

Notes to the Financial Statements

For the year ended 31st December, 2003

20. SHARE OPTION SCHEME (CONTINUED)

Scheme adopted on 25th January, 2002 (continued)

The total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes is not permitted to exceed 30% of the issued share capital of the Company from time to time. In addition, the total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes must not, in aggregate, exceed 10% of the issued share capital of the Company at the adoption date of the 2002 Scheme, being 39,026,550 shares, without prior approval from the Company's shareholders.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to a substantial shareholder, or an independent Non-Executive Director of the Company, or any of their respective associates under the 2002 Scheme, and any other schemes in any one year in excess of 0.1% of the Company's issued share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

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. The exercise period of the share options granted under the 2002 Scheme shall be determined by the Board of Directors when such options are granted, provided that such period shall not end later than 10 years from the date of grant. The exercise price is determined by the Board of Directors, and will not be less than the higher of the closing price of the Company's shares on the date of grant, or the average closing price of the shares for the five trading days immediately preceding the date of grant, or the nominal value of a share of the Company.

No options were granted during the year. Total consideration received in 2002 from employees for taking up the options granted amounted to HK\$105.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or are cancelled prior to their exercise dates are deleted from the register of outstanding options.

Notes to the Financial Statements

For the year ended 31st December, 2003

20. SHARE OPTION SCHEME (CONTINUED)

The following table discloses details of the Company's share options held by employees (including Directors) and movements in such holdings during the year:

Share option scheme category	Option type	Outstanding at 1st January, 2003	Granted during 2003	Exercised during 2003	Cancelled during 2003	Lapsed during 2003	Outstanding at 31st December, 2003
2002	A	1,718,500	—	—	—	(27,000)	1,691,500
2002	B	1,838,000	—	—	—	(70,000)	1,768,000
2002	C	3,593,000	—	—	—	(111,500)	3,481,500
		<u>7,149,500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(208,500)</u>	<u>6,941,000</u>
Share option scheme category	Option type	Outstanding at 1st January, 2002	Granted during 2002	Exercised during 2002	Cancelled during 2002	Lapsed during 2002	Outstanding at 31st December, 2002
2002	A	—	1,718,500	—	—	—	1,718,500
2002	B	—	1,838,000	—	—	—	1,838,000
2002	C	—	3,718,000	—	—	(125,000)	3,593,000
1996	D	1,718,500	—	—	(1,718,500)	—	—
1996	E	1,838,000	—	—	(1,838,000)	—	—
		<u>3,556,500</u>	<u>7,274,500</u>	<u>—</u>	<u>(3,556,500)</u>	<u>(125,000)</u>	<u>7,149,500</u>

Details of the share options held by the Directors included in the above table as follows:

Share option scheme category	Option type	Outstanding at 1st January, 2003	Granted during 2003	Exercised during 2003	Cancelled during 2003	Lapsed during 2003	Outstanding at 31st December, 2003
2002	A	651,000	—	—	—	—	651,000
2002	B	264,000	—	—	—	—	264,000
2002	C	1,360,000	—	—	—	—	1,360,000
		<u>2,275,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,275,000</u>
Share option scheme category	Option type	Outstanding at 1st January, 2002	Granted during 2002	Exercised during 2002	Cancelled during 2002	Lapsed during 2002	Outstanding at 31st December, 2002
2002	A	—	651,000	—	—	—	651,000
2002	B	—	264,000	—	—	—	264,000
2002	C	—	1,485,000	—	—	(125,000)	1,360,000
1996	D	651,000	—	—	(651,000)	—	—
1996	E	264,000	—	—	(264,000)	—	—
		<u>915,000</u>	<u>2,400,000</u>	<u>—</u>	<u>(915,000)</u>	<u>(125,000)</u>	<u>2,275,000</u>

Notes to the Financial Statements

For the year ended 31st December, 2003

20. 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\$
2002 Scheme				
A (Note a)	4th February, 2002	—	4th February, 2002 - 25th November, 2006	17.48
B (Note a)	4th February, 2002	4th February, 2002 - 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
1996 Scheme				
D (Note a)	26th November, 1996	26th November, 1996 - 25th November, 1999	26th November, 1999 - 25th November, 2006	17.48
E (Note a)	20th September, 1999	20th September, 1999 - 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.

