Digital Video Networks

DVN (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liabilities)

(Stock Code: 500)

The directors are pleased to present the audited results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2003.

	Notes	**2003** *HK$'000*	2002 *HK$'000*
Turnover	2	**73,252**	49,879
Cost of sales		**(53,541)**	(32,890)
Gross profit		**19,711**	16,989
Other revenues	2	**910**	623
Other operating income		**–**	1,291
Marketing, selling and distribution costs		**(14,272)**	(12,797)
Administrative expenses		**(55,164)**	(61,494)
Other operating expenses		**(86,858)**	(79,764)
Operating loss	4	**(135,673)**	(135,152)
Finance costs	6	**(1,087)**	(1,164)
Share of loss of a jointly controlled entity		**(1,340)**	(837)
Loss before taxation		**(138,100)**	(137,153)
Taxation	7	**–**	–
Loss before minority interests		**(138,100)**	(137,153)
Minority interests		**3,847**	943

	Note	2003	2002
Loss for the year		**(134,253)**	(136,210)
Preference dividends	8	**(5,812)**	(6,089)
Loss attributable to ordinary shareholders		**(140,065)**	(142,299)
Loss per share – basic	9	**(HK$0.35)**	(HK$0.39)

Notes:

1. Adoption of new Statement of Standard Accounting Practice

In the current year, the Group adopted SSAP 12 "Income Taxes" issued by the HKSA, which is effective for accounting periods commencing on or after 1st January 2003.

2. Turnover and revenue

The Group is principally engaged in the services and design, integration and installation of digital broadcasting systems and development of related software and products and provision of international financial market information and selective consumer data.

	Group	
	2003	2002
	HK$'000	*HK$'000*
Turnover		
Sales of digital broadcasting systems and related software and products	**56,335**	34,595
Leasing income	**2,670**	2,799
Provision of financial and consumer data	**14,247**	12,485
	73,252	49,879
Other revenues		
Interest income from bank balances	**910**	623
Total revenues	**74,162**	50,502

3. Segment information

Primary reporting format – business segments

The Group is organised into two main business segments:

(i) Services and design, integration and installation of digital broadcasting systems and development of related software and products; and

(ii) Provision of international financial market information and selective consumer data

There are no sales between business segments.

	2003		
	Services and design, integration and installation of digital broadcasting systems and development of related software and products	**Provision of international financial market information and selective consumer data**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	**59,005**	**14,247**	**73,252**
Segment results	**(113,330)**	**(2,063)**	**(115,393)**
Unallocated costs			**(20,280)**
Operating loss			**(135,673)**

	2002		
	Services and design, integration and installation of digital broadcasting systems and development of related software and products	Provision of international financial market information and selective consumer data	Total
	HK$'000	*HK$'000*	*HK$'000*
Turnover	37,394	12,485	49,879
Segment results	(96,342)	(3,810)	(100,152)
Unallocated costs			(35,000)
Operating loss			(135,152)

Secondary reporting format - geographical segments

The Group's two business segments operate in three main geographical areas:

(i) Mainland China – Services and design, integration and installation of digital broadcasting systems and development of related software and products;

(ii) Hong Kong – Provision of international financial market information and selective consumer data; and

(iii) Other Southeast Asia countries – Services and design, integration and installation of platforms for digital broadcasting systems and development of related software and products and provision of international financial market information and selective consumer data

There are no sales between geographical segments.

	2003		2002	
	Turnover	**Segment results**	Turnover	Segment results
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Mainland China	**58,996**	**(113,340)**	36,322	(95,864)
Hong Kong	**11,008**	**(2,217)**	9,266	(3,276)
Other Southeast Asian countries	**3,248**	**164**	4,291	(1,012)
	73,252	**(115,393)**	49,879	(100,152)
Unallocated costs		**(20,280)**		(35,000)
Operating loss		**(135,673)**		(135,152)

4. Operating loss

Operating loss is stated after crediting and charging the following:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Crediting		
Other operating income including:		
Write-back of provision against doubtful debts	**–**	474
Net gain on disposal of fixed assets	**–**	155
Charging		
Cost of inventories sold	**48,218**	24,555
Cost of provision of financial and consumer data	**5,323**	3,953
Depreciation	**17,811**	16,571
Auditors' remuneration	**870**	850
Staff costs (including directors' emoluments) *(note 5)*	**24,150**	34,149
Operating lease rentals on land and buildings	**5,411**	6,323

Other operating expenses including:		
Amortisation of deferred development costs	**2,727**	3,082
Amortisation of film rights	**2,534**	3,641
Provision for impairment loss on investment securities	**20,280**	35,000
Provision for impairment loss on long term deposits	**18,692**	–
Provision for impairment loss on intangible assets	**31,869**	–
Provision against inventories	**3,263**	3,623
Provisions against trade and other receivables	**4,774**	1,308
Write-off of trade receivables	**2,524**	33,110
Write-off of deferred development cost	**14**	74
Net loss on disposal of fixed assets	**181**	–

