

Disclosure of Connected Transactions

Set out below is information relating to certain connected transactions involving the Company and/or its subsidiaries required under the Listing Rules of the Stock Exchange to be disclosed in the Annual Report and Accounts of the Company:-

(I) Connected Transactions with i-CABLE

The following are connected transactions between the Group and i-CABLE and its subsidiaries (together, the "i-CABLE Group") (i-CABLE is a 79.44 per cent-owned subsidiary of the Company):-

(1) Property

a. Headquarters

Pursuant to various assignment and novation agreements dated November 1, 1999 and various tenancy/licence agreements with members of the Group, the i-CABLE Group rents or is licensed to use the following premises:

- (i) Factory 3 on G/F and 4/F to 12/F (inclusive) of Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, Hong Kong ("Cable TV Tower"). The current monthly rental and management fee are HK\$2,073,363 and HK\$288,501 respectively. The rental period will expire on August 31, 2005.
- (ii) Portions of 1/F and 2/F of Cable TV Tower. For each floor, the monthly rental is HK\$12,600 and HK\$9,064 respectively, and the monthly management fee is HK\$3,150 and HK\$2,266 respectively. The rental period for portions of the 1/F and 2/F of Cable TV Tower will expire at the end of September and October 2002 respectively.
- (iii) Units 1-7 on 40/F and storeroom 3 on the roof top of Cable TV Tower. The licences are renewable on a monthly basis and the current monthly licence fee and monthly management fee are HK\$263,585 and HK\$30,123 respectively.
- (iv) Various car-parking and lorry-parking spaces in Cable TV Tower. The licences are renewable on a monthly basis and the monthly licence fee for each of the car-parking and lorry-parking spaces is HK\$3,100 and HK\$4,250 respectively.

- (v) Pursuant to another tenancy agreement dated December 18, 2000 with the Group, the i-CABLE Group rents Units 1, 2 and 4 on G/F of Cable TV Tower at a monthly rent of HK\$280,098 from January 1, 2001 to December 31, 2002 and at market rent from January 1, 2003 to August 31, 2005. The monthly management fee is HK\$41,285. The rental period will expire on August 31, 2005.

The aggregate rental, licence fee and management fee received from the above-mentioned properties for the year ended December 31, 2000 was HK\$34,378,627.

- b. Pursuant to a licence agreement dated December 20, 1996, New T&T, a wholly-owned subsidiary of the Company, was granted a licence to occupy the northern portion of the 12/F of Cable TV Tower from January 1, 1997 and pays a fixed monthly licence fee of HK\$147,869 to i-CABLE's wholly-owned subsidiary, namely, Hong Kong Cable Television Limited ("HKC"). The licence is renewable on a monthly basis and either party may terminate the licence by giving to the other fifteen days' notice in writing. The licence fee paid for the year ended December 31, 2000 was HK\$1,774,430.
- c. The i-CABLE Group has obtained a licence from Rudfield Company Limited (a wholly-owned subsidiary of the Company) to use each of the following properties:
 - (i) Unit B2, G/F, Kwok Wing House, Nos. 63-65, Tung Choi Street, Kowloon for a term commencing April 1, 1999 and ending March 31, 2000 (with an option to renew for one year) at a monthly licence fee of HK\$60,000;
 - (ii) Shop No. 23, G/F, Golden Building, No. 146-152 Fuk Wa Street, Kowloon for a term commencing June 1, 1999 and ending May 31, 2001 (with an option to renew for one year) at a monthly licence fee of HK\$45,000; and
 - (iii) Workshop No.E13, 11/F, Block E of Tsing Yi Industrial Centre Phase II, Nos.1-33 Cheung Tat Road, Tsing Yi, New Territories for a period of 10 years from October 4, 1999 at a current monthly licence fee of HK\$9,420.

The aggregate licence fee received from the above-mentioned properties for the year ended December 31, 2000 was approximately HK\$833,040.

