

NOTES TO THE ACCOUNTS

33 SIGNIFICANT RELATED PARTY TRANSACTIONS

The following is a summary of the significant related party transactions, which are carried out in the normal course of the group's business:

- (a) Since 5 May 1992, Shaw Brothers (Hong Kong) Limited ("Shaw"), a substantial shareholder of the company, has been providing certain production facilities to the company under a production management agreement. On 31 January 2001, the company and Shaw entered into a new production management agreement for a term of two years from 1 February 2001 to 31 January 2003 at a monthly fee of HK\$445,000. The amount paid by the company during 2002 was HK\$5,345,000 (2001: HK\$5,345,000). In addition, an amount of HK\$88,000 (2001: HK\$89,000) was paid by the company to Shaw during 2002 as a reimbursement of the government rates in respect of the production facilities.
- (b) On 19 May 1997 and 15 December 1997, the company and Shaw entered into separate tenancy agreements, whereby Shaw granted to the company tenancies of certain office and car parking spaces. The term of the two tenancies commenced on 1 July 1997 and 1 November 1997 respectively and both will expire on 30 June 2005. The amount of rental paid by the company during 2002 was HK\$17,732,000 (2001: HK\$17,732,000).
- (c) On 30 March 2001, the company entered into a Letter of Intent with Chevalier (Network Solutions) Limited ("CNSL"), in relation to the supply, installation and maintenance of the private automatic branch exchange system and structured cabling network by CNSL at the new TVB City of the company at a lump sum fee of HK\$20,526,000, which is to be settled by way of installments. The controlling shareholder of the holding company of CNSL is also a director of the company. The formal contract containing the terms as stated in the Letter of Intent was signed in November 2001. The amount paid by the company during 2002 was HK\$8,664,000 (2001: HK\$1,328,000).
- (d) Era Films (Hong Kong) Limited ("Era Films") through its agent, Red River Agents Limited ("Red River"), has purchased from the company advertising airtime available on the company's channels in Hong Kong subject to terms and conditions set out in the rate card published by the company to all advertisers from time to time. Both Era Films and Red River are associates of Era Communications Co. Ltd. ("Era"), which is a minority shareholder of Liann Yee Production Co. Ltd. ("LYP"), a non-wholly owned subsidiary of the company. The income accrued by the company from selling advertising airtime to Era Films during 2002 was HK\$ 1,766,000 (2001: HK\$1,130,000).
- (e) Sharp-Roxy (HK) Limited ("Sharp-Roxy") through its agents, Thematic Advertising Limited and Standard Advertising HK Limited (both are independent third party and not related to the company), has purchased from the company advertising airtime available on the company's channels in Hong Kong subject to terms and conditions set out in the rate card published by the company to all advertisers from time to time. A shareholder together with his family who controls 50% of the voting power of Sharp-Roxy, is also a director of the company. The income accrued by the company from selling advertising airtime to Sharp-Roxy during 2002 was HK\$1,926,000 (2001: HK\$3,124,000).
- (f) Since 1 January 1995, Era has been acting as the sole distributor of LYP's cable channels in Taiwan and is responsible for collecting the income generated from broadcast of LYP's television programmes on behalf of LYP. On 16 November 2000, the parties renewed the distribution agreement for a period of two years from 1 March 2001. On 13 March 2002, LYP and Era entered into a supplemental agreement to the distribution agreement varying the amount of commission payable by LYP to Era as from 1 January 2002. The fee paid by LYP to Era during 2002 was HK\$ 10,769,000 (2001: HK\$7,133,000).

