

Notes to the Financial Statements

For the year ended 31st December, 2003

9. TAXATION

	2003	2002
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	38,516	40,624
	_____	_____
Deferred taxation (note 22)		
Current year	10,140	10,225
Attributable to a change in tax rate in Hong Kong	17,433	—
	_____	_____
	27,573	10,225
	_____	_____
	66,089	50,849
Overseas tax	21,509	18,213
	_____	_____
	87,598	69,062
	_____	_____

A significant portion of the Group's profit is treated as earned outside of Hong Kong and is not subject to Hong Kong Profits Tax. Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. The Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st December, 2003.

Overseas tax, including the Foreign Enterprises Income Tax in the People's Republic of China, is calculated at 5% to 20% of the gross revenue earned in certain of the overseas jurisdictions.

Details of deferred taxation are set out in note 22.

The Group currently has a tax case in dispute with the Indian tax authorities. Details of this are set out in note 27.

Notes to the Financial Statements

For the year ended 31st December, 2003

9. TAXATION (CONTINUED)

A reconciliation between taxation shown in the consolidated income statement and the multiple of the applicable Hong Kong Profits Tax rate of 17.5% (2002: 16%) and profit before taxation is as follows:

	2003	2002
	HK\$'000	HK\$'000
Tax at applicable tax rate	89,615	99,800
Tax effect of income not taxable for tax purpose	(78,454)	(76,135)
Tax effect of expenses not deductible for tax purpose	34,429	24,700
Tax effect of tax losses of associates not recognised	2,734	2,189
Overseas tax	21,509	18,213
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	17,433	—
Other	332	295
	<hr/>	<hr/>
Tax expense	87,598	69,062
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31st December, 2003

10. DIVIDENDS

	The Company	
	2003	2002
	HK\$'000	HK\$'000
Interim, paid - HK\$0.08 per share (2002: HK\$0.06)	31,221	23,416
Final, proposed - HK\$0.24 per share (2002: HK\$0.19)	93,664	74,151
Special, proposed - Nil per share (2002: HK\$0.25)	—	97,566
	<hr/>	<hr/>
	124,885	195,133
	<hr/>	<hr/>

The final dividend of HK\$0.24 per share has been proposed by the Directors and is subject to approval by the shareholders in the Annual General Meeting.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the net profit for the year of HK\$424,488,000 (2002: HK\$554,689,000) and on 390,265,500 (2002: 390,265,500) shares in issue during the year.

No diluted earnings per share was presented for either 2003 or 2002 as the exercise prices of the Company's share options were higher than the average market price for shares for both 2003 and 2002.

Notes to the Financial Statements

For the year ended 31st December, 2003

12. PROPERTY, PLANT AND EQUIPMENT

	Satellites and tracking facilities									Total
	In operation	Under construction	Land	Buildings under development	Buildings	Furniture, fixtures and fittings	Office equipment	Motor vehicles	Plant and machinery	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
The Group										
Cost										
At 1st January, 2003	3,629,079	1,618,864	26,968	59,198	—	9,151	5,637	2,954	1,690	5,353,541
Additions	2,155	89,768	—	58,668	—	1,416	1,439	1,051	834	155,331
Transfer	1,666,795	(1,666,795)	—	(117,866)	117,866	—	—	—	—	—
Disposals	(1,131,000)	—	—	—	—	(9)	(151)	(578)	—	(1,131,738)
At 31st December, 2003	4,167,029	41,837	26,968	—	117,866	10,558	6,925	3,427	2,524	4,377,134
Depreciation										
At 1st January, 2003	2,103,079	—	1,020	—	—	8,676	4,901	1,985	1,530	2,121,191
Provided for the year	219,640	—	583	—	393	292	583	718	68	222,277
Eliminated on disposals	(1,131,000)	—	—	—	—	(6)	(149)	(578)	—	(1,131,733)
At 31st December, 2003	1,191,719	—	1,603	—	393	8,962	5,335	2,125	1,598	1,211,735
Net book values										
At 31st December, 2003	2,975,310	41,837	25,365	—	117,473	1,596	1,590	1,302	926	3,165,399
At 31st December, 2002	1,526,000	1,618,864	25,948	59,198	—	475	736	969	160	3,232,350

The land is situated in Hong Kong and held under a medium term lease.

