

For the year ended 31st December, 2002

19. Share option scheme (continued)

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price HK\$
A (Note a)	26th November, 1996	26th November, 1996 - 25th November, 1999	26th November, 1999 - 25th November, 2006	17.48
B (Note a)	20th September, 1999	20th September, 1999 - 30th September, 2002	1st October, 2002 - 30th September, 2009	17.48
C (Note b)	4th February, 2002	4th February, 2002 - 3rd February, 2004	4th February, 2004 - 3rd February, 2012	14.35
D (Note a)	4th February, 2002	—	4th February, 2002 - 25th November, 2006	17.48
E (Note a)	4th February, 2002	4th February, 2002 - 30th September, 2002	1st October, 2002 - 30th September, 2009	17.48

Notes:

- a. Pursuant to a resolution passed in the special general meeting of the Company held on 25th January, 2002, the 1996 Scheme was terminated and all existing options under that scheme were cancelled. New options were issued on 4th February, 2002 under the 2002 Scheme with the same exercise price and exercise periods to replace the options granted under the 1996 Scheme.

The exercise periods are divided into 3 tranches, as detailed below:

Option types A and D

1. Up to 50% between 26th November, 1999 and 25th November, 2006
2. Up to 75% between 26th November, 2000 and 25th November, 2006
3. Up to 100% between 26th November, 2001 and 25th November, 2006

Option types B and E

1. Up to 50% between 1st October, 2002 and 30th September, 2009
2. Up to 75% between 1st October, 2003 and 30th September, 2009
3. Up to 100% between 1st October, 2004 and 30th September, 2009

- b. Additional share options were issued on 4th February, 2002 under the 2002 Scheme.

The exercise period is divided into 3 tranches, as detailed below:

Option type C

1. Up to 25% between 4th February, 2004 and 3rd February, 2012
2. Up to 50% between 4th February, 2005 and 3rd February, 2012
3. Up to 100% between 4th February, 2006 and 3rd February, 2012

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20. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
The Group				
At 1st January, 2001	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	—	—	562,983	562,983
	_____	_____	_____	_____
At 31st December, 2001 and 1st January, 2002	4,614	—	2,826,439	2,831,053
Final dividend for 2001 paid	—	—	(54,637)	(54,637)
Interim dividend for 2002	—	—	(23,416)	(23,416)
Profit for the year	—	—	554,689	554,689
	_____	_____	_____	_____
At 31st December, 2002	4,614	—	3,303,075	3,307,689
	_____	_____	_____	_____
The Company				
At 1st January, 2001	4,614	390,053	323	394,990
Final dividend for 2000 paid	—	—	(54,637)	(54,637)
Interim dividend for 2001	—	—	(23,416)	(23,416)
Profit for the year	—	—	79,489	79,489
	_____	_____	_____	_____
At 31st December, 2001 and 1st January, 2002	4,614	390,053	1,759	396,426
Final dividend for 2001 paid	—	—	(54,637)	(54,637)
Interim dividend for 2002	—	—	(23,416)	(23,416)
Profit for the year	—	—	79,130	79,130
	_____	_____	_____	_____
At 31st December, 2002	4,614	390,053	2,836	397,503
	_____	_____	_____	_____

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20. Reserves (continued)

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.

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, 2002, the Company's reserves available for distribution consisted of the contributed surplus of HK\$390,053,000 (2001: HK\$390,053,000) and retained profits of HK\$2,836,000 (2001: HK\$1,759,000).

21. Deferred taxation

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Balance at 1st January	175,724	128,990
Charge for the year (note 9)	10,225	46,734
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Balance at 31st December	185,949	175,724
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For the year ended 31st December, 2002

21. Deferred taxation (continued)

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

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:		
Excess of tax depreciation allowances over depreciation charged in the financial statements	185,949	177,743
Others	—	(2,019)
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	185,949	175,724
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Neither the Group nor the Company had any material unprovided deferred taxation for the year or at the balance sheet date.

22. Major non-cash transactions

During the year, the Group increased its interest in SpeedCast Holdings Limited, which is the holding company of SpeedCast Limited, from 36.5% to 45.3% for HK\$31,200,000 (US\$4,000,000), of which HK\$11,700,000 (US\$1,500,000) was in the form of the provision of transponder capacity.

For the year ended 31st December, 2002

23. Operating lease

The Group as lessee

Minimum lease payment paid under operating leases during the year:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Premises	4,205	4,525
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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	
	2002	2001
	HK\$'000	HK\$'000
Within one year	5,689	2,120
In second to fifth year inclusive	5,664	1,501
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	11,353	3,621
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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.

For the year ended 31st December, 2002

23. Operating lease (continued)

The Group as lessor

Income from the provision of satellite transponder capacity during the year was HK\$936,114,000 (2001: HK\$956,695,000). The satellite transponder capacity held have committed tenants for a range of one to ten years.