5. Staff costs

	Group	
	2003	2002
	HK$'000	*HK$'000*
Wages and salaries	**37,209**	43,599
Unutilised annual leave	**207**	717
Contribution to the defined contribution schemes	**1,934**	2,882
Termination benefits	**417**	723
Less: costs capitalised	**(15,617)**	(13,772)
	24,150	34,149

6. Finance costs

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest on bank loans	**1,082**	1,108
Finance lease expenses	**5**	56
	1,087	1,164

7. Taxation

No provision for Hong Kong and overseas profits tax has been made in the accounts as the Group did not have any assessable profit for the year (2002: Nil). In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

The taxation on the Company's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003	2002
	HK$'000	*HK$'000*
Loss before taxation	**(138,100)**	(137,153)
Notional tax calculated at the rates applicable in the countries concerned	**(15,353)**	(16,000)
Tax at preferential rate	**6,268**	3,071
Income not subject to taxation	**(1)**	(558)
Expenses not deductible for taxation purposes	**392**	472
Temporary difference not recognised	**4,816**	7,710
Utilisation of previously unrecognised tax losses	**(1,479)**	(237)
Tax losses not recognised	**5,357**	5,542
Taxation charge	**–**	–

8. Preference dividends

	2003	2002
	HK$'000	*HK$'000*
The Company		
Dividends on 5% redeemable, convertible preference shares	**–**	277
DVN (Group) Limited, a wholly-owned subsidiary of the Company		
Dividends on 5% exchangeable preference shares	**5,812**	5,812
	5,812	6,089

9. Loss per share

The calculation of the basic loss per share is based on the Group's loss attributable to ordinary shareholders of HK$140,065,000 (2002: HK$142,299,000) and on the weighted average number of 395,227,977 (2002:368,522,092) ordinary shares in issue during the year.

No diluted loss per share is shown for the two years ended 31st December 2003 and 2002 as the share options and exchangeable preference shares outstanding had an anti-dilutive effect on the basic loss per share for both years.

10. Dividends

The directors do not recommend the payment of a dividend for the year ended 31st December 2003 (2002: Nil)

11. Comparative figures

Due to the adoption of SSAP 12 "Income Tax" issued by Hong Kong Society of Accountants, certain comparative figures have been reclassified to conform to current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During 2003, SARFT (State Administration Radio, Film and Television) announced the migration timetable for digital TV in China. The timetable called for 30 million digital cable subscribers by 2005, and for the cutoff of the analog signal by 2015. As a result, 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.

In previous years, DVN received most of its revenues from the sale of headends. This year, as the rollouts accelerate, revenues from sales of set top boxes exceed those from sales of headends. For 2003, STB revenues and subscription revenues of HK$32.3 million accounted for 44.1% of total sales compared to 29.0% in 2002 and 13.0% in 2001.

With the government's push to promote digital cable, new opportunities have emerged as cable operators begin implementing their digital rollouts. Therefore, in order to finance these opportunities, in September 2003, DVN placed 75 million new shares in a share placement to raise a gross proceed of HK$61.5 million.

While DVN's outlook is positive because of the government's stance, DVN's 2003 results have been impacted by the company's previous investment in an investee company and its investments in film rights. DVN recognizes that the investee company will not be able to raise funds to continue its activities, and has therefore made provisions for the impairment in value of its investment for prudence. In addition, DVN is taking a provision on film rights that it has not been able to utilize over the last several years given the Pay TV model did not develop as fast as initially anticipated.

Towards the end of year 2003, DVN began implementation of China's first digital rollout in cooperation with Qingdao cable network. In this model, the government and banks finance the distribution of the set top boxes. Use of government funds are justified by the fact that the digital TV platform would be used as a "Government to Citizen" communication platform.

After digitalisation, the number of basic digital channels in Qingdao was increased from 28 to 50. Only 5 analog channels remain. 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, SARFT and the relevant departments under the State Council are now asking all cable operators to consider adopting the Qingdao model. DVN expects more cities to adopt this model, resulting in even greater demand for DVN's services.

Prospects

DVN expects 2004 to show improvement as the government is aggressively promoting digital TV. With strong government support, and increasing foreign involvement, more cable operators are beginning to implement their plans for the migration to digital cable. Among the 33 cities announced by SARFT that will emphasize digitalization, DVN has already established relationships with cities that give DVN access to over 40% of these analog subscribers. The relationships are in the form of investment in digital broadcasting equipment, sales of equipment, or contracts to supply set top boxes. As a result, DVN expects demand for its products to increase significantly, and expects 2004 to be an important year for DVN's development.

