



# CEO's **Report**

行政總裁報告

### Most effort spent on Suzhou, Zhongshan, and Wuxi

DVN spent most of 2002 focusing on its rollouts in Suzhou, Zhongshan and Wuxi, DVN has devoted considerable effort over the last year in conjunction with its Chinese partners to optimize the digital TV service packages offered to Chinese consumers over its digital broadcasting platforms.

In these three areas, where DVN's platforms are leased to local CATV operators and DVN receives a percentage of the subscription fees collected from the digital TV services offered, DVN provides marketing and operational support, and pricing advisory, to name some of the more important business aspects. As of January 31, 2003, over 38,920 households were receiving digital TV services over DVN's digital platforms, an increase of 218% compared to year end 2001. In Suzhou, around 5.8% of the population in the downtown area in which DVN has rolled out, now subscribe to DVN's digital TV services.

DVN, in conjunction with its CATV partners, is among the first in China to significantly roll out digital TV services. DVN has concentrated on optimizing the digital TV service business model offered to Chinese consumers so that it may be duplicated quickly and efficiently in other locations throughout China without wasting financial resources and time.

### 大力發展蘇州、中山及無錫業務

二零零二年，天地數碼集中資源發展蘇州、中山及無錫的業務。去年天地數碼投入大量人力、物力，與中國夥伴共同開展透過其數碼廣播平台向中國消費者提供的數碼電視服務。

在上述三個地區，天地數碼將平台租賃予地方有線電視營運商，按提供的數碼電視服務收取一定比例的用戶費，同時參與部份主要業務，如提供市場推廣、營運支援及定價諮詢等主要業務。截止二零零三年一月三十一日，透過天地數碼之數碼平台接收數碼電視服務的家庭用戶超過38,920戶，較二零零一年底大幅增加218%。在蘇州天地數碼已開展服務的地區，目前約5.8%的城區人口已訂購天地數碼的數碼電視服務。

天地數碼聯同有線電視營運商夥伴在中國大規模推出數碼電視服務，佔據捷足先登的優勢。天地數碼正致力於優化向中國消費者提供的數碼電視服務的業務模式，以期快速、有效率地在中國其他地區套用該模式，從而節省財務資源及時間。

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### **With the experience gained from the initial rollouts, DVN intends to expand its rollout into Guangzhou and other localities.**

Having successfully rolled out digital services in three areas, DVN now intends to increase the number of subscribers substantially by rolling out digital services in additional areas in 2003. DVN continues to strive to be a leading developer of digital video broadcasting systems providing the support, technology and services necessary to make digital Pay TV a reality in China. DVN is also exploring opportunities in Indonesia, Korea, Hong Kong, Taiwan, India and other international markets.

Paying subscriber numbers have grown substantially in percentage terms over the previous year and subscription fees received by DVN have increased by more than three times. Going forward, DVN will continue to focus on increasing its recurring revenue base by increasing subscriber numbers, which will drive the company to profitability and will concurrently move away from one-off headend sales.

### **DVN intends to accelerate its rollout, and believes SARFT's backing will help considerably.**

DVN recognizes that despite all its efforts and its current leading market position, with only approximately 38,920 paying subscribers, it has not yet reached the critical mass required to profitably support its operations. DVN believes that additional incentives will be needed to convince subscribers to pay more than the RMB12 they are paying currently.

The government's decision to heavily promote Pay TV will provide a substantial benefit to DVN's efforts. The creation of 30 new Pay TV channels will provide an attractive incentive for potential subscribers to make the switch to digital. In addition, DVN will place more effort on educating the consumer on the benefits of digital Pay TV over analog TV.

As the industry is transitioning from a start up phase to a growth phase and receiving more government support combined with the expected relaxation of content importation due to China's entry into the WTO, DVN expects that it will soon be able to offer Chinese consumers richer and broader digital services, which will hasten the take up of digital services. Once DVN is satisfied with the channel mix, the content available and pricing of digital TV services, efforts will be made to duplicate the success in multiple locations beyond the current three areas on which it has focused most of its efforts.

