

## **REPORT OF THE DIRECTORS** (Continued)

- o) On 26 June 2002, TVB Satellite TV Entertainment Limited (“TVBSE”), a wholly owned subsidiary of the Company, entered into a deal memorandum with MBNS for the supply of two Mandarin language channels to MBNS for broadcast on the pay television services operated by MBNS and its affiliated company for the period from 16 April 2002 to 30 September 2004 on an exclusive basis in Malaysia and Brunei. The income accrued by TVBSE during 2002 was HK\$11,722,000.
- p) On 8 July 2002, TVBSE and MBNS entered into an agreement pursuant to which MBNS appointed TVBSE as its advertising agent responsible for advertisements and sponsorship sales of certain channels of MBNS in Malaysia and Brunei for the period from 16 April 2002 to 30 September 2004. The income accrued by TVBSE during 2002 was HK\$16,500,000.

The directors, including all the independent non-executive directors, have reviewed the above transactions described in paragraph (a) to (p) above and confirmed that these transactions have been entered into by the Company in the ordinary and usual course of business, conducted on normal commercial terms or on terms that are fair and reasonable so far as the shareholders are concerned, and were entered into in accordance with the relevant arrangements or were entered into on terms no less favourable than those available to, or from independent third parties and the aggregate amount of each transaction for 2002 has not exceeded the relevant cap amount for each transaction as set out in the conditional waivers granted by the Stock Exchange.

The Company’s auditors have also reviewed the above transactions described in paragraphs (a) to (p) and confirmed in its letter to the directors that:

- (i) the transactions have received the approval of the Company’s board of directors;
  - (ii) the transactions are in accordance with the pricing policies as laid down in the relevant agreements and documents;
  - (iii) the transactions have been entered into in accordance with the terms of the agreements governing the transactions or, if there are no such agreements, on terms no less favourable than those available to or from independent third parties; and
  - (iv) the cap amount for each transaction has not been exceeded.
- 2) On 4 October 1994, a corporate guarantee of HK\$8,250,000 (NT\$36,750,000) was provided by the Company to a bank in proportion to its shareholding in LYP in connection with the granting of banking facilities of HK\$11,786,000 (NT\$52,500,000) to LYP. The banking facilities were fully utilized by LYP at the balance sheet date.
  - 3) On 25 November 1997, a corporate guarantee of HK\$68,780,000 (GBP5,500,000) was provided by the Company to a bank in connection with the granting of banking facilities to the Company’s non-wholly owned subsidiary, CC Decoders Ltd. (“CCD”). Indemnities from the substantial shareholder of CCD totalled HK\$27,512,000 (GBP2,200,000) were granted to the Company with an effect to share the liability under the corporate guarantee in proportion to its respective shareholding in CCD at the time when the guarantee was provided.
- On 18 June 2002, CCD obtained a new banking facilities of GBP5,500,000 from another bank and fully settled the previous banking facilities. Hence the corporate guarantee of HK\$68,780,000 (GBP5,500,000) provided by the Company was discharged on 13 September 2002. The Company did not provide corporate guarantee for the new banking facilities.
- 4) On 19 May 1998, a corporate guarantee of HK\$78,575,000 (NT\$350,000,000) was provided by the Company to a bank in proportion to its shareholding in LYP in connection with the granting of banking facilities of HK\$112,250,000 (NT\$500,000,000) to LYP. At the balance sheet date, the total amount of banking facilities drawn down was HK\$69,300,000 (NT\$308,688,000).

## **REPORT OF THE DIRECTORS** (Continued)

- 5) TVB (Overseas) Limited (“TVBO”), a wholly owned subsidiary of the Company, has been granting interest bearing loans to a non-wholly owned subsidiary of the Company, The Chinese Channel (Holdings) Limited (“TCCH”). At balance sheet date, the loan subject to interest rate of 2% per annum above the London Inter-bank Offered Rate (“LIBOR”) was HK\$91,165,000 (GBP7,290,000) and the loan subject to Hong Kong prime rate plus 0.5% per annum was HK\$24,060,000 (GBP1,924,000).

TVBO and the substantial shareholder of TCCH also granted non-interest bearing loan to TCCH for the purpose of providing working capital in proportion to their respective shareholdings in TCCH. On 28 June 2002, TVBO and the substantial shareholder had converted GBP2,817,301 and GBP1,584,732 respectively of the non-interest bearing loan as fully paid up shares in TCCH. The equity shareholding ratio in TCCH remained unchanged after the capitalization. The balance of the non-interest bearing loan due to TVBO at the balance sheet date was HK\$544,000 (GBP43,500).

- 6) On 7 October 1995, TVBO entered into a main supply agreement with All Asia Programming Systems (BVI) Ltd. (“AAPS”), a wholly owned subsidiary of MBNS, for the supply of programming by TVBO for distribution by AAPS in Malaysia for the period from 1 October 1996 to 30 September 2001. On 8 October 1995, TVBO entered into a sub-license agreement with MBNS and AAPS where AAPS sub-licensed the programming to MBNS. On 8 December 1997, supplemental agreements were entered into between the parties to supplement the then arrangement. On 30 May 2001, TVBO entered into the letter agreement with AAPS and MBNS, pursuant to which various amendments were made to the terms of the agreements, including the fees payable, the extension of licensed territories for distribution to Brunei, certain arrangements in relation to subscription by hotel and commercial establishments and the replacement of programming. The income accrued by TVBO during 2002 was HK\$904,000.
- 7) Since 1 August 1998, Era has been providing LYP with optical fibre networking services in Taiwan. On 25 July 2002, the parties renewed the agreement for a period of six months from 1 July 2002. Pursuant to the new agreement, Era would provide 14 lines of optic fibre to LYP at a monthly fee of HK\$29,000 (NT\$129,000) (exclusive of sales tax) per line. The fee paid by LYP to Era during 2002 was HK\$6,591,000 (NT\$29,143,000). On 21 March 2003, the parties further renew the agreement for another year from 1 January 2003 at a monthly fee of HK\$21,000 (inclusive of sales tax) per line.
- 8) Since 28 October 2000, LYP has been providing Era with satellite equipment and technical services in Taiwan at a monthly fee of HK\$1,299,000 (NT\$5,743,000) and Era has been providing LYP with satellite relay programme services in Taiwan at a monthly fee of HK\$646,000 (NT\$2,857,000). The fees were exclusive of 5% sales tax. On 27 December 2001, the parties renewed the agreement for one year from 1 January 2002 on the same terms and conditions. During 2002, the fee received by LYP from Era was HK\$15,586,000 (NT\$68,918,000) and the amount paid by LYP to Era was HK\$7,754,000 (NT\$34,286,000).
- 9) On 23 December 2002, Era and LYP entered into a sale and purchase agreement in respect of the shares of Interface. Under the agreement, LYP would purchase all of Interface’s issued shares which were registered in the name of Era, being 6,387,145 shares in total (representing 31.97% shareholding of Interface) at the price of HK\$2.88 (NT\$12.11) per share, making the total amount payable by LYP to Era HK\$18,397,092 (NT\$77,331,200).
- 10) On 20 March 2003, the Company entered into an agreement with a Hong Kong SAR bank to issue an irrevocable stand-by letter of credit in the amount of NT\$735,000,000 (approximately HK\$165,200,000) for a period of one year from the issue date against 70% of the banking facilities (in proportion to the shareholding of the Company in LYP) to be granted to LYP by a Taiwanese bank. Upon the issuance of the irrevocable stand-by letter of credit, the Company provides financial assistance to LYP.