As the industry evolves, and cable operator's sophistication increases, DVN anticipates that it will need to work with strategic partners that will complement DVN's existing strengths of software development and services. DVN is therefore actively in discussions with potential strategic partners.

In particular, DVN is looking to cooperate with strategic partners that have strengths in hardware, manufacturing, and technology; and also with the requisite experience and expertise to help ensure that DVN's digital cable deployments in China are successful.

Financial Review

Turnover

Turnover of the Company for the year ended 31st December 2003 increased by 47% from HK$49.9 million in 2002 to HK$73.3 million in 2003, with the net loss reducing from HK$142.3 million for 2002 to a net loss of HK$140.1 million for 2003. The net operating loss before provisions and exceptional items declined by 13% from HK$62.2 million in 2002 to HK$54.1 million this year.

The Company's revenues for 2003 were mainly derived from the digital broadcasting business comprising of sales of digital headend equipment, set top boxes ("STB") and subscription income, and partly from the provision of financial and consumer data.

	2003	2002
	HK$'000	*HK$'000*
Turnover		
Headend sales	**23,275**	22,845
Set top boxes sales, subscriptions and sundry	**35,730**	14,549
Provision of financial and consumer data	**14,247**	12,485
	73,252	49,879

Sale of Digital Headend Equipment

Headend sales increased slightly by 2% from HK$22.9 million for year 2002 to HK$23.3 million for year 2003. As digital broadcasting is becoming more widely adopted in China, more CATV operators are seeking to purchase digital headends.

Set Top Box Sales & Subscription Income

The turnover from STB sales increased significantly by over 128% from HK$11.7 million in 2002 to HK$26.7 million in 2003. As DVN expanded its rollout to additional locations in 2003, and as SARFT issued new circulars to promote digital cable TV, demand for STB increased. As a result, towards the end of 2003, the number of STB supply contracts increased significantly.

However, subscription revenues declined slightly by 4% from HK$2.8 million in 2002 to HK$2.7 million. After making the announcement at the end of 2002 that it intended to migrate 30 million cable subscribers to digital, there was much anticipation on how to implement this plan. As a result, rollouts were relatively slow throughout 2003. Further, most of the increase in set top box sales were in areas where DVN has not made an investment, and is therefore not allowed to share in the subscription revenues. For example, in Qingdao, DVN makes a profit from sales of set top boxes, but does not share in the subscription revenues.

Going forwards, DVN expects subscription revenues to grow only modestly as most of DVN's projected growth will be from areas where the analog signal is to be cutoff. In most of these areas, DVN will not share in the subscription revenues.

Provision of financial and consumer data

Provision of financial and consumer data increased by 14% from approximately HK$12.5 million last year to HK$14.3 million this year. This reflects the gradual recovery of the financial markets towards end of 2003 resulting in increased sales of financial data services. This line of business accounted for 19% of this year's turnover.

Cost of Sales & Gross Profit

Cost of sales increased by 63% from HK$32.9 million in 2002 to HK$53.5 million in 2003. This increase is expected and consistent with the relative increase in total turnover. However, gross profit margins declined slightly from 34% to 27%. This reduction was primarily caused by increased competition among headend suppliers, resulting in reduced gross margins for headend equipment. Given the lower margins, DVN has decided to emphasize integration contracts instead of headend contracts. Integration contracts reduce DVN's capital commitments, while still enabling DVN to receive future revenues from the sale of its software and applications.

Gross margin on STBs improved from a loss in 2002 to a positive margin of approximately 8% on average in 2003. Margins increased substantially as the old, high cost inventory manufactured in 2000 was sold out by the first quarter of 2003. Newer STB were manufactured at substantially reduced cost, resulting in significantly improved margins. DVN expects the cost of STB will continue to fall, enabling DVN to cut the sales price in order to stimulate demand, while still maintaining a stable margin.

Other Revenue and Other Operating Income

Other revenue and other operating income decreased by 53% from HK$1.9 million in 2002 to HK$0.9 million in 2003. Other revenue comprised mainly of interest income. As a result of a lower cash balance maintained due to working capital needs and a significant reduction in interest rate in 2003, less interest income was generated during the year.

Operating Expenses

Sales and Marketing Expenses

Sales and marketing expenses increased by 12% from HK$12.8 million to HK$14.3 million. The increase in marketing and selling expenses reflected the increased marketing activities of the digital broadcasting business, resulting in a substantial increase in turnover of set top box sales. To significantly increase sales, DVN expects that the marketing costs will continue to rise.

