼服務之公司，天地數碼已準備就緒，把握此機遇所帶來之商機。二零零四年，天地數碼預期將數碼服務推及至中國其他地區。隨著更多地區準備切斷模擬服務，天地數碼預期機頂盒之銷售及用戶費收入將急升。