

REPORT OF THE DIRECTORS (Continued)

- d) 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. On 12 March 2004, the parties entered into a formal agreement setting out the terms of the arrangement described in the deal memorandum. The income accrued by TVBSE during 2004 was HK\$21,444,000 (MYR7,292,000 and US\$826,000).
- e) On 8 July 2002, MBNS appointed TVBSE as its advertising agent responsible for advertisements and sponsorship sales of certain channels broadcast by MBNS in Malaysia and Brunei for the period from 16 April 2002 to 30 September 2004. The income accrued by TVBSE during 2004 was HK\$21,746,000 (MYR10,566,000).
- f) On 19 September 2003, TVBI and ASTRO Entertainment Networks Ltd. (“AENL”), an associate of the substantial shareholder of three 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 a period of 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 income accrued by TVBI in 2004 was HK\$6,232,000 (US\$800,000).
- 2) The following transactions constitute continuing connected transactions of the Company which are subject to the requirements under the new Chapter 14A of the Listing Rules (which came in force on 31 March 2004):
- a) Since 28 October 2000, LYP has been providing Era Communications Co. Ltd. (“Era”), a substantial shareholder of LYP, with satellite equipment and technical services while Era has been providing LYP with satellite relay programme services in Taiwan. On 30 March 2004, the parties entered into an agreement to renew the arrangement for one year from 1 January 2004 on the same terms and conditions. Under the renewal agreement, the monthly fees payable by Era to LYP was HK\$669,000 (NT\$3,000,000) and by LYP to Era was HK\$334,000 (NT\$1,500,000). All amounts payable under the renewal agreement included 5% sales tax. On 1 March 2005, the parties renewed the agreement for another year from 1 January 2005 on the same terms and conditions. The fees received by LYP from Era during 2004 was HK\$7,719,000 (NT\$34,286,000) and the fees paid by LYP to Era during 2004 was HK\$3,859,000 (NT\$17,143,000).
- b) 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 2004 was HK\$5,161,000 (US\$663,000).

All of the independent non-executive directors have reviewed the above transactions described in paragraphs 1(a) to (f) and 2(a) to (b) above and confirmed that these transactions have been entered into (i) in the ordinary and usual course of business, (ii) on normal commercial terms or on terms no less favourable than those available to or from independent third parties, (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole; and that the aggregate amount of each transaction described in paragraph 1 (a) to (f) for 2004 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 1(a) to (f) and 2(a) to (b) and confirmed in its letter to the directors that:

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- (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 relevant agreements governing the transactions; and
 - (iv) for transactions set out under paragraphs 1(a) to (f), the cap amount for each transaction has not been exceeded.
- 3) On 11 March 2004, TVB (Australia) Pty. Ltd. ("TVBA"), a wholly owned subsidiary of the Company, and Celestial Television Networks Ltd. ("CTNL") an associate of the substantial shareholder of three of the Company's non-wholly owned subsidiaries, entered into an agreement, pursuant to which CTNL would license the Celestial Movies channel to TVBA for one year from 15 March 2004 with an option to renew for a further 2 years. Under the agreement, TVBA agrees to pay CTNL a fixed unit cost per subscriber (which includes both residential and commercial subscribers) to the Celestial Movies channel or the package of channels to which the Celestial Movies channel is included. The licence fee paid by TVBA to CTNL during 2004 was HK\$2,129,000 (A\$369,000).
- 4) On 20 March 2003, LYP obtained a banking facility of NT\$1,050,000,000 from a bank in Taiwan. To facilitate the issuance of such banking facility, the Company was required to enter into an arrangement with a bank in Hong Kong to issue an irrevocable standby letter of credit in proportion to its then shareholding in LYP which was in the amount of HK\$167,892,000 (NT\$735,000,000). The irrevocable standby letter of credit was for a period of one year from the issue date. The banking facility was renewed on 27 April 2004, pursuant to which the facility was split into long term bank loan of NT\$265,000,000 and short term bank loan of NT\$785,000,000. The long term bank loan was pledged by certain fixed assets of LYP. The Company had entered into an arrangement with a bank in Hong Kong to issue an irrevocable standby letter of credit in proportion to its then shareholding in LYP in the amount of HK\$128,308,000 (NT\$549,500,000) as security for the short term bank loan. The irrevocable standby letter of credit was for a period of one year from the issue date. The banking facility of the short term bank loan had not been drawn down by LYP at the balance sheet date.
- 5) Since 1995, Era has been placing advertisements on the cable television channels operated by LYP, as well as the channels and/or magazines of which LYP has been appointed as an agent for recruiting advertisements. Pursuant to media sales packages of the Taiwan Government successfully bid by Era in 2003 where government advertisements would be aired or printed in 2004, Era was required to place advertisements on cable television channels operated by LYP and magazines of which LYP is appointed as agent in order to meet the requirements laid down by the Taiwan Government for such media sales packages. After deduction of commissions, bonus and rebates, the amount received by LYP from Era during 2004 was HK\$9,548,000 (NT\$42,413,000).
- 6) On 23 December 2004, Art Limited ("Art"), a non-wholly owned subsidiary of the Company, and Celestial Productions Limited ("Celestial"), an associate of the substantial shareholder of three of the Company's non-wholly owned subsidiaries, entered into the Sale and Purchase Agreement, pursuant to which Art agrees to sell to Celestial the right to distribute a Chinese language musical picture (the "Picture") which is commissioned and financed by Art and produced by an independent third party via pay television channels transmitted by all means of technology throughout the world (except the mainland China) in perpetuity with effect on 1 August 2005 or such other date as may be agreed by the parties provided that it is no later than the completion of the Picture. No income was accrued by Art in 2004.
- 7) On 4 February 2005, Countless Entertainment (Taiwan) Co. Ltd. ("Countless"), a wholly owned subsidiary of the Company, and Primasia Development Co. Ltd. ("Primasia"), a substantial shareholder of a non-wholly owned subsidiary of the Company, entered into a conditional sale and purchase agreement (the "Agreement"), pursuant to which Countless agreed to purchase and Primasia agreed to sell 30% of the issued share capital in LYP for a cash consideration of NT\$900,000,000 (approximately HK\$220,500,000), subject to the terms and conditions of the Agreement. Completion of the Agreement is conditional upon the Agreement and the transaction contemplated thereunder having been approved by the shareholders of the Company. At the Extraordinary General Meeting held on 21 March 2005, approval from shareholders was duly obtained.