

NOTES TO THE ACCOUNTS (Continued)

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year:

| | Minority interests | Share capital including premium | Long term bank loans | Other loans | Obligations under finance leases | Short term bank loans |
|--|-----------------------|--|-------------------------|----------------|---|--------------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balances at 1 January 2004 | 83,785 | 623,926 | 57,825 | 4,357 | 359 | 549,368 |
| Exchange differences | 2,608 | - | 1,103 | 7 | 2 | - |
| Repayments during the year | - | - | (4,879) | (111) | (278) | (549,368) |
| Additions during the year | - | - | - | - | - | 2,338 |
| | 2,608 | - | (3,776) | (104) | (276) | (547,030) |
| Share of profits attributable to minority interests | 30,157 | - | - | - | - | - |
| Balances at 31 December 2004 | 116,550 | 623,926 | 54,049 | 4,253 | 83 | 2,338 |
| Balances at 1 January 2003 | 424 | 623,926 | 72,148 | 4,478 | 462 | 232,786 |
| Capital contributed by minority shareholders | 38,685 | - | - | - | - | - |
| Gain on deemed disposal of subsidiaries | (27,726) | - | - | - | - | - |
| Acquisition of subsidiaries | 54,331 | - | - | - | - | - |
| Exchange differences | (640) | - | 1,137 | (19) | 116 | - |
| Repayments during the year | - | - | (75,509) | (102) | (219) | (232,786) |
| Additions during the year | - | - | 60,049 | - | - | 549,368 |
| | 64,650 | - | (14,323) | (121) | (103) | 316,582 |
| Share of profits attributable to minority interests | 18,711 | - | - | - | - | - |
| Balances at 31 December 2003 | 83,785 | 623,926 | 57,825 | 4,357 | 359 | 549,368 |

(c) Significant non-cash transaction

During the year, investment in an associated company of HK\$150,000,000 was made by way of the provision of programme content to the associated company.

NOTES TO THE ACCOUNTS (Continued)

36 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) On 19 May 1997 and 15 December 1997, the company and Shaw Brothers (Hong Kong) Limited ("Shaw"), a substantial shareholder of the company, entered into separate tenancy agreements, pursuant to which Shaw granted to the company tenancies of certain office and car parking spaces situated at Shaw House, Lot 220 Clear Water Bay Road, Kowloon, Hong Kong. The term of the two tenancies commenced on 1 July 1997 and 1 November 1997 respectively and both will both expire on 30 June 2005. The amount of rental paid by the company to Shaw during 2004 was HK\$17,732,000 (2003: HK\$17,732,000).
- (b) 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 2004 was HK\$2,648,000 (2003: HK\$5,119,000).
- (c) Since 1998, the company has entered into various sub-licencing agreements with an associated company, Galaxy Satellite Broadcasting Limited ("Galaxy"), to sub-licence certain office, car parking spaces and satellite antenna farm to Galaxy. The total licence fees paid by Galaxy to the company during 2004 were HK\$7,153,000 (2003: HK\$3,690,000).
- (d) On 4 September 2001, the company entered into a channel supply agreement with Galaxy for the supply of five channels to Galaxy for broadcast on Galaxy's pay television platform in Hong Kong on an exclusive basis for a period of five years commencing from the commercial launch date of Galaxy's service with an option for either party to renew for another five years. The licence fee accrued by the company during 2004 was HK\$173,563,000 (2003: nil).
- (e) On 20 February 2003, Galaxy 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 Galaxy to the company with interest at the rate of 8% per annum compounded annually. The principal amount and the accrued interest shall be payable by Galaxy to the company in two annual installments on 20 February 2007 and 20 February 2008 respectively, unless Galaxy is publicly floated before either date, whereupon the outstanding principal amount and accrued interest shall be prepaid. The total interest accrued by the company during 2004 was HK\$17,833,000, which included the accrued interest for 2003 of HK\$7,952,000 (2003: nil).
- (f) Since 1 January 1995, Era Communications Co. Ltd. ("Era") has been acting as the sole distributor of the cable channels of Liann Yee Production Co. Ltd. ("LYP") in Taiwan and is responsible for collecting the income generated from broadcast of LYP's television programmes on behalf of LYP. Era is a minority shareholder of LYP, a non-wholly owned subsidiary of the company. 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. The fee paid by LYP to Era during 2004 was nil (2003: HK\$1,798,000).
- (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. 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 (2003: HK\$8,590,000).

NOTES TO THE ACCOUNTS (Continued)

36 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

- (h) 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, pursuant to which 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, pursuant to which (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. On 1 July 2004, the parties renewed the service agreement for another year from 1 July 2004 on the same terms and conditions. The fee paid by LYP to Era during 2004 was HK\$1,968,000 (2003: HK\$2,789,000).
- (i) 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 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 as the original agreement. 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 as the original agreement. The fees received by LYP from Era during 2004 were HK\$7,719,000 (2003: HK\$8,423,000) and the fees paid by LYP to Era during 2004 were HK\$3,859,000 (2003: HK\$4,208,000).
- (j) In prior years, 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 2004 were nil (2003: HK\$3,799,000).
- (k) 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 2004 was HK\$5,161,000 (2003: HK\$5,159,000).
- (l) On 21 May 2002, TVBI and MEASAT Broadcast Network Systems Sdn. Bhd. (“MBNS”), an associate of the minority shareholder of three of the company’s non-wholly owned subsidiaries, entered into an arrangement for the licence of television programmes by TVBI 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. On 30 September 2004, TVBI and MBNS entered into a new agreement for the same subject matter for a period of 5 years from 1 October 2004 to 30 September 2009 on an exclusive basis. On 14 October 2004 and 14 February 2005, separate addendum to the agreement were entered into between the parties for the clarification of the base month upon which the subscribers guarantee would be calculated and for the increase of revenue sharing receivable by TVBI for revenue generated from hotel and commercial establishments respectively. The income accrued by TVBI during 2004 was HK\$82,858,000 (2003: HK\$82,235,000).