

NOTES TO CONDENSED ACCOUNTS (Continued)

19 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, 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 the six months ended 30 June 2004 was HK\$8,866,000 (2003: HK\$8,866,000).
- (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 the six months ended 30 June 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 ("GSBL"), to sub-licence certain office, car parking spaces and satellite antenna farm to GSBL. The total licence fees paid by GSBL to the company during the six months ended 30 June 2004 was HK\$3,135,000 (2003: HK\$1,109,000).
- (d) 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. The licence fee received by the company from GSBL during the six months ended 30 June 2004 was HK\$73,563,000 (2003: nil).
- (e) 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.
- (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 the six months ended 30 June 2004 was nil (2003: HK\$1,785,000).
- (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 the six months ended 30 June 2004 was HK\$10,224,000 (2003: HK\$1,356,000).

NOTES TO CONDENSED ACCOUNTS (Continued)

19 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, 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 the six months ended 30 June 2004 was HK\$983,000 (2003: HK\$1,671,000).
- (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 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) as from 1 February 2003. This arrangement was renewed for another year from 1 January 2004 on the same terms and conditions. During the six months ended 30 June 2004, the fees received by LYP from Era was HK\$3,854,000 (2003: HK\$4,505,000) and the fees paid by LYP to Era was HK\$1,927,000 (2003: HK\$2,249,000).
- (j) 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 the six months ended 30 June 2004 was nil (2003: HK\$2,927,000).
- (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 the six months ended 30 June 2004 was HK\$2,581,000 (2003: HK\$2,584,000).
- (l) 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 the six months ended 30 June 2004 was HK\$44,459,000 (2003: HK\$39,590,000).
- (m) 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 the six months ended 30 June 2004 was HK\$11,220,000 (2003: HK\$10,439,000).

NOTES TO CONDENSED ACCOUNTS (Continued)

19 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

- (n) 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 from 16 April 2002 to 30 September 2004 on an exclusive basis in Malaysia and Brunei. The income accrued by TVBSE during the six months ended 30 June 2004 was HK\$14,181,000 (2003: HK\$12,354,000).
- (o) 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 the six months ended 30 June 2004 was HK\$14,075,000 (2003: HK\$10,497,000).
- (p) Since 1998, GSBL has been providing TVBI, TVBSE and TVB (Australia) Pty. Ltd. (“TVBA”), all are the wholly owned subsidiaries of the company, various uplink and playback services. The service fees paid by TVBI, TVBSE and TVBA to GSBL during the six months ended 30 June 2004 was HK\$20,254,000 (2003: HK\$14,817,000).
- (q) On 11 March 2004, TVBA and Celestial Television Networks Ltd. (“CTNL”), an associate of the minority shareholder of two of the company’s non-wholly owned subsidiaries, entered into an agreement, whereby CTNL would licence 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 a fixed unit cost per subscriber (which includes both residential and commercial subscribers) to CTNL for 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 the six months ended 30 June 2004 was HK\$748,000 (2003: 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 satellite transmission,
- Expense on rebate of TV advertisements, and
- Rental expense on leasing of production spaces.