The net book value of the satellite and tracking facilities that are held for use under transponder utilisation agreements amounted to HK\$2,953,547,000 (2002: HK\$1,505,312,000). Depreciation charged in respect of those assets during the year amounted to HK\$217,821,000 (2002: HK\$162,670,000 and accumulated depreciation in respect of those assets amounted to HK\$1,187,634,000 (2002: HK\$2,100,812,000), respectively.

The cost of property, plant and equipment includes borrowing cost capitalised during construction of satellites and tracking facilities of approximately HK\$52,872,000 (2002: HK\$48,950,000).

Notes to the Financial Statements

For the year ended 31st December, 2003

13. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares in subsidiary companies, at cost	429,053	429,053

The cost of the unlisted shares is based on the book value of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the Group reorganisation in 1996.

Details of subsidiary companies and a controlled partnership at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration/ principal place of operation	Class of share held	Percentage of nominal value of issued capital held by the Company		Principal activity
			Directly	Indirectly	
AsiaSat BVI Limited	British Virgin Islands	Ordinary shares	100%	—	Investment holding
Asia Satellite Telecommunications Company Limited	Hong Kong	Ordinary shares	—	100%	Provision of satellite transponder capacity
Auspicious City Limited	Hong Kong	Ordinary shares	—	100%	Inactive
Hanbury International Limited	British Virgin Islands	Ordinary shares	—	100%	Inactive
SAT Limited	Republic of Mauritius	Ordinary shares	100%	—	Inactive
Sornico Limited	Hong Kong	Ordinary shares	—	100%	Investment holding
The First Asian Satellite Leasing Limited Partnership (the "Partnership")	Hong Kong	N/A	—	1%	Inactive

The Company continues to control the Partnership as it is a general partner and accordingly continues to consolidate it.

Notes to the Financial Statements

For the year ended 31st December, 2003

14. INVESTMENTS IN ASSOCIATES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	—	9,125
Goodwill (note a)	—	8,396
	—	17,521

The Group had a 36.5% equity interest in SpeedCast Holdings Limited (“SHL”) as at 31st December, 2001. The Group increased its equity interest in SHL to 45.3% in 2002. The purchase consideration of the 36.5% equity interest was HK\$97,500,000 while that of the additional 8.8% equity interest acquired in 2002 was HK\$31,200,000. The entire HK\$97,500,000 and a portion of HK\$31,200,000 (amounting to HK\$11,700,000) were paid in the form of satellite transponder capacity and maintenance and other support services to be provided under agreements (valued using prices with third parties with comparable terms and conditions). The Group recorded goodwill from such acquisitions of HK\$12,264,000 and HK\$13,000,000, respectively, for the excess of the purchase consideration over the fair value of the SHL net assets acquired. SHL consolidates the accounts of SpeedCast Limited (“SpeedCast”), a wholly owned subsidiary, and the Company’s investment in SHL is accounted for using the equity method in the accompanying financial statements.

Details of the Group’s associates as at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration/ principal place of operation	Class of share held	Percentage of nominal value of issued capital indirectly held by the Company	Principal activity
SpeedCast Holdings Limited	Cayman Islands	Ordinary	45.3%	Investment holding
SpeedCast Limited	Hong Kong	Ordinary	45.3%	Provision of Internet related services through satellite transponders

Notes to the Financial Statements

For the year ended 31st December, 2003

14. INVESTMENTS IN ASSOCIATES (CONTINUED)

(a) Included in investments in associates is goodwill arising on acquisition of associates:

	The Group
	HK\$'000
Cost	
At 1st January, 2003 and at 31st December, 2003	25,264
	<hr/>
Amortisation and impairment	
At 1st January, 2003	16,868
Charge for the year	6,500
Impairment loss recognised during the year	1,896
	<hr/>
At 31st December, 2003	25,264
	<hr/>
Carrying value	
At 31st December, 2003	—
	<hr/>
At 31st December, 2002	8,396
	<hr/>

The goodwill is amortised over a period of 2 years.

