



**PRESIDENT'S
REPORT
總裁報告**



SARFT IS NOW ENCOURAGING NATIONWIDE ADOPTION OF DVN'S QINGDAO MODEL.

In less than two years, DVN has assisted in migrating the entire Qingdao CATV network to digital, a migration involving 600,000 analog subscribers. Qingdao is now one of the first cities in the world to become fully digital. The success of this model demonstrates that mass scale digitalization can be completed within a short period of time. In this model, the cable operator purchases the STBs and distributes them to the subscribers free of charge. The analog service is cutoff, forcing the subscriber to use the operator's digital TV services. The subscription fee is increased by about RMB10/month and the number of channels is doubled. The cost of the STB is recovered through an increase in monthly subscription fees and from planned VAS over time.

廣電總局現時鼓勵全國採用天地數碼之青島模式。

天地數碼以少於兩年時間將青島全市轉制至數碼化模式，是次轉制涉及600,000名模擬模式用戶。青島現時是全世界率先全面數碼化的城市之一。此模式之成功，證明大規模轉制至數碼化模式可迅速完成。在此模式下，由有線電視營運商購買機頂盒，並免費供用戶使用。其後用戶的模擬電視服務終止，用戶只可透過電視台提供之數碼機頂盒收看電視節目。用戶月費增加約人民幣10元，及頻道的數目亦倍增。機頂盒之成本乃從增加用戶費及計劃中的增值服務費中收回。

The model has been so successful, that SARFT has nominated Qingdao as the flagship city for full digitalization and is now encouraging cities and even entire provinces to adopt the "Qingdao model". In the Qingdao model, a win-win situation has been created – the subscribers do not need to pay for initial cost of the new STB and have access to more high quality programming and information. The cable operator is able to charge higher monthly fees, and potentially has the opportunity to generate substantial revenue from VAS. In addition, through the "conditional access" ("CA") and the "subscriber management system" ("SMS") of the digital cable system, the cable operator is well equipped to deal with credit defaults. DVN, the supplier, generates significant revenue from the sales of STBs and has the potential to share in profit from VAS.

SUCCESS OF THE MODEL SHOWS THE ENORMOUS POTENTIAL OF THE MARKET: 23-50 MILLION DIGITAL TV SUBSCRIBERS BY 2008.

DVN's increased sales for 2005 were primarily attributable to only a couple of locations, with Qingdao accounting for 55% of total STBs distributed. China has hundreds of cities that are about to adopt full digitalization. As the market pioneer, DVN is poised to win more mass digitalization contracts—contracts that should result in continued significant growth.

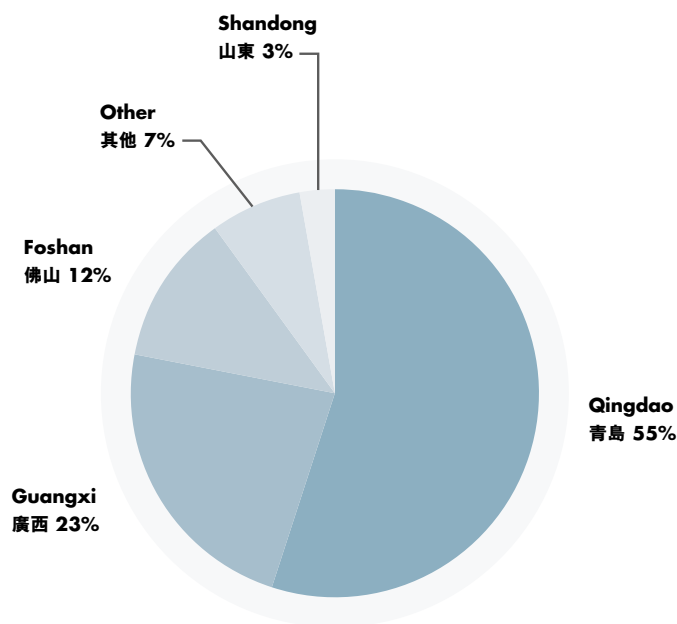
有鑑於此模式取得空前成功，廣電總局現時鼓勵各省市採用「青島模式」。青島模式帶來雙贏局面。用戶毋須支付機頂盒之費用即可收看更多更優質之節目及資訊，而電視台可提高收費，從而帶來藉增值服務而產生可觀收入之潛在機遇。此外，透過「有條件接收系統」(「CA」)及「用戶管理系統」(「SMS」)，營運商可更輕易處理拖欠用戶費之用戶。天地數碼作為供應商，透過銷售機頂盒賺取豐厚收入，並有機會分佔來自增值服務之收入。

此模式成功展現出市場之龐大潛力：全中國數碼服務用戶數目至二零零八年可達23,000,000至50,000,000戶。

天地數碼於二零零五年之銷量增加，主要源自僅僅數個地區，而青島佔已分銷之機頂盒總數55%。在中國，數以百計城市勢將全面數碼化。天地數碼作為市場領先企業已穩紮良基，可成功取得更多可使其達致持續大幅增長之大型數碼化合約。

QINGDAO ACCOUNTED FOR 55% OF TOTAL SALES AS IN 2005

在二零零五年內，青島佔總銷量 55%。



According to iSuppli, an independent marketing firm, the number of digital TV users in China should reach 23 million in 2008, with the possibility of the number exceeding 50 million. SARFT's own goal is to reach 30 million digital subscribers by 2007. Given the urgency of the Beijing Olympics, SARFT plans to transform Beijing's 3.7 million analog TV users into digital subscribers by 2007. Moreover, a number of provinces are seriously considering migrating all their analog subscribers to digital.