NOTES TO THE ACCOUNTS (Continued)

33 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

- (g) Since 1995, Era has been placing advertisements on the cable television channels operated by LYP, as well as the channels or magazines of which LYP has been appointed as an agent for recruiting advertisements. The amount received by LYP during 2002 was HK\$2,921,000 (2001: HK\$7,364,000).
- (h) Since 1995, LYP has been representing Era as a marketing agent to recruit advertisements for certain television channels operated by Era in Taiwan. On 12 July 2001, the parties renewed the agreement for one year from 1 July 2001. Under the agreement, LYP would deduct 15% of the gross advertising income payable by third party advertisers arising from advertisements placed through LYP on the channels operated by Era as commission and pay the balance to Era on a monthly basis. It was agreed between the parties that LYP would not receive any commission for the advertisements paid by non-cash consideration. The amount (before volume rebates) received by LYP during 2002 was HK\$ 19,681,000 (2001: HK\$33,236,000). The volume rebates paid by LYP to third party advertisers during 2002 was HK\$20,340,000 (2001: HK\$23,502,000).
- (i) 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 (exclusive of sales tax) per line. The fee paid by LYP to Era during 2002 was HK\$6,591,000 (2001: HK\$9,681,000).
- (j) 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 and Era has been providing LYP with satellite relay programme services in Taiwan at a monthly fee of HK\$646,000. 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 (2001: HK\$14,748,000) and the amount paid by LYP to Era was HK\$7,754,000 (2001: HK\$7,337,000).
- (k) Since 1 July 1999, LYP has been acting as the advertising agent of its associated company, Interface Co. Ltd. (“Interface”) to recruit advertisements in the printed publications published and distributed by Interface and responsible for business planning in Taiwan, whereby LYP received an agreed percentage of the advertising revenue net of monetary equivalent of advertisements which were paid by non-cash consideration as commission. On 11 April 2002, the parties renewed the agreement for one year from 1 January 2002 on the same terms and conditions. The income received by LYP during 2002 was HK\$5,849,000 (2001: HK\$7,761,000).
- (l) LYP entered into various agreements with a jointly controlled entity, Hsin Chi Broadcast Co. Ltd. (“HCB”) to provide satellite transmission service to LYP. The service fees paid by LYP to HCB during 2002 was HK\$10,213,000 (2001: HK\$9,692,000).
- (m) On 16 April 1999, TVBI Company Limited (“TVBI”), a wholly owned subsidiary of the company, agreed to sub-lease part of the satellite transponder capacity to Era. The sub-lease agreement was superseded by a revised agreement dated 13 January 2000 varying the monthly fee and the contract period to commence on 1 January 2000 and expire on 31 March 2006. On 28 April 2001, TVBI and Era entered into a supplemental agreement to the revised agreement, pursuant to which the parties agreed that the transponder capacity leased from TVBI to Era would be reduced from 27 MHZ to 13.5 MHZ as from 1 March 2001. The fee received by TVBI from Era during 2002 was HK\$5,167,000 (2001: HK\$9,571,000).

NOTES TO THE ACCOUNTS (Continued)