Option type A

100% between 4th February, 2002 and 25th November, 2006

The exercise periods of the following option types are divided into 3 tranches, as detailed below:

Option type 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

Notes to the Financial Statements

For the year ended 31st December, 2003

21. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
The Company				
At 1st January, 2002	4,614	390,053	1,759	396,426
Final dividend for 2001 paid	—	—	(54,637)	(54,637)
Interim dividend for 2002 paid	—	—	(23,416)	(23,416)
Profit for the year	—	—	79,130	79,130
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At 31st December, 2002 and 1st January, 2003	4,614	390,053	2,836	397,503
Final dividend for 2002 paid	—	—	(74,151)	(74,151)
Special dividend for 2002 paid	—	—	(97,566)	(97,566)
Interim dividend for 2003 paid	—	—	(31,221)	(31,221)
Profit for the year	—	—	202,578	202,578
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At 31st December, 2003	4,614	390,053	2,476	397,143
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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:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- 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, 2003, the Company's reserves available for distribution consisted of the contributed surplus of HK\$390,053,000 (2002: HK\$390,053,000) and retained profits of HK\$2,476,000 (2002: HK\$2,836,000).

Notes to the Financial Statements

For the year ended 31st December, 2003

22. DEFERRED TAXATION

The Group

The following are the major deferred tax liabilities and asset recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	Others	Tax loss	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January, 2002	177,743	(2,019)	—	175,724
Charge to income (note 9)	8,206	2,019	—	10,225
	_____	_____	_____	_____
Balance at 31st December, 2002 and at 1st January, 2003	185,949	—	—	185,949
Charge (credit) to income (note 9)	10,527	(311)	(76)	10,140
Effect of change in tax rate charge to the income statement (note 9)	17,433	—	—	17,433
	_____	_____	_____	_____
Balance at 31st December, 2003	213,909	(311)	(76)	213,522
	_____	_____	_____	_____

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred tax balances for financial reporting purposes:

	2003	2002
	HK\$'000	HK\$'000
Deferred tax liabilities	213,598	185,949
Deferred tax asset	(76)	—
	_____	_____
	213,522	185,949
	_____	_____

The Company

At the balance sheet date, the Company had unused tax losses of HK\$436,000 (2002: Nil) available for offset against future profits. A deferred tax asset of approximately HK\$76,000 has been recognised.

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, 2003

23. MAJOR NON-CASH TRANSACTIONS

In 2002, the Company 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.

There was no major non-cash transaction during 2003.

24. OPERATING LEASES

The Group as lessee

Minimum lease payment paid under operating leases during the year:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Premises	5,965	6,390
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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	
	2003	2002
	HK\$'000	HK\$'000
Within one year	5,339	5,689
One to two years	1,847	4,417
Two to three years	—	1,247
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	7,186	11,353
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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.

Notes to the Financial Statements

For the year ended 31st December, 2003

24. OPERATING LEASES (CONTINUED)

The Group as lessor

Income from the provision of satellite transponder capacity during the year was HK\$880,375,000 (2002: HK\$936,114,000). The satellite transponder capacity held has 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	
	2003	2002
	HK\$'000	HK\$'000
Within one year	815,641	786,157
One to two years	658,364	657,188
Two to three years	482,654	504,396
Three to four years	375,300	361,138
Four to five years	295,014	329,463
Thereafter	1,093,010	1,390,753
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	3,719,983	4,029,095
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Notes to the Financial Statements

For the year ended 31st December, 2003

25. CAPITAL COMMITMENTS

In 2002, the Group entered into agreements with independent third parties for the construction of a satellite earth station. The estimated total cost for the satellite earth station is HK\$241,379,000. At 31st December, 2003, the capital commitments in respect of the satellite earth station and other assets were as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
AsiaSat 4		
Contracted for but not provided in the financial statements	—	116,473
Authorised but not contracted for	—	11,863
A satellite earth station		
Contracted for but not provided in the financial statements	21,130	101,665
Authorised but not contracted for	28,114	55,369
Other assets		
Contracted for but not provided in the financial statements	168	483
	—————	—————
	49,412	285,853
	—————	—————

The Company had no capital commitments at the balance sheet date (2002: Nil).

