

A hand holding a pen over a document, with a blue overlay and decorative squares. The background is a blurred image of a hand holding a pen over a document. The text 'CHAIRMAN'S STATEMENT' is written in large white letters, and '主席報告' is written in smaller white characters to its right. The bottom left corner contains the text 'Annual Report 2004 年報 06'. The page is decorated with small, colorful squares (yellow, green, orange, red) scattered across the bottom half.

# CHAIRMAN'S STATEMENT

主席報告

## Motorola makes strategic investment into DVN.

Motorola and DVN have agreed to work together in order to become China's leading supplier of digital equipment and services. To date, Motorola has invested US\$15 million for a 20% equity stake. With the investment, DVN gains as a strategic partner, the world's leading provider of digital cable technology; and ensures that DVN remains a technology market leader in China. Motorola is involved in all aspects of digital broadband technology, from headend system solutions to consumer terminal products, and is the market leader for set-top terminals in the United States.

## SARFT realizes that digitalization is absolutely essential to the future of cable.

According to the State Administration for Radio, Film and Television ("SARFT"), switching to digital has become the paramount opportunity for the radio and television industry. With telecom operators seeking to compete with cable network through the launch of internet protocol television ("IPTV") services, SARFT realizes that it must make the transition to digital as quickly as possible, and has set 2015 as the date when the analog service is to be completely cut off. More urgently, SARFT would like to have a significant portion of the population receive digital signals in time for the Beijing Olympics in 2008. Given these urgencies, DVN expects cable operators to become increasingly more proactive in promoting digital cable. With over 100 million analog cable subscribers, there is considerable upside potential for the sale of set top boxes ("STBs") and other services.

Despite the potential competition from IPTV, DVN believes that digital cable will remain the most cost effective means to reach most viewers for the near future. However, DVN is prepared to also provide hardware and services for the IPTV industry should growth in this market segment also begin to grow rapidly. Already, DVN has prepared a dual mode set top box that can work on both cable and IPTV.

## Motorola向天地數碼作策略性投資。

Motorola 已同意與天地數碼攜手合作，矢志成為中國領先的數碼設備及服務供應商。截至目前為止，Motorola 已投資 15,000,000 美元，購入股本權益 20%。基於有關投資，天地數碼覓得 Motorola 作為全球具領導地位的數碼有線電視技術供應商為其策略性夥伴；此舉確保天地數碼在中國技術市場上穩守領先地位。Motorola 的業務遍及全方位的數碼寬頻技術，由前端設備系統解決方案以至消費者終端產品，並為美國機頂盒市場的領導者。

## 廣電總局認定數碼化對未來的有線電視起關鍵作用。

根據國家廣播電影電視總局（「廣電總局」）的資料，轉趨數碼已成為廣播及電視行業的首要商機。由於電訊營運商透過推出互聯網電視（「IPTV」）服務而與有線電視網絡競爭，廣電總局認為必須盡快過渡至數碼階段，並擬訂二零一五年全面停止模擬服務。此外，二零零八年北京奧林匹克運動會舉行在即，廣電總局將大部分人口能趕及以數碼訊號收看奧運會視為更逼切的項目。有見及此，DVN 預期有線電視營運商在推廣數碼有線電視的態度將更為積極主動。基於模擬有線電視用戶有超過一億名，機頂盒銷售及其他服務之上升潛力極為可觀。

儘管 IPTV 出現潛在競爭，惟天地數碼認為數碼有線電視於短期內仍為接觸廣泛用戶的最具成本效益渠道。不過，天地數碼亦已準備就緒，在 IPTV 市場開始快速增長時，為 IPTV 業提供硬件及服務。故此，天地數碼已預備兼容有線電視及 IPTV 的雙模式機頂盒。

### **Following the success of the Qingdao model, SARFT pushes other localities to adopt the mass digitalization model.**

STB deployments throughout the country have been below SARFT's original targets set in 2004 as many localities waited for the results from the Qingdao digital rollouts. Given Qingdao's successful rollouts, more localities are expected to emulate Qingdao in 2005. For 2005, government officials are targeting sales of 3 million STBs in China.

In a March 2005 keynote address at the opening ceremony of the China Cable Broadcasting Network (CCBN) exhibition in Beijing, Zhang Haitao, Vice Minister of the SARFT stated that China will also encourage large scale deployments at the provincial level. Beijing, for example, will stop analog TV transmissions by the end of 2007 so that it will be able to broadcast the 2008 Olympic Games in digital. Beijing's goal is to migrate 500,000 households to digital in 2005.

