

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

18. Deferred revenue

| | The Group | |
|--------------------------------------------------|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| <hr/> | | |
| The maturity of deferred revenue is as follows: | | |
| Within one year | 160,050 | 169,109 |
| More than one year, but not exceeding five years | 113,101 | 88,959 |
| | <hr/> | <hr/> |
| | 273,151 | 258,068 |
| Less: amount shown under current liabilities | 160,050 | 169,109 |
| | <hr/> | <hr/> |
| | 113,101 | 88,959 |
| | <hr/> | <hr/> |

19. Deferred loan origination costs

| | The Group | |
|--------------------------------------------------|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| <hr/> | | |
| Cost | | |
| Balance at 1st January and 31st December | — | 18,475 |
| | <hr/> | <hr/> |
| Amortisation | | |
| Balance at 1st January | — | 10,557 |
| Charge for the year | — | 7,918 |
| | <hr/> | <hr/> |
| Balance at 31st December | — | 18,475 |
| | <hr/> | <hr/> |
| Deferred loan origination costs at 31st December | — | — |
| | <hr/> | <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

20. Share capital

Movements during the year in the share capital of the Company were as follows:

| | Authorised | | Issued and fully paid | |
|-----------------------------------------------|-----------------|----------|-----------------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Ordinary shares of HK\$0.10 each | | | | |
| Balance at 1st January | 55,000 | 55,000 | 39,027 | 39,008 |
| Shares issued on exercise of share options | — | — | — | 19 |
| Balance at 31st December | 55,000 | 55,000 | 39,027 | 39,027 |

21. Share option

At 31st December, 2001, the following options to subscribe for shares were outstanding under the Company's share option scheme:

| Date of grant | Exercise period | Exercise price HK\$ | No of share options At 31.12.2001 |
|---------------------|-----------------------------------------------|------------------------|---------------------------------------------|
| 8th September, 1999 | 26th November, 1999 to 25th November, 2006 | 17.48 | 1,718,500 |
| 8th September, 1999 | 1st October, 2002 to 30th September, 2009 | 17.48 | 1,838,000 |
| | | | 3,556,500 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

22. Reserves

| | Share premium HK\$'000 | Contributed surplus HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|-------------------------------------------------|-------------------------------------|-------------------------------------------|----------------------------------------|--------------------------|
| The Group | | | | |
| At 1st January, 2000 | | | | |
| – as originally stated | 1,303 | — | 1,788,655 | 1,789,958 |
| – prior period adjustment (note 3) | — | — | 54,611 | 54,611 |
| – as restated | 1,303 | — | 1,843,266 | 1,844,569 |
| Shares issued at a premium | 3,311 | — | — | 3,311 |
| Final dividend for 1999 | — | — | (54,611) | (54,611) |
| Profit for the year, retained | — | — | 552,854 | 552,854 |
| <hr/> | | | | |
| At 31st December, 2000 | 4,614 | — | 2,341,509 | 2,346,123 |
| Final dividend for 2000 paid | — | — | (54,637) | (54,637) |
| Interim dividend for 2001 | — | — | (23,416) | (23,416) |
| Profit for the year, retained | — | — | 562,983 | 562,983 |
| <hr/> | | | | |
| At 31st December, 2001 | 4,614 | — | 2,826,439 | 2,831,053 |
| <hr/> | | | | |
| The Company | | | | |
| At 1st January, 2000 | | | | |
| Shares issued at a premium | 1,303 | 390,053 | — | 391,356 |
| Profit for the year, retained | — | — | 323 | 323 |
| <hr/> | | | | |
| At 31st December, 2000 and 1st January, 2001 | 4,614 | 390,053 | 323 | 394,990 |
| Profit for the year, retained | — | — | 1,436 | 1,436 |
| <hr/> | | | | |
| At 31st December, 2001 | 4,614 | 390,053 | 1,759 | 396,426 |
| <hr/> | | | | |

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition at the time of the Group reorganisation prior to the listing of the Company's shares in 1996.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

22. Reserves (continued)

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital.

In the opinion of the directors, as at 31st December, 2001, the Company's reserves available for distribution consisted of the contributed surplus of HK\$390,053,000 (2000: HK\$390,053,000) and retained profits of HK\$1,759,000 (2000: HK\$323,000).