*DVN now intends to increase the number of subscribers substantially by rolling out digital services in additional areas in 2003.*

天地數碼現擬於二零零三年在其他地區推出數碼電視服務，以大幅增加用戶數目。

#### 天地數碼汲取初期推出的成功經驗，擬向廣州、山東及河北擴展業務

在三大地區成功推出數碼電視服務後，天地數碼現擬於二零零三年在其他地區推出數碼電視服務，以大幅增加用戶數目。天地數碼一如既往地努力不懈，以成為數碼影視廣播系統的龍頭發展商，提供系統集成支援、技術及服務，令中國的數碼收費電視之夢成真。目前天地數碼亦在開拓印尼、南韓、香港、台灣、印度及其他國際市場的商機。

付費用戶數目按百分比計算較去年大幅增長，而天地數碼收取之用戶費亦大幅增加逾三倍。展望未來，天地數碼將繼續致力擴大經常性收入之基礎，增加用戶數目，提升集團的盈利能力，並逐步減少前端設備的一次性銷售營運模式。

#### 天地數碼擬加快推廣服務，相信廣電總局的支援將發揮相當作用

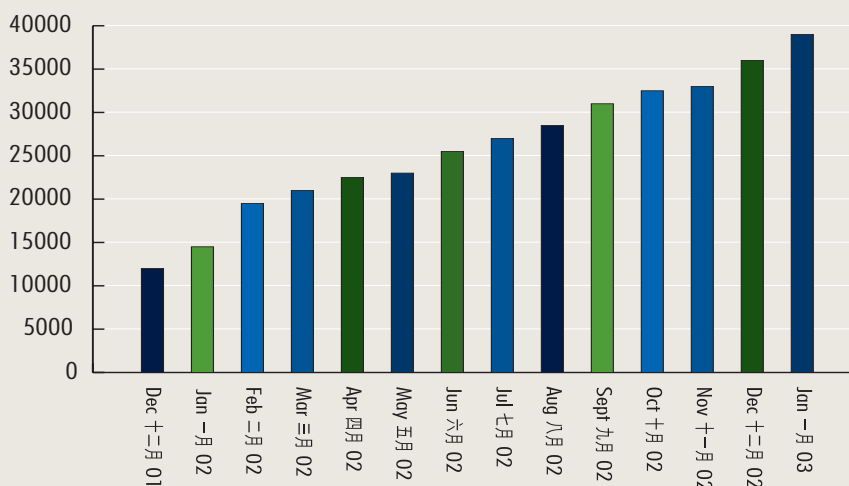
天地數碼認為雖然付諸努力並佔據日前的市場領導地位，但仍只僅有38,920戶付費用戶，遠未達致能產生到經營盈利要求的臨界用戶數。天地數碼相信需要採用額外的優惠措施，促使用戶支付較目前人民幣12元更多的費用。

政府大力推廣收費電視的決策將對天地數碼大有裨益。新增30個收費電視頻道是促使潛在用戶轉用數碼服務的誘因。另外，天地數碼將投入更多人力、物力向消費者宣傳數碼收費電視相對於模擬電視的優勢。

隨著該行業正從起步階段向發展階段過渡，政府將給予更多支援。預期中國加入世貿後將放寬節目限制，因此天地數碼將可向中國消費者提供內容更豐富、更廣泛的數碼電視服務，從而提升數碼電視服務的使用率。此外，在天地數碼認為頻道組合、節目內容及數碼電視服務的定價達到滿意水平後，將會重點發展其他地區的業務，重複天地數碼一直致力拓展的三個地區的成功模式。

Number of Households Receiving Digital Broadcasts From DVN STB's

從天地數碼機頂盒接收數碼廣播之家庭數目



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### Set top box and subscription revenues rise sharply.