Disclosure of Connected Transactions (continued)

d. *Car-parking*

HKC has rented car-parking spaces under the management of Metropark Limited ("Metropark"), a wholly-owned subsidiary of the Company. The monthly fee payable to Metropark for each car-parking space at Chai Wan Kok Street, Tsuen Wan is HK\$1,610. The car-parking fee received by Metropark from HKC for the year ended December 31, 2000 was HK\$1,867,601.

(2) **Computer Services**

- a. COL Limited ("COL"), a wholly-owned subsidiary of the Company, provides information technology services to HKC. These services were provided to HKC on substantially the same terms as the services are provided to other independent customers of COL. The service fees payable to COL depend upon the types of services required by and provided to the i-CABLE Group which include, *inter alia*, maintenance and support services for the subscriber management system, the computer network and other computer hardware and software. The service fees received by COL from HKC for the year ended December 31, 2000 were HK\$4,454,458.
- b. Pursuant to an Agreement dated August 1, 1993 and an Addendum, COL provides billing services to HKC for a period of 36 months commencing March 1, 1998 at a minimum monthly service fee of HK\$200,000. The service fee is to be revised annually for inflation, according to 50 per cent. of the changes in the "CPI B" index. The services are provided to HKC on substantially the same terms as the services are provided to other independent customers of COL. The service fees received by COL from HKC for the year ended December 31, 2000 were HK\$6,003,424.

(3) **Network**

- a. *MTRC Contracts - Installation and Maintenance of Network within MTR System*
Wharf Communications Investments Limited ("Wharf Communications"), a wholly-owned subsidiary of the Company, entered into an agreement (the "1992 Agreement") with Mass Transit Railway Corporation ("MTRC") in 1992 for the construction of a fibre optic network within the MTR System. A subsequent agreement was entered into between Wharf Communications and MTRC in 1998 (the "1998 Agreement") to deal with the additional works required to expand network capacity.

A letter of agreement dated September 28, 1999 (the "Letter of Agreement") and two novation agreements dated October 21, 1999 (the "Novation Agreements") were entered into between Wharf Communications, HKC, New T&T and MTRC under which the parties agreed to, *inter alia*, the following:-

- (i) the network constructed under the 1992 Agreement and the 1998 Agreement be divided into a fixed telecommunication network ("FTNS Network") and a cable television network ("CATV Network"); and
- (ii) New T&T would assume all the obligations of Wharf Communications for the FTNS Network under the 1992 Agreement and the 1998 Agreement while HKC would assume all the obligations of Wharf Communications for the CATV Network under such Agreements.

Under the Novation Agreements, New T&T and HKC further agreed in principle to grant a joint and several indemnity in favour of MTRC for any claims which MTRC may have against Wharf Communications under the 1992 Agreement and the 1998 Agreement respectively, where such claims relate to obligations of Wharf Communications which have been assumed by either New T&T or HKC under the Novation Agreements.

Pursuant to a deed of indemnity dated November 1, 1999, Wharf Communications has undertaken to indemnify HKC against all claims and liabilities which HKC may sustain or incur under the 1992 Agreement or the 1998 Agreement or the Novation Agreements to the extent that such liabilities arose from the acts or omissions of Wharf Communications or are referable to the conduct of any of the directors of Wharf Communications on or before the date of the relevant Novation Agreements.

- b. *Agreement for the Maintenance and Sharing of Ducts, Cables and Ancillary Equipment*
On November 1, 1999, HKC and New T&T entered into an agreement for the maintenance (but not the sharing) of both existing and new ducts, cables and ancillary equipment and the sharing of existing ducts, cables and ancillary equipment (the "Duct and Cable Sharing Agreement").

The Duct and Cable Sharing Agreement contains detailed principles agreed between the parties for maintenance and repair charges.

For the year ended December 31, 2000, an amount of HK\$14,243,131 was charged by HKC against New T&T in relation to repair works for ducts and cables.

Disclosure of Connected Transactions (continued)

c. *Internet Access Services*

The i-CABLE Group is engaged in the business of providing a dial-up Internet access services. In order to provide such a service, the i-CABLE Group has leased datalines from New T&T to route traffic to the Tsuen Wan office. The i-CABLE Group has also incurred PNETS charges payable to New T&T. Datalines are also leased from New T&T for sub-leasing to corporate customers.