23. Deferred taxation

| | The Group | |
|-------------------------------|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Balance at 1st January | 128,990 | 98,435 |
| Charge for the year (note 10) | 46,734 | 30,555 |
| Balance at 31st December | 175,724 | 128,990 |

At the balance sheet date, the major components of the provision for deferred taxation are as follows:

| | The Group | |
|---------------------------------------------------------|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Tax effect of timing differences attributable to: | | |
| Excess of tax depreciation allowances over depreciation | | |
| charged in the financial statements | 177,743 | 125,754 |
| Others | (2,019) | 3,236 |
| Total | 175,724 | 128,990 |

Neither the Group nor the Company had any material unprovided deferred taxation for the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

24. Reconciliation of profit before taxation to net cash inflow from operating activities

| | 2001 | 2000 |
|--------------------------------------------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Profit before taxation | 633,563 | 656,193 |
| Share of results of associates | 41,349 | 43,928 |
| Interest expense on bank loans | — | 37,054 |
| Interest income | (6,725) | (39,043) |
| | 668,187 | 698,132 |
| Operating profit before interest and taxation | 668,187 | 698,132 |
| Amortisation of deferred loan origination costs | — | 7,918 |
| Amortisation of goodwill arising from acquisition of associates | 6,132 | — |
| Costs of raising bank loan | — | 390 |
| Depreciation | 166,650 | 168,391 |
| Gain on disposal of property, plant and equipment | (98) | (130) |
| Increase in unbilled lease rental receivable | (31,188) | (45,216) |
| Increase in trade and other receivables | (56,048) | (40,253) |
| (Decrease) increase in other payables | (18,269) | 2,031 |
| Increase (decrease) in deferred revenue | 21,215 | (65,702) |
| | 756,581 | 725,561 |
| Net cash inflow from operating activities | 756,581 | 725,561 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

25. Analysis of changes in financing during the year

| | Share capital and share premium HK\$'000 | Bank loans HK\$'000 | Minority interest and loan payable to minority HK\$'000 |
|---------------------------------------------------------|-------------------------------------------------------------|-------------------------------|-------------------------------------------------------------------------------|
| Balance at 1st January, 2000 | 40,311 | 873,600 | 447 |
| Shares issued on exercise of share options | 3,330 | — | — |
| Repayment during the year | — | (873,600) | — |
| Minority interest's share of profit for the year | — | — | 29 |
| <hr/> | | | |
| Balance at 31st December, 2000 and 1st January, 2001 | 43,641 | — | 476 |
| Minority interest's share of profit for the year | — | — | 16 |
| <hr/> | | | |
| Balance at 31st December, 2001 | 43,641 | — | 492 |
| <hr/> | | | |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

26. Lease commitments

The Group as lessee

Minimum lease payment paid under operating leases during the year:

| | The Group | |
|----------|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Premises | 4,525 | 4,520 |

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | The Group | |
|-----------------------------------|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Within one year | 2,120 | 6,396 |
| In second to fifth year inclusive | 1,501 | 2,120 |
| | 3,621 | 8,516 |

Operating lease payments represent rental payable by the Group for certain of its office and residential premises. Leases are negotiated for an average term of two years.

The Group as lessor

Income from provision of satellite transponder capacity during the year was HK\$956,695,000 (2000: HK\$956,049,000).

At the balance sheet date, the Group had contracted with customers for the following future minimum lease payments:

| | The Group | |
|-----------------------------------|------------------|-----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Within one year | 818,673 | 755,030 |
| In second to fifth year inclusive | 2,076,839 | 2,071,733 |
| After five years | 1,656,174 | 1,845,399 |
| | 4,551,686 | 4,672,162 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

27. Capital commitments

During the year, the Group entered into agreements with independent third parties for the construction and launching of AsiaSat 4 and a satellite earth station. The estimated total cost for commissioning AsiaSat 4 and a satellite earth station are HK\$2,067,000,000 and HK\$243,000,000, respectively. At 31st December, 2001, the capital commitments in respect of AsiaSat 4 and other assets are as follows:

| | The Group | |
|-------------------------------------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| AsiaSat 4 | | |
| Contracted for but not provided in the financial statements | 215,787 | 745,175 |
| Authorised but not contracted for | 629,022 | 313,639 |
| A satellite earth station | | |
| Authorised but not contracted for | 215,598 | — |
| | 1,060,407 | 1,058,814 |

28. Retirement benefits scheme

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the ORSO Scheme) and a Mandatory Provident Fund Scheme (the MPF Scheme) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. All employees are offered a choice of joining the ORSO Scheme or the MPF Scheme.

