

REPORT OF THE DIRECTORS (Continued)

- 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 the terms and conditions set out in the rate card published by the Company from time to time. Both Era Films and Red River are associates of Era Communications Co. Ltd. (“Era”), which is a substantial shareholder of Liann Yee Production Co. Ltd. (“LYP”), a non-wholly owned subsidiary of the Company, hence Era Films and Red River are connected persons of the Company. The income accrued by the Company during 2003 was HK\$424,000.
- 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 connected with the Company), has purchased from the Company advertising airtime and sponsorship available on the Company’s channels in Hong Kong subject to the terms and conditions set out in the rate card published by the Company from time to time. Sharp-Roxy is an associate of a director of the Company, hence Sharp-Roxy is a connected person of the Company. The income accrued by the Company during 2003 was HK\$88,000.
- f) Since 1 January 1995, Era has been acting as the sole distributor of LYP’s cable channels in Taiwan and was 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 distribution agreement was not renewed upon its expiry date on 28 February 2003. The fee paid by LYP to Era during 2003 was HK\$1,798,000 (NT\$7,937,000).
- 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. As from 1 July 2002, LYP was only responsible for recruiting advertisements for its own channels and magazines of which LYP was appointed as agent. The amount received by LYP from Era during 2003 was HK\$8,590,000 (NT\$37,907,000).
- h) Since 1995, Era has been licensing various programmes to LYP for broadcast on LYP’s cable television channels. The amount that LYP paid to Era during 2003 was HK\$651,000 (NT\$2,874,000).
- i) LYP has obtained licenses from various independent news agencies to use their respective news reports for television broadcast in Taiwan. Since 19 June 2000, LYP has sub-licensed its right to use such news reports to Era for television broadcast in Taiwan on the channels owned by Era at a fee based on the actual usage and the fees payable to the news agencies by LYP. The fee charged by LYP to Era during 2003 was HK\$1,297,000 (NT\$5,722,000).
- j) On 21 May 2002, TVBI Company Limited (“TVBI”), a wholly owned subsidiary of the Company, and MEASAT Broadcast Network Systems Sdn. Bhd. (“MBNS”), an associate of the substantial shareholder of two of the Company’s non-wholly owned subsidiaries, 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 2003 was HK\$82,235,000.
- k) 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 2003 was HK\$21,767,000.

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- l) 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 2003 was HK\$25,988,000.
- m) 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 2003 was HK\$26,192,000.

All the independent non-executive directors have reviewed the above transactions described in paragraphs (a) to (m) 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 2003 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 (m) 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) The Company had been providing 2 corporate guarantees in proportion to its shareholding in LYP to a bank in Taiwan in connection with the granting of banking facilities to LYP in the amount of HK\$11,922,000 (NT\$52,500,000) and HK\$114,213,000 (NT\$500,000,000) since 4 October 1994 and 19 May 1998 respectively. On 20 March 2003, LYP obtained a new banking facility of NT\$1,050,000,000 from the same bank in Taiwan and fully settled the previous banking facilities. To facilitate the issuance of such new banking facilities, the Company was required to enter into an arrangement with a Bank in Hong Kong SAR to issue an irrevocable standby letter of credit in proportion to its shareholding in LYP which was in the amount of HK\$167,892,000 (NT\$735,000,000). The standby letter of credit was for a period of one year from the issue date. Accordingly, the previous corporate guarantees provided by the Company to the bank in Taiwan were discharged. At the balance sheet date, the total amount of banking facilities drawn down by LYP was HK\$133,205,000 (NT\$583,146,000).
 - 3) TVB (Overseas) Limited (“TVBO”), a wholly owned subsidiary of the Company, has been granting 2 interest bearing loans at the rates of 2% per annum above the London Inter-bank Offered Rate (“LIBOR”) and Hong Kong prime rate plus 0.5% per annum respectively to a non-wholly owned subsidiary of the Company, The Chinese Channel (Holdings) Limited (“TCCH”). In addition, TVBO also granted non-interest bearing loan to TCCH for the purpose of providing working capital in proportion to its shareholding in TCCH. On 28 August 2003, TVBO transferred all its equity shares and interest bearing and non-interest bearing loans of TCCH to TVB Investment Limited (“TVBIL”), a wholly owned subsidiary of the Company.