The i-CABLE Group is also engaged in the business of providing Broadband cable modem access services. In order to provide such a service, the i-CABLE Group has procured telecommunications services from New T&T to route traffic internationally.

The leased datalines, PNETS charges and Internet access charges received for the year ended December 31, 2000 were HK\$7,363,867.

d. *Project Management Services Agreement*

On November 1, 1999, Wharf Communications Network Limited (now known as i-CABLE Network Limited) ("iNL"), a wholly-owned subsidiary of i-CABLE, and New T&T entered into a project management services agreement (the "Project Services Agreement").

Under the Project Services Agreement, iNL provides such project management services to New T&T from time to time as required by New T&T.

The Project Services Agreement provides that, for each project managed by it, iNL will charge New T&T a project management fee which is equivalent to 15 per cent. of the aggregate costs of materials and contractors for the relevant project.

The annual project management fees paid by the Group for the year ended December 31, 2000 were HK\$6,424,424.

e. *Interim Agreement for the Construction and Sharing of Ducts*

On February 26, 1997, HKC, New T&T, Hong Kong Telephone Company Limited (now known as PCCW-HKT Telephone Limited), Hutchison Communications Limited (now known as Hutchison Global Crossing Limited) and New World Telephone Limited entered into an interim agreement relating to the shared construction, use and maintenance of ducts for telecommunications cables and equipment. The parties are in the process of negotiating a final agreement. Under the interim agreement, the annual payment by the i-CABLE Group to New T&T for the year ended December 31, 2000 was HK\$162,954.

(4) Advertising Services

HKC provides air-time advertising services to New T&T on the same terms as those services are provided to independent customers of HKC. The advertising service revenue received by HKC from New T&T for the year ended December 31, 2000 was HK\$1,066,000.

(5) Management Services

On November 1, 1999, the i-CABLE Group entered into a management services agreement with Wharf Limited (a wholly-owned subsidiary of the Company) providing for the allocation of costs and expenses to be incurred in the future by Wharf Limited to the i-CABLE Group. The services provided by Wharf Limited to the i-CABLE Group include corporate secretarial services, treasury services, provision of management personnel and other general corporate services. The annual services fees received by the Group for the year ended December 31, 2000 were HK\$11,990,800.

(6) Convertible Bonds

Convertible Bonds for an amount of HK\$1.8 billion were issued by i-CABLE to the Group on terms set out in a deed poll dated November 18, 1999 ("Deed Poll"). The Convertible Bonds carry interest at the rate of four per cent per annum and the annual interest payment to the Group was HK\$72,000,000 for the year ended December 31, 2000. During the four-year term of the Convertible Bonds, the bondholders may, at any time, subject to i-CABLE's minimum public float requirement, exercise the rights under the Convertible Bonds to convert the whole or part of the Convertible Bonds into new Shares in accordance with the terms and conditions of the Deed Poll.

(7) Video Link Service

HKC, in the ordinary and usual course of its business, has been using the video link service (the "Service") provided by New T&T in carrying video and audio signals between HKC's building and ten remote locations. The Service for one particular location will expire in July 2001 and the Service for the remaining nine locations will expire in May 2002. The fees for the Service paid by HKC to New T&T for the year ended December 31, 2000 were HK\$1,831,478.

(8) Conditional waiver granted by the Stock Exchange

As all of the abovementioned connected transactions will be conducted on an ongoing basis, it is considered that strict compliance with the relevant requirements relating to such connected transactions under Chapter 14 of the Listing Rules of the Stock Exchange (the "Requirements") would be impractical. On application by the Company, it was granted a conditional waiver from strict compliance with the Requirements in respect of connected transactions under the abovementioned items (1)a, (2)a, (2)b and (6) (the "Connected Transactions").