### **SARFT indicates that banks may provide financing for STBs, and announces other measures to promote digital.**

The State Development Bank has stated that it will provide RMB20 billion in loan credits to operators. Financing has been one of the major obstacles to mass deployment of STBs. Therefore, funding by the China's banks under these generous repayment terms would remove one of the last remaining obstacles to a more rapid rollout. Furthermore, to support the deployment of digital TV, the National Development Reform Commission has agreed to invest RMB120 million this year to assist network operators. In addition, to further promote digital, SARFT announced that digital TV carriers in second and third tier cities may be exempt from sales tax.

### **承接青島模式的成功，廣電總局鼓勵其他國內公司採用大型數碼化模式。**

由於不少國內公司靜觀青島數碼發展的成效，故全國性的機頂盒推廣活動進程較廣電總局於二零零四年既定的時間表為慢。在青島發展成功的推動下，二零零五年將有更多國內公司爭相倣效青島的發展。政府官員現訂下二零零五年將於全國出售3,000,000台機頂盒。

於二零零五年三月，廣電總局副局長張海濤於北京舉行的中國國際廣播電視信息網絡 (CCBN) 展覽會發展重要講話，表示中國鼓勵省級的大型推廣活動。以北京為例，當地將於二零零七年底前停止模擬電視傳輸，使其可以數碼方式播放二零零八年奧林匹克運動會，並指望二零零五年北京將有500,000戶家庭轉用數碼平台。

### **廣電總局表示銀行可提供有關機頂盒的融資，並公佈其他推廣數碼的措施。**

國家開發銀行已表示其將向營運商提供人民幣200億元的信貸。融資一直是機頂盒大型推廣活動的主要難題之一。因此，國內銀行以如此優厚的還款條件提供資金，為加快成效移除其中一道屏障。再者，國家發展和改革委員會為支持數碼電視的推廣活動，已同意於本年投資人民幣1億2千萬元協助網絡營運商。此外，廣電總局亦公佈於若干二三線城市內從事數碼電視可獲豁免銷售稅，以期進一步推廣數碼化。

## Surge in STB revenues result in sharply reduced losses.

DVN's STB revenues have surged as more localities began to execute on SARFT plans to migrate the country's cable television system to digital. DVN's STB sales accelerated in 2004, with the number of STBs sold increasing nearly seven times compared to 2003 to 242,198 STBs. STB sales were particularly strong in Qingdao, with DVN selling 153,345 STBs. During 2004, STB sales revenue surged 318% to HK\$111.6 million. As a result, DVN's net loss was sharply reduced from HK\$140.1 million in 2003 to a net loss of HK\$59.7 million in 2004.

## STBs now account for the majority of DVN's revenues.

Over the last several years, STB revenues have shown a clear upwards trend. As a result, STB revenues now account for the vast majority of DVN's revenues. For 2004, STB revenues account for 67% of total revenues, compared to 43.3% in 2003, 26.8% in 2002 and 15.2% in 2001. On the other hand, headend revenues now account for only 16% of total revenues compared to 38.1% in 2003, 56.9% in 2002 and 64.4% in 2001.

## Revenues from sale of STBs now dominate

This transition from headend sales to STB 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 STBs and subscriptions to customers. With this transition, DVN expects accelerated revenue growth as the company will be able to generate considerably more revenues from STBs and the provision of services as compared to sales of headends.

## 機頂盒收入躍升令虧損大幅減少。

隨著更多國內公司開始跟隨廣電總局的計劃，將國內的有線電視系統轉為數碼化，天地數碼的機頂盒收入已見躍升。於二零零四年，天地數碼的機頂盒銷售激增，所售出的機頂盒數目為242,198台，較二零零三年升近七倍。青島的機頂盒銷售增長尤其強勁，天地數碼更出售153,345台機頂盒。於二零零四年，機頂盒銷售的收入急升318%至111,600,000港元。故此，天地數碼的虧損淨額由二零零三年的140,100,000港元大幅減少至二零零四年的虧損淨額59,700,000港元。

## 機頂盒目前佔天地數碼的絕大部份收入。

多年來，機頂盒的收入明顯呈上升趨勢。因此，機頂盒收入目前佔天地數碼收入的絕大部份。於二零零四年，機頂盒收入佔總收入67%，於二零零三年、二零零二年及二零零一年則分別佔總收入43.3%、26.8%及15.2%。另一方面，前端設備收入現時僅佔總收入16%，於二零零三年、二零零二年及二零零一年則分別佔總收入38.1%、56.9%及64.4%。