Administrative Expenses

Administrative expenses decreased by 10% from HK$61.5 million to HK$55.2 million. This was a result of management's continuous stringent cost control measures implemented during 2003, carrying forward from the major cost reduction exercise in 2002. Measures to control administrative expenditure continue in 2004.

Other Operating Expenses before Provisions and Exceptional Expenses

Other operating expenses before provisions and exceptional items include losses from amortization of development cost and intangible assets and provisions for stock loss. Such expenses declined 22% from HK$6.8 million in 2002 to HK$5.3 million in year 2003. The reduction was mainly due to the decrease in amortization expenses as a number of the intangible assets had been completely amortized in 2002.

Provisions and Exceptional Expenses

Provisions and Exceptional items totaled HK$81.6 million in 2003, as compared to HK$73.0 million in 2002. Due to exceptional items, the two years' figures are unrelated to each other as they are independent events. In 2003, the major provisions are:

(1) Provision for potential obsolescence of a suite of French films and documentary film rights, as its marketability was doubtful and not able to objectively ascertained. Full provision is made for the French film and documentary film rights amounting to a total value of HK$18. 7 million and HK$31.9 million respectively. (2) A provision was made against the preference shares of an investee company which was subject to conversion to ordinary shares or redemption as of September 2003. As the investee was not able to raise funds to continue its activities, DVN has decided not to exercise its conversion nor redemption right. For prudent treatment, full provision was made against this investment value of HK$20.3 million.

Operating Loss

Despite significant provisions made in the accounts this year, losses from operating activities before finance cost and share of results of jointly controlled entity increased slightly from HK$135.1 million in 2002 to HK$135.7 million. The net loss before provisions and exceptional items amounted to HK$54.1 million in 2003 compared to HK$62.2 million in 2002. Therefore, despite significant exceptional provisions made in 2003 for accounting prudence, DVN has been able to improve the operating results by increasing turnover and reducing operating expenditure, with net losses in 2003 declining by 13% before provisions and exceptional items.

Liquidity and Capital Resources

DVN has financed its growth primarily through the issuance of new shares, short to medium term bank borrowings and internally generated cash. During the year, DVN completed a private placement, issuing 75 million new shares and raising approximately HK$57.5 million. At the end of year 2003, DVN had bank borrowings of Renminbi ("RMB") 45 million of which a RMB40 million bank loan was guaranteed by an independent third party company. As at 31st December 2003, its current ratio which is the ratio of current assets to current liabilities was 1.44 (1.86 in 2002) and its cash and bank balances amount to HK$62.0 million (HK$17.5 million in 2002). Save as above said, DVN had no material long-term debt outstanding, no bank overdrafts, nor any contingent liabilities outstanding as at year end.

Charge on Group Assets

As at 31st December 2003, DVN pledged the digital broadcasting system located at Suzhou as the security for the guarantee provided by an independent third party company in relation to a RMB40 million bank loan.

Exposure to Fluctuations on Exchange Rates and Related Hedges

DVN's borrowings are primarily denominated in RMB. DVN has no significant exposure to foreign exchange fluctuations.

Employee and Offices

As of March 31, 2004, DVN's digital business had 239 employees, including 55 in engineering and research and development. Of the 239 employees, 27 are stationed in Hong Kong and are responsible for corporate activities, capital management, research and development strategy and planning, financial control and policy, operational strategy, marketing direction and business development. DVN currently has offices in Beijing, Shanghai, Suzhou, Jinan, Qingdao, Zhongshan, Hangzhou and Zhoushan, Shenzhen, Shijiazhuang, Wuzhou, Guangzhou, Foshan and Hunan Province and in Wuxi, Jiangsu Province. Dynamic Network which is DVN's wholly-owned subsidiary in the business of providing of international financial market information and selective consumer data had 26 employees as of March 31, 2004.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

As at the date of this announcement, the Board comprises Mr. Ko Chun Shun, Johnson (executive director), Mr. Lui Pan, Terry (executive director), Ms. Cheung Sum Yu, Fiona (non-executive director), Mr. Shaw Sun Kan (non-executive director), Mr. Jerry Sze (non-executive director), Mr. Itzhak Shenberg (non-executive director), Mr. Chu Hon Pong (independent non-executive director) and Mr. Liu Tsun Kie (independent non-executive director).

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE'S WEBSITE

The Company will submit a CD ROM to the Stock Exchange of Hong Kong Limited ("Stock Exchange") before 30th April 2004 containing all the information required by paragraph 45(1) to 45 (3) of Appendix 16 of the Rules Governing the Listing of Securities for publication on the Stock Exchange's website.

By Order of the Board
DVN (HOLDINGS) LIMITED
Lui Pan, Terry
President

Hong Kong, April 27, 2004

Please also refer to the published version of this announcement in China Daily.