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On 23 October 2003, TVBIL entered into separate agreement with the minority shareholders of TCCH, Pacific Media PLC (“PMP”) and Global First Investments Limited (“Global”) for the sale of their respective shareholdings in TCCH to TVBIL. Pursuant to the agreements, TVBIL paid PMP and Global HK\$3,727,778 and HK\$1,272,222 for their respective 26.84% and 9.16% shareholding in TCCH. Upon completion of the transaction, TVBIL has increased its shareholding in TCCH from 64% to 100% and TCCH has become a wholly owned subsidiary of the TVBIL.

- 4) Since 1 August 1998, Era has been providing LYP with optical fibre networking services in Taiwan. On 21 March 2003, the parties renewed the service agreement for one year from 1 January 2003, whereby Era would provide a 45 MB optic fibre line, maintenance and management of 14 optic fibre hubs and uplink control room at a monthly fee of HK\$295,100 (NT\$1,300,000) (inclusive of 5% sales tax). On 28 August 2003, the parties entered into a supplemental agreement whereby (i) the term of the agreement would be extended for a further six months to 30 June 2004; and (ii) the monthly fee payable by LYP to Era would be reduced to HK\$173,655 (NT\$765,000) (inclusive of 5% sales tax) commencing from 1 August 2003. The fee paid by LYP to Era during 2003 was HK\$2,789,000 (NT\$12,310,000).
- 5) Since 28 October 2000, LYP has been providing Era with satellite equipment and technical services while Era has been providing LYP with satellite relay programme services in Taiwan. On 30 January 2003, the parties entered into an agreement to renew the arrangement for one year from 1 January 2003. Under the renewal agreement, (i) the monthly fees (inclusive of 5% sales tax) payable by Era to LYP were reduced to HK\$669,000 (NT\$3,000,000) as from 1 February 2003; and (ii) the monthly fees (inclusive of 5% sales tax) payable by LYP to Era were reduced to HK\$334,500 (NT\$1,500,000). This arrangement was renewed for another year from 1 January 2004 on the same terms and conditions. The fees received by LYP from Era during 2003 was HK\$8,423,000 (NT\$37,172,000) and the fees paid by LYP to Era during 2003 was HK\$4,208,000 (NT\$18,571,000).
- 6) On 16 April 1999, TVBI 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 2003 was HK\$5,159,000 (US\$663,000).
- 7) On 16 September 2002, Hsin Chi Broadcast Co. Ltd. (“HCB”), a jointly controlled entity of the Company, entered into an agreement with Era, whereby HCB agreed to provide to Era multi channel per carrier services for a period of one year commencing from 15 June 2002 for a monthly service fee of HK\$260,000 (NT\$1,150,000) excluding sales tax. The agreement was terminated by mutual agreement on 5 March 2003. The fees received by HCB from Era during 2003 was HK\$563,000 (NT\$2,485,000).
- 8) On 19 September 2003, TVBI and ASTRO Entertainment Networks Ltd. (“AENL”), an associate of the substantial shareholder of two of the Company’s non-wholly owned subsidiaries, entered into a licensing agreement, pursuant to which, TVBI would license to AENL certain programmes on an exclusive basis for broadcast on free terrestrial television in Indonesia for 2 years commencing from the earlier of 1 January 2004 or when AENL was able to secure the broadcast of programmes on free terrestrial television in Indonesia prior to 1 January 2004. The parties will negotiate and enter into a long form agreement to set out the terms of arrangement described in the agreement. As the license period did not commence in 2003, hence no income was accrued by TVBI in 2003.