

NOTES TO THE ACCOUNTS (Continued)

35 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 agreement was not renewed upon its expiry date on 31 January 2003. The amount paid by the company to Shaw during 2003 was HK\$445,000 (2002: HK\$5,345,000).
- (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 to Shaw during 2003 was HK\$17,732,000 (2002: 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 to CNSL during 2003 was HK\$5,119,000 (2002: HK\$8,664,000).
- (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 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 minority shareholder of Liann Yee Production Co. Ltd. ("LYP"), a non-wholly owned subsidiary of the company. The income accrued by the company during 2003 was HK\$424,000 (2002: HK\$1,766,000).
- (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 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. 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 during 2003 was HK\$88,000 (2002: HK\$1,926,000).
- (f) Since 1998, the company has entered into various sub-licensing agreements with an associated company, Galaxy Satellite Broadcasting Limited ("GSBL"), to sub-licence certain office, car parking spaces and satellite antenna farm to GSBL. Prior to the disposal of 51% interest in GSBL by the group on 20 February 2003, GSBL was a wholly owned subsidiary of the company. The total licence fees paid by GSBL during 2003 was HK\$3,690,000.
- (g) On 4 September 2001, the company entered into a channel supply agreement with GSBL for the supply of five channels to GSBL for broadcast on GSBL's pay television platform in Hong Kong on an exclusive basis for a period of five years commencing from the commercial launch date of GSBL's service with an option for either party to renew for another five years. No income has accrued by the company since the GSBL's service has not been launched.

NOTES TO THE ACCOUNTS (Continued)

35 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

- (h) On 20 February 2003, GSBL issued a promissory note in favour of the company in the principal sum of HK\$115,564,000, being the amount of debt due from GSBL to the company with interest at the rate of 8% per annum. The principal amount and the accrued interest shall be payable by GSBL to the company in two annual installments on 20 February 2007 and 20 February 2008 respectively unless GSBL is publicly floated before either date whereupon the outstanding principal amount and accrued interest shall be prepaid.
- (i) 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 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 (2002: HK\$10,769,000).
- (j) 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 (2002: HK\$2,921,000).
- (k) 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 2003 was nil (2002: HK\$19,681,000). The volume rebates paid by LYP to third party advertisers during 2003 was nil (2002: HK\$20,340,000).
- (l) Since 1 August 1998, Era has been providing LYP with optical fibre networking service 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\$295,000 (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\$174,000 (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 (2002: HK\$6,849,000).
- (m) 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\$334,000 (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 (2002: HK\$15,586,000) and the fees paid by LYP to Era during 2003 was HK\$4,208,000 (2002: HK\$7,754,000).

NOTES TO THE ACCOUNTS (Continued)

35 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

- (n) Since 1 July 1999, LYP has been acting as the advertising agent of Interface Co. Ltd. (“Interface”) (an associate of Era until 26 February 2003, hence a related party of the company upto that date), to recruit advertisements in 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. The income received by LYP from Interface during 2003 was HK\$797,000 (2002: HK\$5,849,000).
- (o) LYP entered into various agreements with a jointly controlled entity, Hsin Chi Broadcast Co. Ltd. (“HCB”) to provide satellite transmission service to LYP. The agreements were terminated on 15 September 2003. The service fees paid by LYP to HCB during 2003 was HK\$3,799,000 (2002: HK\$10,213,000).
- (p) 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 2003 was HK\$5,159,000 (2002: HK\$5,167,000).
- (q) On 21 May 2002, TVBI and MEASAT Broadcast Network Systems Sdn. Bhd. (“MBNS”), an associate of the minority 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 (2002: HK\$47,736,000).
- (r) 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 (2002: HK\$15,566,000).
- (s) 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 (2002: HK\$11,722,000).
- (t) On 8 July 2002, MBNS appointed TVBSE as its advertising agent responsible for advertisement 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 (2002: HK\$16,500,000).
- (u) Since 1998, GSBL has been providing TVBI, TVBSE and TVB (Australia) Pty. Ltd. various uplink and playback services. The service fees paid to GSBL during 2003 was HK\$36,599,000.

NOTES TO THE ACCOUNTS (Continued)

35 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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 disposal of fixed assets,
- Income from sub-lease of transponder segments,
- Expense on licensing of film rights,
- Rental expense on leasing of production spaces and facilities, and
- Payment for customer service call centre.

36 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 17 March 2004.