In 2002, revenues from the sales of set top boxes and subscriptions fees rose sharply. Set top box sales increased 49% to HK\$11.7million as DVN began more aggressive rollouts in Suzhou, Wuxi, and Zhongshan. Subscription revenues increased more sharply, rising 317% to HK\$2.8million. The advantage of subscription revenues over equipment sales is that subscription revenues are recurrent as subscribers tend to maintain their subscriptions in ensuing years. As DVN has generally sold its set top boxes, DVN has significantly less churn than cable companies which lease out set top boxes. DVN believes that subscription revenues will be the major source of revenues over the long term.

### Strong Order Book

2003 1st quarter set top box sales and subscription revenues are substantially higher year on year. With DVN's accelerated rollout, DVN has developed a strong order book for 2003, suggesting that DVN will be able to continue the increased sales rate as DVN further expends into other areas.

As DVN transforms from a headend supplier to a system integrator and provider of services, DVN expects that set top boxes sales and subscriptions will increase sharply over the next year as DVN expands its rollout to additional locations. DVN also expects turnover for headends to rise in 2003 as more localities seek to purchase digital headends.

### Writeoff of investment to BCC has impacted earnings for 2002, but new arrangement with BCC will give DVN direct access to even more fee paying subscribers.

For 2002, DVN has decided to writeoff HK\$33.1 million on accounts receivables and for prudent purposes, made a provision of HK\$35million for the potential impairment of an investment in BCC. BCC is DVN's 9.9% owned associate. BCC has contracts to rollout digital services in Hunan, Hubei, Foshan, and Henan. However, BCC has not been able to obtain the financing it had anticipated, and has been unable to repay the loan and the amount owed on the headend sales. DVN has entered into a new management contract with BCC in which DVN agrees to manage BCC's operations. DVN will receive part of the profits from the management of selected BCC territories. Through this arrangement, DVN will have access to subscription revenues from four additional provinces/cities. Although DVN is taking a writeoff through this arrangement, DVN will be able to reinvigorate BCC's activities, and derive benefits from BCC's territories.

Excluding BCC and Telequote, as the following table illustrates, DVN's digital business results in 2002 would have been significantly better compared to 2001.

HKD '000	2002	2001	% Change
Set top Box Sales	11,209	7,828	+43%
Subscription Revenues	2,799	671	+317%
Non-BCC Headend Sales	22,844	3,146	+626%
BCC Sales	—	38,625	-100%
Telequote	12,485	14,778	-16%
Total	49,337	65,048	-24%
<b>Total excluding BCC sales and Telequote</b>	<b>36,852</b>	<b>11,645</b>	<b>+217%</b>

Set top box sales increased 49% to HK\$11.7million as DVN began more aggressive rollouts in Suzhou, Wuxi, and Zhongshan. Subscription revenues increased more sharply, rising 317% to HK\$2.8million.

機頂盒銷售收入增長49%至1,170萬港元。用戶費收入增長更為強勁，激增317%至280萬港元。

#### 機頂盒及用戶費收入增長強勁

二零零二年機頂盒銷售及用戶費收入增長強勁。由於天地數碼大力發展蘇州、無錫及中山三地的數碼電視業務，機頂盒銷售收入增長49%至1,170萬港元。用戶費收入增長更為強勁，激增317%至280萬港元。從收取用戶月費較銷售設備取得一次性的銷售收入有優勢。其優勢點在於用戶為持續使用數碼服務會不斷支付續訂費，令天地數碼獲得經常收入。由於一般而言，天地數碼會廣泛銷售機頂盒，其客戶流失率顯著低於出租機頂盒的有線電視公司。天地數碼相信，從長遠而言，用戶費將是主要收入來源。

#### 訂單增長強勁

二零零三年第一季度的機頂盒銷售及用戶費收入均比往年大幅增長。隨著天地數碼加速推廣業務，二零零三年，天地數碼的訂單增長強勁。隨著天地數碼繼續拓展其他地區的業務，預期銷售額將會持續增長。

隨著天地數碼從一家前端設備供應商轉型為系統集成及服務提供商，並在其他地區開展數碼業務，其預計機頂盒銷售額及用戶費用入於二零零三年將大幅增長。由於越來越多地區尋求購買數碼前端設備，天地數碼同時預期來年前端設備之營業額亦將穩步上升。