(9) Confirmation from the Directors

The Directors, including the independent non-executive Directors, of the Company have reviewed the abovementioned connected transactions and confirmed that:-

a. the Connected Transactions were:-

- (i) entered into by the Group in the ordinary and usual course of its business;
- (ii) conducted either (A) on normal commercial terms (which expression will be applied by reference to connected transactions of a similar nature and to be made by similar entities) or (B) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) entered into either (A) in accordance with the terms of the agreements governing such Connected Transactions or (B) (where there are no such agreements) on terms no less favourable than those available to or from independent third parties;

- b. in respect of each of the Connected Transactions, the aggregate amount of Connected Transactions within each such category for the year ended December 31, 2000 of the Company did not exceed the relevant cap amounts (the "Cap Amounts") stated below:-

Transactions stated in paragraph numbered	Cap Amounts
(1)a	one per cent. of the Group's turnover for the year ended December 31, 1999
(2)a	0.5 per cent. of the Group's turnover for the year ended December 31, 1999
(2)b	0.25 per cent. of the Group's turnover for the year ended December 31, 1999
(6)	HK\$88 million

(II) Disposal of Equity Interest in City Super

Under an agreement entered into on June 28, 2000 (the "Agreement Date"), a wholly-owned subsidiary of the Company agreed to sell to a wholly-owned subsidiary of Wheelock and Company Limited ("Wheelock") 500 issued shares (the "Sale Shares") in Diamond View Limited ("Diamond View"), representing the Group's entire equity interest in Diamond View, and of certain relevant shareholders' loan (the "Agreement"). As the Company is a 48 per cent-owned associate of Wheelock, the transaction for the sale of the Sale Shares constituted a connected transaction for the Company under the Listing Rules.

Diamond View's only asset was a 39.91 per cent interest in City Super (BVI) Limited ("CSBL"), of which City Super Limited ("CSL") is a wholly-owned subsidiary. CSL is the operator of the stores under the name of "City Super" in Hong Kong. The sale by the Group of its entire interest in Diamond View to the Wheelock group resulted in an indirect disposal of the Group's interest in CSL.

The aggregate consideration/commitment for the transaction was HK\$42.17 million, of which (i) HK\$10.77 million was for the consideration for the Sale Shares; (ii) HK\$12 million was for the assignment from the Group to the Wheelock group of a loan of HK\$12 million as at the Agreement Date owed by CSL to the Group; and (iii) the balance, being HK\$19.4 million, was in the form of a guarantee given by Wheelock replacing a guarantee previously given by a wholly-owned subsidiary of the Company for securing certain bank borrowings of CSL. A deposit of HK\$5 million in cash was received by the Group on the Agreement Date with the full balance, amounting to HK\$17.77 million, of the aggregate consideration received on July 6, 2000 in cash on the completion of the transaction.

Disclosure of Connected Transactions (continued)

Upon the disposal by the Group of the Sale Shares, companies comprising the CSBL group became associates (within the meaning of the Listing Rules) of Wheelock and consequently are regarded as connected persons of the Company. As a result, three tenancy agreements between the Group and CSL in respect of premises at (i) Basement 1, Times Square, Causeway Bay, Hong Kong from October 1, 1996 to September 30, 2002; (ii) Shops No. 3001-3002, 3rd Floor, Harbour City, Kowloon, Hong Kong from December 15, 1998 to December 14, 2004; and (iii) Suites 3509, 3510 and 3511, Tower 2, The Gateway, 25 Canton Road, Tsimshatsui, Kowloon, Hong Kong from August 1, 1999 to July 31, 2002 also constituted connected transactions for the Company.

The aggregate annual rent, exclusive of rates, air-conditioning charges and management fee, received and receivable by the Group in respect of the aforesaid three tenancy agreements during the term thereof, i.e. the five fiscal years ending December 31, 2004, amounted or would amount to HK\$35.83 million, HK\$36.98 million, HK\$31.18 million, HK\$11.95 million and HK\$8.96 million respectively.

The original purpose of the investment in CSL was to secure a major anchor tenant for Gateway II podium on the opening of that shopping mall. The Agreement was entered into at a time when shopping units in Gateway II had become fully leased and the let-up programme successfully completed. Considering that CSL planned to open more shops as well as embarked on further expansion elsewhere in the region, while retail business is not traditionally a core business of the Group, the disposal of the Sale Shares represented a good opportunity for the Group to divest itself of its incubatory investment in CSL.