根據獨立市場調查公司 iSuppli 之資料，中國數碼電視用戶數目至二零零八年可達 23,000,000 戶，更可能超過 50,000,000 戶。廣電總局之內目標，為數碼服務用戶數目至二零零七年增至 30,000,000 戶。由於北京奧運迫近，廣電總局計劃讓北京 3,700,000 戶模擬電視用戶在二零零七年前轉為數碼電視用戶。此外，多個省份正慎重考慮將其模擬電視用戶全部平移至數碼平台。

SARFT OFFERS NEW INCENTIVES TO ACCELERATE MIGRATION TO DIGITAL.

In 2005, SARFT offered a number of new policies to accelerate the pace of migration, including: encouraging investment by allowing non state owned investors to hold as much as a 49% stake in companies in the digital cable television sector; exempting Qingdao, and potentially other operators, from taxes until the end of 2007 for its digital cable TV business; and encouraging cable TV operators to apply for loans under an agreement between SARFT and the China Development Bank to encourage the deployment of digital TV. Regarding the latter, China Development Bank expects to provide RMB50 billion in loan credits to operators.

On January 28, 2006, SARFT issued a new regulation urging local cable TV operators to start their digitalization migrations by June 30, 2006. If not, the operators will not be permitted to take part in the nationwide trial operations project, nor enjoy any preferential policies offered by the Chinese government during trial operations of digital TV services.

IN 2006, DVN INSTALLED 17 NEW CA SYSTEMS.

Reflecting strong demand for DVN's services, DVN in 2005, installed 17 new CA systems. With DVN's CA systems installed, these new customers are highly likely to purchase DVN STBs. Some of the new CA systems were in locations such as Guangxi, Jiangyin, Beijing Aerospace, Zunyi, Danyang, and Changsha.

廣電總局提供新優惠以加快數碼平移步伐。

二零零五年，廣電總局推出多項新政策加快平移步伐，包括准許非國有投資者持有數碼有線電視業內公司最多 49% 股權以鼓勵投資；豁免青島（可能甚至其他營運商）數碼有線電視業務稅項至二零零七年底；及鼓勵有線電視營運商申請廣電總局與中國發展銀行所訂立之協議下之貸款，從而鼓勵採用數碼電視。就後者而言，中國發展銀行預期向營運商提供貸款額度人民幣 500 億元。

二零零六年一月二十八日，廣電總局頒布新法規，敦促當地有線電視營運商於二零零六年六月三十日前開始進行數碼平移。否則，當局將不會批准營運商參與全國性試行項目，亦不能享有中國政府於試行數碼電視服務期間所提供之優惠政策。

於二零零六年，天地數碼已安裝 17 套 CA 系統。

天地數碼於二零零五年已安裝 17 套新有條件接收（「CA」）系統，顯示出對天地數碼服務之強勁需求。由於已安裝天地數碼之 CA 系統，新客戶極有可能購買天地數碼之機頂盒。部份新 CA 系統位於廣西、江陰、北京航天中心、遵義、丹陽及長沙等地。

DVN CONTINUES TO REDUCE STB COSTS, AND RECEIVES AWARDS FOR ITS TECHNOLOGY.

While DVN has cut costs for its STB, it has received a number of awards for its technology, including:

1. In July 2004, DVN's Conditional Access System Jet-CAS received a patent from the United Kingdom Patent Office for an invention entitled "security unit for encrypted signal transmission".
2. In December 2004, Jet-CAS passed China Digital Television's certification test.
3. On 28th Feb 2005, DVN was named as one of the "Top Ten Broadcasting Enterprises for 2004". Terry Lui, DVN's President was named as one of the "Ten Most Powerful Entrepreneurs in Broadcasting for 2004".
4. On 18th July 2005, DVN's newest STB, STB-8 received the STB network access certificate from SARFT.
5. In 2005, DVN's innovative technology 'DMKS' was awarded a patent in the UK.
6. In 2005, STB manufacturers in China including Changhong, Konka, Jiuzhou, Xueyuan, Coship, Huawei, Qinghua Yongxin, Dare, Skyworth, Wuhan Changjiang, and others establish licensing arrangements with DVN in which these operators will port DVN software onto their STBs.
7. On 7th February 2006, DVN's 'dual mode STB' was recognized as a research and development project by the State Electronics Development Foundation.

天地數碼之機頂盒成本持續降低，而其技術更屢獲殊榮。

除了降低機頂盒成本外，天地數碼之技術更屢獲殊榮，其中包括：

1. 二零零四年七月，天地數碼之有條件接收系統 Jet-CAS 之核心技術「加擾訊號傳輸的安全單元」發明獲英國專利局發出專利。
2. 二零零四年十二月，Jet-CAS通過央視之中國數碼電視公司之測試。
3. 二零零五年二月二十八日，天地數碼獲選為「二零零四年中國廣電十大品牌企業」。天地數碼主席呂品榮膺「二零零四年中國廣電十大最具影響力企業人物」。
4. 二零零五年七月十八日，天地數碼最新機頂盒 STB-8 獲國家廣電總局頒發入網認證。
5. 二零零五年，天地數碼的創新科技「DMKS」獲英國專利局發出專利。
6. 二零零五年，包括長虹、康佳、九州、數源、同洲、華為、清華永新、大亞、創維、武漢長江及其他生產商與天地數碼建立授權機制，該等公司會於其機頂盒安裝天地數碼的軟件。
7. 二零零六年二月七日，天地數碼的「雙模機頂盒」獲國家電子發展基金確認為研究及開發項目。