33 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

- (n) On 30 June 2000, TVB (Overseas) Limited (“TVBO”), a wholly owned subsidiary of the company, entered into a master production agreement with Era, to produce certain programmes for Era for a period of one year from 1 July 1999. On 5 January 2001, both parties agreed to renew the agreement for another one year from 1 July 2000 on the same terms and conditions except that the right of Era in exploiting the programmes was extended to video compact disc format. The fees received by TVBO from Era during 2002 was nil (2001: HK\$5,656,000).
- (o) On 8 October 1995, TVBO entered into agreements with MEASAT Broadcast Network Systems Sdn. Bhd. (“MBNS”), an associate of the minority shareholder of one of the company’s non-wholly owned subsidiaries, in respect of technical and management support and sales and marketing support by TVBO to MBNS for the period from 1 October 1996 to 30 September 2001. On 30 May 2001, TVBO entered into a supplemental agreement with MBNS to extend the terms of the agreements to cover a new channel acquired by MBNS and All Asia Programming Systems (BVI) Ltd. (“AAPS”), a wholly owned subsidiary of MBNS. The income accrued by TVBO during 2002 was nil (2001: HK\$11,730,000).
- (p) On 7 October 1995, TVBO entered into a main supply agreement with AAPS 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 (2001: HK\$38,403,000).
- (q) On 30 May 2001, TVBO entered into an agreement with MBNS and AAPS for supplying a channel to AAPS (which then sub-licensed to MBNS) for distribution in Malaysia and Brunei for the period from 1 November 1999 to 30 September 2001. The income accrued by TVBO during 2002 was nil (2001: HK\$14,748,000).
- (r) On 30 September 2001, TVBI and TVB Satellite TV Entertainment Limited (“TVBSE”), both are wholly owned subsidiaries of the company, entered into a conditional deal memorandum with MBNS in relation to (i) the granting by TVBI to MBNS of subscription television distribution rights in relation to certain Chinese language programming for distribution in Malaysia and Brunei, and (ii) the provision of services by TVBSE to MBNS in relation to the selling of advertising and sponsorship on certain television channels for a period of three years from 1 October 2001. MBNS may sub-license such distribution rights to its affiliates or related companies. The agreement was mutually terminated with effect from 16 April 2002. The total income accrued by TVBI and TVBSE during 2002 was HK\$34,337,000 (2001: HK\$24,518,000).
- (s) On 21 May 2002, TVBI and MBNS entered into a deal memorandum, pursuant to which TVBI would license television programmes to MBNS as part of the programme line up of a channel owned and operated by MBNS for the period from 16 April 2002 to 30 September 2004 on an exclusive basis in Malaysia and Brunei. The income accrued by TVBI during 2002 was HK\$47,736,000 (2001: nil).
- (t) On 25 June 2002, TVBI acting as an agent of LYP entered into a deal memorandum with MBNS for the grant of broadcast right in respect of a Mandarin language channel for 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 LYP during 2002 was HK\$ 15,566,000 (2001: nil).

NOTES TO THE ACCOUNTS (Continued)

33 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

- (u) On 26 June 2002, TVBSE 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 from 16 April 2002 to 30 September 2004 in Malaysia and Brunei. The income accrued by TVBSE during 2002 was HK\$11,722,000 (2001: nil).
- (v) On 8 July 2002, 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 (2001: nil).

Apart from the above, the other related party transactions, the amounts of which involved were not significant to the group, include:

- Rental income from leasing of facilities and office premises,
- Income from sub-licensing of news reports rights,
- Income from providing the use of information system,
- Expense on licensing of film rights,
- Expense on production of television programmes, and
- Rental expense on leasing of production spaces.

34 SUBSEQUENT EVENTS

- (a) Pursuant to a joint venture agreement dated 11 November 1999, MEASAT Broadcast Network Systems (BVI) Ltd. ("MBNS(BVI)") and Home Net N.V. ("HomeNet") were required to subscribe an additional 9 million ordinary shares in aggregate in TVB Publishing Holding Limited ("TVBPH") on or before 21 February 2001. The shareholders of TVBPH agreed to a postponement of the subscription and the additional shares were subsequently allotted on or about 30 November 2001 to MBNS(BVI) and HomeNet as unpaid shares without any voting or dividend rights attached. On 28 February 2003, a total of HK\$38.7 million was received by TVBPH from MBNS(BVI) and HomeNet as partial payments for the unpaid shares. Subsequent to the partial payments from MBNS(BVI) and HomeNet, the respective interest of the group, MBNS(BVI) and HomeNet in TVBPH is 73.68%, 18.42% and 7.90% which enjoys full voting and dividend rights.
- (b) On 20 February 2003, a wholly owned subsidiary of the company entered into a Subscription and Shareholders' Agreement with Intelsat Hong Kong, LLC for the establishment of a joint venture company in Hong Kong known as Galaxy Satellite TV Holdings Limited ("Galaxy Holdings") and for the sale and purchase of the entire issued share capital of Galaxy Satellite Broadcasting Limited ("GSBL") which holds the pay TV Licence issued by the Government of HKSAR to Galaxy Holdings. As a result of the transactions, the group is able to satisfy the condition under its domestic free television programme service licence that its ownership is to be reduced to less than 50% of the equity capital of GSBL before 1 March 2003. The transaction will be accounted for in the next financial year.

35 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 26 March 2003.