The retirement benefits cost charged to the income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there was no material forfeited contributions which arose upon employees leaving the retirement benefits schemes and which are available to reduce the contributions payable in the future years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

29. Contingent liabilities

At 31st December, 2001, the Group had the following contingencies:

- (a) Pursuant to a change effective from 1st April, 2001 in Indian tax regulations, the Group may be subject to an Indian income tax on revenues received by the Group in respect of income from provision of satellite transponder capacity to the Group's customers for purposes of carrying on business in India or earning income from any source in India. The methodology for calculation of the income taxable in India and the additional tax expense that may be incurred by the Group is not yet clear. Since it is not possible to estimate the amount payable by the Group, no provision has been recognised in these financial statements.

In addition, the Indian tax authorities have taken the position that the Group is liable for income tax under the same regulations as in force prior to 1st April, 2001. In accordance with this position, the Indian tax authorities have made assessments against the Group (including interest as of 21st March, 2001) totalling approximately HK\$21 million (INR131 million) for the assessment year 1997-1998 and approximately HK\$23 million (INR141 million) for the assessment year 1998-1999. No assessment has yet been made for the 1999-2000, 2000-2001 or 2001-2002 assessment years.

The Indian tax authorities have initiated tax recovery measures against the Group. The Group had filed appeals for each of the assessment years 1997-1998 and 1998-1999. In order to expedite the legal proceeding in India, the Group has agreed to pay a deposit to the Reserve Bank of India. Although there is no certainty of the outcome of the appeals, based upon advice from its professional advisors, the Group does not believe that it is liable for the taxes assessed by the Indian tax authorities for the pre-1st April, 2001 period. Accordingly, no provision has been recognised in these financial statements.

- (b) Pursuant to the telemetry, tracking, control and monitoring licence granted by the Chief Executive in Council under the Telecommunication Ordinance (Chapter 106), the Group was granted a broadcasting satellite service ("BSS") licence (the "Licence") on 27th June, 2000 to maintain and operate a payload of four BSS channels onboard AsiaSat 4. Asia Satellite Telecommunications Company Limited, as the Licencee, has provided a performance bond of HK\$5 million in favour of The Government of The Hong Kong Special Administrative Region as a condition of the grant of the Licence.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

30. Pledge of assets

On 24th November, 2000, the Group signed an agreement for a US\$250 million loan facility with a consortium of banks to finance the construction of AsiaSat 4. The loan facility is secured by an assignment of all rights, title, benefits and interest in the insurance and transponder receipts of the existing satellites and a fixed and floating charge over the assets of the Group. In addition, the loan agreement contains certain financial covenants, which, among other things, requires the Group to maintain a certain level of net assets and cash flow ratios, restricts dividend payments, and the Group's amount of borrowings and liabilities. The loan facility has not been drawn down at 31st December, 2001 and 2000.

31. Post balance sheet event

Pursuant to a board of directors' meeting of the Company held on 14th March, 2002, Asia Satellite Telecommunications Company Limited, a wholly-owned subsidiary of the Company, will make a further capital contribution to SPEEDCAST HOLDINGS LTD. (formerly known as "PHOENIXNET HOLDINGS LTD.") amounting to US\$4 million by way of cash and transponder capacity of US\$2.5 million and US\$1.5 million, respectively. Thereafter, SPEEDCAST HOLDINGS LTD. will become a 45.3% associate of the Group.

32. Related party transactions

The Group has entered into an agreement to lease transponder capacity to subsidiaries of China International Trust and Investment Corporation ("CITIC"). CITIC was a major shareholder of the Company throughout the year. The total amount of revenue recognised by the Group for the year under this agreement was approximately HK\$3,832,000 (2000: HK\$3,276,000).

During the year, the Group recognised income from provision of satellite transponder capacity and maintenance and other services income from its associates, SPEEDCAST HOLDINGS LTD. and SpeedCast Limited, amounting to approximately HK\$28,663,000 (2000: HK\$31,899,000).

During the year ended 31st December, 2000, the Group purchased certain assets from SES GLOBAL, a major shareholder of the Group throughout the year, for a total consideration of approximately HK\$15,210,000. This amount has been fully settled in 2001.

The above transactions were charged in accordance with the terms of the relevant agreements by reference to the Group's similar transactions with outside customers on terms agreed between the relevant parties.