Amortisation charged to income in the current year amounting to HK\$6,500,000 (2002: HK\$4,604,000) has been included in the amount reported as share of results of associates in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31st December, 2003

15. LOAN RECEIVABLE FROM AN ASSOCIATE

The amount is secured, bearing interest at 6% per annum and is repayable as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	3,510	—
More than one year but not exceeding two years	3,769	—
	<hr/>	<hr/>
	7,279	—
Less: amount shown under current assets	(3,510)	—
	<hr/>	<hr/>
	3,769	—
	<hr/> <hr/>	<hr/> <hr/>

16. TAX PREPAYMENTS

At the balance sheet date, tax prepayments amounting to approximately HK\$24,487,000 (2002: HK\$19,305,000) had been paid to the Government of India. For details, please refer to note 27.

Notes to the Financial Statements

For the year ended 31st December, 2003

17. TRADE AND OTHER RECEIVABLES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Trade receivables	68,118	74,430
Other receivables	12,361	1,335
Deposits and prepayments	38,538	20,204
	<hr/>	<hr/>
	119,017	95,969
	<hr/>	<hr/>

The Group does not normally provide credit terms to its trade customers. The Group usually bills its trade customers quarterly in advance in accordance with its agreement. The aged analysis of trade receivables is stated as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
0 to 30 days	32,130	32,525
31 to 60 days	9,438	7,671
61 to 90 days	7,443	3,619
91 to 180 days	11,652	18,949
181 days or above	7,455	11,666
	<hr/>	<hr/>
Total trade receivables	68,118	74,430
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31st December, 2003

18. DEFERRED REVENUE

	The Group	
	2003	2002
	HK\$'000	HK\$'000
The maturity of deferred revenue is as follows:		
Within one year	156,448	158,937
More than one year but not exceeding five years	122,928	140,019
	<hr/>	<hr/>
	279,376	298,956
Less: amount shown as current	(156,448)	(158,937)
	<hr/>	<hr/>
	122,928	140,019
	<hr/>	<hr/>

19. SHARE CAPITAL

	Authorised	Issued and fully paid
	2003 & 2002	2003 & 2002
	HK\$'000	HK\$'000
Ordinary shares of HK\$0.10 each	55,000	39,027
	<hr/>	<hr/>

For the year ended 31st December, 2003

20. SHARE OPTION SCHEME

[Scheme adopted on 3rd June, 1996](#)

In accordance with the Company's share option scheme (the "1996 Scheme") adopted pursuant to a resolution passed on 3rd June, 1996, the Board of Directors of the Company may at their discretion grant options to all permanent, full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company. The primary purpose of the 1996 Scheme was to provide incentives to eligible employees.

The total number of shares in respect of which options may be granted under the 1996 Scheme (including options already exercised) was not permitted to exceed 10% of the issued share capital of the Company at any point in time. The maximum number of share options issued to any employee, based on the subscription price of the options, shall not exceed four times the annual basic salary (excluding bonuses and allowances) of that employee.

Options granted must be taken up within 28 days from the date of grant upon payment of HK\$1 per each grant of share options. An option may be exercisable up to 50% on or after the third anniversary of the date of grant, up to 75% on or after the fourth anniversary and fully on or after the fifth anniversary but before the tenth anniversary of the date of offer unless the Board of Directors specifies other periods. The exercise price was determined by the Board of Directors, and was based on the average closing price of the shares for the five trading days immediately preceding the date of grant.

The 1996 Scheme was terminated on 25th January, 2002 pursuant to a resolution passed on that date.

[Scheme adopted on 25th January, 2002](#)

A new share option scheme (the "2002 Scheme") was adopted pursuant to a resolution passed on 25th January, 2002 for the primary purpose of attracting and retaining the best personnel for the development of the Company's businesses, and providing incentives to employees, Directors, consultants, agents, representatives and advisors, and promoting the long term financial success of the Company. The 2002 Scheme will expire on 24th January, 2012.

Under the 2002 Scheme, the Board of Directors of the Company may at their discretion grant options to the employees, including Directors, of the Company or any company that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Company, to subscribe for shares in the Company. Options granted to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Independent Non-Executive Directors of the Company (excluding any Independent Non-Executive Director who is also the grantee).

No options have been granted during the year. At 31st December, 2002, the number of shares in respect of which options had been granted under the 2002 Scheme was 7,149,500 representing 1.83% of the shares of the Company in issue at that date.