## 銷售機頂盒的收入目前領先

由前端設備的銷售轉至機頂盒的銷售及用戶費收入乃屬正常過程，理由是有線電視營辦商必須先安裝前端設備。透過前端設備銷售及在其他地區出租前端設備，天地數碼得以建立一個可產生日後收益的基礎模式。安裝前端設備後，有線電視營辦商能夠向客戶銷售機頂盒並收取用戶費。經過上述過程，天地數碼預期因公司能夠以機頂盒及提供服務而產生較銷售前端設備為多的收入，故可加速收入增長。

### **1st quarter indicates demand is continuing to accelerate, with DVN selling 170,016 STBs, an increase of 7.5 times compared to last year.**

Currently, DVN has a market leading position for digital STBs. This leadership position stems from its early entry into the market, its emphasis on providing innovative solutions to the industry, and its pioneering role in pushing for the analog cutoff model as exemplified by Qingdao. Given its market leading role, DVN expects to continue winning new orders in 2005 as more cities adopt the Qingdao model, resulting in continued growth in revenues.

The improved prospects are reflected in DVN's first quarter STB sales. During the first quarter of 2005, DVN manufactured or DVN STBs licensed to other manufacturers were distributed to 170,016 new subscribers, an increase of 7.5 times compared to the first quarter of 2004. Given the improved prospects for digitalization, DVN expects competition to increase, resulting in some margin pressure. However, DVN expects the greater sales volume to more than compensate for reduced margins.

### **DVN is building the platform to generate other value added service revenues**

As the number of subscribers using DVN set top boxes increases, DVN's base of subscribers who could potentially pay for additional value services such as SMS and gaming increases. DVN expects to launch some value added service within the next several months, and anticipates over the long term that value added service will be a significant profit generator.

### **第一季顯示需求持續攀升，天地數碼售出170,016台機頂盒，較去年增長7.5倍。**

目前，天地數碼在數碼機頂盒市場具領導地位。天地數碼的領導地位乃建基於其為市場的先驅、著重為業界提供創新的解決方案，以及走在推動停止模擬模式的前線，當中更以青島作為示範。憑藉其於市場的領導角色，天地數碼預期二零零五年將有更多城市採用青島模式，新訂單亦隨之而來，帶動收入不斷增長。

天地數碼第一季的機頂盒銷售數字反映其前景有所改善。於二零零五年第一季度，天地數碼生產或天地數碼授權予其他製造商的機頂盒已售出予170,016名新用戶，較二零零四年第一季增長7.5倍。鑑於數碼化前景樂觀，天地數碼預期競爭將日趨激烈，為利潤帶來壓力。然而，天地數碼亦預期銷量足以彌補下跌的利潤。

### **天地數碼正建立一個能夠帶來其他增值服務收入的平台。**

由於使用天地數碼機頂盒的用戶數目增加，故天地數碼用戶基礎內可支付SMS及遊戲等增值服務的用戶亦有所增加。天地數碼預期於未來數月推出若干增值服務，而該增值服務於長遠而言將成為一項主要溢利來源。



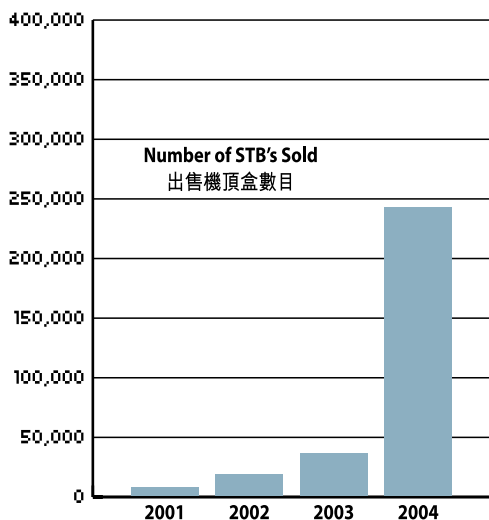
## Gratitude to Shareholders, Management and Staff

I would like to thank all of 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 contribution and to our shareholders for their continued support.

## 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的成功作出貢獻。本人亦對其他董事局成員所作出的寶貴貢獻，以及股東們從不間斷的支持，致以衷心謝意。

### Number of STB sold in 2004 surged around seven times year on year 於二零零四年售出的機頂盒數目 按年急升約七倍



### Percentage breakdown of 2004, 2003, 2002 and 2001 revenues by product

按產品分析二零零四年、二零零三年、二零零二年及二零零一年的收入百分比