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

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	786,157	818,673
In second to fifth year inclusive	1,852,185	2,076,839
After five years	1,390,753	1,656,174
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	4,029,095	4,551,686
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For the year ended 31st December, 2002

24. 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\$1,747,200,000 and HK\$243,200,000, respectively. At 31st December, 2002, the capital commitments in respect of AsiaSat 4, the satellite earth station and other assets are as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
AsiaSat 4		
Contracted for but not provided in the financial statements	116,473	215,787
Authorised but not contracted for	11,863	629,022
A satellite earth station		
Contracted for but not provided in the financial statements	101,665	—
Authorised but not contracted for	55,369	215,598
Other assets		
Contracted for but not provided in the financial statements	483	—
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	285,853	1,060,407
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For the year ended 31st December, 2002

25. Retirement benefits scheme

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Ordinance (ORSO Scheme) and a Mandatory Provident Fund Scheme (the MPF Scheme) established under the Mandatory Provident Fund Ordinance. The schemes cover all eligible employees and all eligible employees are offered a choice of joining the ORSO Scheme or the MPF Scheme.

The ORSO Scheme provides for participant contributions of 5% of salary and Group contributions of between 7.5% and 15% of salary depending on length of service and the participant's position in the Group. Participants vest in Group contributions incrementally over 10 years.

The MPF Scheme is available to all employees aged 18 to 64 with at least 60 days of service in the employment of the Group in Hong Kong. Contributions are made by the Group at 5% based on the staffs' relevant income. The maximum relevant income for contribution purposes contributed by employee is 5% of the monthly income. Staff members are entitled to 100% of the Group's contributions together with accrued returns irrespective of their length of service with the Group, but the benefits are required by law to be preserved until the retirement age of 65.

The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Total pension cost was HK\$3,859,000 and HK\$4,104,000 for 2001 and 2002, respectively. The Group does not provide post-retirement benefits other than pensions and post-employment benefits are immaterial.

For the year ended 31st December, 2002

26. Contingent liabilities

At 31st December, 2002, 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 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 those customers carrying on business in India or earning income from any source in India.

The Indian tax authorities have previously 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, 2001-2002 or 2002-2003 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 and obtain a stay of the recovery measures, the Group made a tax payment totalling approximately HK\$19 million (INR120 million) to the Government of India.

In relation to the appeal filed for the assessment year 1997-1998, the Income-tax Appellate Tribunal ("the Tribunal") has held that the Group is subject to Indian income tax even prior to 1st April, 2001 in respect of income from the provision of satellite transponder capacity to the Group's customers for purposes of those customers carrying on business in India or earning income from any source in India. The Tribunal has directed Indian tax authorities to make a fresh computation of taxable income. No revised assessment has been received by the Group to date. The Group does not believe that it is liable for Indian income tax as held by the Tribunal and is planning to file an appeal against the Tribunal's decision.

In addition, based on the general principles set forth by the Tribunal, the amount of income taxable in India depends on the payments made by the Group's customers to the Group for the purposes of those customers carrying on business in India or earning income from any source in India. As such information is proprietary in nature and has not been provided by the Group's customers, the Group cannot reasonably estimate the taxable income, if the decision by the Tribunal becomes final. Accordingly, no provision has been recognised for Indian income tax 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.

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27. 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 and AsiaSat 5. 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. The interest rate of this loan is floating and based on London InterBank Offered Rate ("LIBOR") plus a margin between 1.00% to 1.25% per annum depending on certain financial ratios achieved by the Group. Borrowings under the loan are repayable in five equal bi-annual repayments of principal and interest commencing in November 2003. 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, and restricts dividend payments and the Group's amount of borrowings and liabilities. The loan facility has not been drawn down at 31st December, 2002 and 2001.

28. Related party transactions

The Group has entered into an agreement for provision of transponder capacity to subsidiaries of 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\$4,095,000 (2001: HK\$3,832,000). In addition, during the year, an agency fee of approximately HK\$1,611,000 (2001: Nil) was paid to CITIC Technology Company Limited, a subsidiary of CITIC, for collecting money from China customers on behalf of the Company.

During the year, the Group recognised income from provision of satellite transponder capacity and maintenance and other services income from its associates, SpeedCast Holdings Limited and SpeedCast Limited, amounting to approximately HK\$20,177,000 (2001: HK\$28,663,000).

In addition, in 2002, the Group recognised rental income from leasing transponder capacity amounting to approximately HK\$162,000 from SES AMERICOM, a wholly-owned subsidiary of SES GLOBAL. SES GLOBAL was a major shareholder of the Company throughout the year.

In 2002, a consultancy fee, amounting to HK\$678,000 was paid to SES ASTRA S.A., a wholly-owned subsidiary of SES GLOBAL.

In addition to the above, the Group made payments to SES GLOBAL and a subsidiary of CITIC amounting to HK\$400,000 (2001: HK\$550,000) and HK\$400,000 (2001: HK\$400,000) respectively, for certain Non-Executive Directors representing SES GLOBAL and CITIC.

The above transactions are entered into on terms determined and agreed by the Group and the relevant parties.