Notes to the Financial Statements

For the year ended 31st December, 2003

26. 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 staff's relevant income with a cap of HK\$1,000 per month. 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.

27. CONTINGENT LIABILITIES

Under 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 assessed the Group (including interest as of 21st March, 2001) for income tax of 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, 2002-2003 or 2003-2004 assessment years.

The Indian tax authorities initiated tax recovery measures against the Group in January 2002. In order to expedite the legal proceedings in India and obtain a stay of recovery measures, the Group made a tax payment totalling approximately HK\$19 million (INR120 million) to the Government of India in 2002.

For the year ended 31st December, 2003

27. CONTINGENT LIABILITIES (CONTINUED)

The Income Tax Appellate Tribunal (“the Tribunal”) in the appeal filed for the assessment year 1997-1998 held that the Group is liable for Indian income tax under certain circumstances. The Tribunal directed Indian tax authorities to make a fresh computation of the taxable income. Pursuant to the order of the Tribunal, the tax authorities have prepared a revised computation of tax due on 30th May, 2003. The revised assessment is approximately HK\$20 million (INR115 million). The Group does not believe that it is liable for the Indian income tax as held by the Tribunal and has filed an appeal against the Tribunal’s decision. The tax authorities have also filed an appeal against the Tribunal’s decision. Both the appeals have been admitted by the High Court.

In order to obtain a stay of recovery proceedings, the Group has made a further payment of approximately HK\$5 million (INR30 million) during the year. An additional payment of approximately HK\$1.3 million (INR7.5 million) was made subsequent to the balance sheet date.

In addition, based on the general principles set forth by the Tribunal, the amount of income taxable in India depends on the payment 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. Furthermore, the Group believes it has a reasonable likelihood of success with respect to its appeal. Accordingly, no provision has been recognised for Indian income tax in the Group’s financial statements.

28. 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 plus 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 had a period of three years for drawdown that expired on 24th November, 2003. Since no drawdown was ever made, the loan facility automatically lapsed on 24th November, 2003. Accordingly, the securities pledged to the loan facility are being released.

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29. RELATED PARTY TRANSACTIONS

The Group has entered into an agreement for provision of transponder capacity to a subsidiary of CITIC. CITIC is a substantial 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\$3,782,000 (2002: HK\$4,095,000). In addition, the Group has entered into an agreement with CITIC Technology Company Limited, a subsidiary of CITIC, for collecting money from China customers on behalf of the Company. During the year, the Group has recognised an agency fee of approximately HK\$719,000 (2002: HK\$1,611,000) under this agreement. Included in trade and other receivables was an amount of approximately HK\$11,826,000 (2002: HK\$983,000) due from CITIC Technology Company Limited, and included in other payables and accrued expenses was an amount of approximately HK\$433,000 (2002: HK\$519,000) due to CITIC Technology Company Limited.

Other than that disclosed in note 15, during the year, the Group recognised income from provision of satellite transponder capacity from its associate, SpeedCast, amounting to approximately HK\$20,829,000 (2002: HK\$20,177,000). In addition, the Group recognised interest income on the loan receivable from SpeedCast amounting to approximately HK\$86,000 (2002: Nil). At the balance sheet date, trade and other receivables included an amount of approximately HK\$1,951,000 (2002: Nil) due from SpeedCast.

During the year, a consultancy fee, amounting to HK\$390,000 (2002: HK\$678,000) was paid to SES Astra S.A., a wholly-owned subsidiary of SES GLOBAL. SES GLOBAL was a substantial shareholder of the Company throughout the year. In addition, in 2002, the Group recognised income from provision of satellite transponder capacity amounting to approximately HK\$162,000 from SES AMERICOM, 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\$475,000 (2002: HK\$400,000) and HK\$525,000 (2002: 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.