#### 撇銷於BCC的投資影響二零零二年盈利，但與BCC訂立的新安排令天地數碼可直接獲得更多付費用戶

二零零二年，出於謹慎考慮，天地數碼決定撇銷3,310萬港元的應收賬款，並就投資BCC的潛在減值計提撥備3,500萬港元。BCC是天地數碼擁有9.9%權益的聯繫人士，與天地數碼簽訂合約，在湖南、湖北、佛山及河南拓展數碼服務。然而，BCC未能獲得預期的融資，且未能償還貸款及前端設備銷售款項。預期天地數碼將與BCC訂立一份管理合約，據此托管BCC的業務。天地數碼將獲得管理議定BCC工作區產生的部份利潤。透過這項安排，天地數碼可另外獲得四個省市的用戶費收入。儘管天地數碼作出撇銷，但透過這項合約，天地數碼能夠在BCC業務上得到滿意的安排，從而增長天地數碼的用戶收入。

下表顯示，倘撇除及BCC及Telequote的業績，二零零二年度天地數碼的數碼廣播業績比二零零一年度大幅提高。

千港元	二零零二年	二零零一年	變幅
機頂盒銷售	11,209	7,828	+43%
用戶費收入	2,799	671	+317%
非BCC前端銷售	22,844	3,146	+626%
BCC銷售額	—	38,625	-100%
Telequote	12,485	14,778	-16%
總計	49,337	65,048	-24%
<b>總額不包括BCC銷售及Telequote</b>	<b>36,852</b>	<b>11,645</b>	<b>+217%</b>



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Earnings have also been impacted by the results from Telequote. The number of subscribers to Telequote's services has increased; however, increased competition has resulted in reduced revenues per subscriber. As a result, sales at Telequote have declined by 16%. However, DVN expects that new software will enable Telequote to reduce its costs. As Telequote is not viewed as a core part of DVN's operations, management is looking at divesting Telequote to other investors.

### **Streamlining of operations results in reduction in costs**

In the 4Q 2002, DVN streamlined its operations, cutting headcount by 33 people to 291 employees. In addition, other cost cutting measures were implemented, which will result in an approximate 19% monthly reduction in expenditures. Research and Development costs are expected to be reduced by 17% and general and administrative expenses by 46%. Given DVN continues its rollout, marketing and selling expenses are expected to increase by 7%.

### **Gratitude to the Board, Management and Staff**

Given the positive performance in the first quarter and our proven record and ability to contain cost, I believe that 2003 results will show an improvement over 2002.

I would like to express gratefulness to the board of directors, management and staff, who have helped us get through a difficult year. I look forward to a much better performance in 2003, enabling DVN's core values of "Diligence, Innovation and Harmony".

天地數碼的盈利亦受到Telequote的業績影響。訂購Telequote服務的用戶數目有所增加，但競爭加劇，導致每個用戶收入減少。結果，Telequote的銷售額減少16%。然而，天地數碼預期新軟件將令Telequote減少成本。因Telequote並不是天地數碼業務的核心部份，管理層正尋求將Telequote出售予其他投資者。

#### **整頓業務後成本大幅降低**

天地數碼於二零零二年第四季度整頓業務，裁員33人至291人，同時實施其他成本削減措施，令每月開支減少約19%。預期研發成本減少約17%，一般及行政開支減少約46%。因天地數碼繼續拓展業務，預期市場推廣及銷售費用增加約7%。

#### **向董事、管理層及員工致謝**

繼于2003年第一季度的良好業績及公司在控制成本方面取得的引証及成效，本人深信2003年的業績將會比往年優勝。

本人謹對天地數碼所有董事局成員、管理層及員工致謝，他們在過去艱辛的一年給予公司不間斷的支持，為此使本人更加有信心與大家努力在來年共創更佳的業績，秉承「奮進，創新，譜和」的天地數碼精神。