FINANCIAL REVIEW

Financial results analysis

During the period under review, the Group had a slight decline both in terms of turnover and profit attributable to shareholders. The decline in turnover was mainly due to the proceeds for 1996 sale of Ku-band transponders on AsiaSat 2 that were fully recognised at the end of May 2000, amounting to HK$41 million. The financial results are highlighted below:

		2001	2000	% Change
Turnover	*HK$M*	**477**	513	-7
Profit attributable to shareholders	*HK$M*	**274**	286	-4
Dividend	*HK$M*	**23**	23	—
Earnings per share	*HK cents*	**70**	73	-4
Dividend per share	*HK cents*	**6**	6	—
Dividend cover	*Times*	**12**	12	—

With slow down in the global economies coupled with oversupply of transponder capacity particularly in Ku-band, the Group does not anticipate any significant improvement in the second half.

LIQUIDITY AND FINANCIAL RESOURCES

Sources of financing

The Group's principal use of capital during the period under review was the capital expenditure related to the construction of AsiaSat 4. In addition, the Group also paid HK$26 million for acquisition of leasehold land at Tai Po for the construction of telemetry, tracking and control ("TT&C") facilities. These payments were financed through cash flow from operations.

On 24th November, 2000, the Company and its subsidiary, Asia Satellite Telecommunications Company Limited entered into an agreement with a consortium of banks to provide a secured term loan credit facility of US$250 million (the "Loan Facility") with Asia Satellite Telecommunications Company Limited as borrower and the Company as guarantor. The loan is divided into two tranches, Tranche A for US$100 million and Tranche B for US$150 million. The loan together with cash flow from operations is required to meet the capital expenditure of AsiaSat 4 and other projects. As at 30th June, 2001, there was no outstanding bank loan.

Interest and repayment

The Loan Facility provides that (i) borrowings will bear interest at a rate based on the London Interbank Offered Rate ("LIBOR") plus a margin determined with reference to certain financial ratios achieved, (ii) the Loan Facility will have a term of five years and be repaid in five equal semi-annual instalments, commencing on 24th November, 2003, and (iii) subject to certain conditions, the Group may, without premium or penalty, prepay all or part of its borrowings under the Loan Facility. The Loan Facility provides that the Group must use certain percentage of any Excess Cash Flow (as defined in the Loan Facility) for the purpose of debt servicing under the Loan Facility, paying costs in connection with the construction, launch and insurance of AsiaSat 4 or any replacement satellite, if any, and fulfilling certain capital requirements.

Security

The Loan Facility is secured by the Group's assets, including its existing and future satellites, payments received in respect of transponder utilisation agreements on these satellites and assignments of construction and TT&C contracts relating to the Group's satellites. The Loan Facility is also guaranteed by the Company.

Covenants

The Loan Facility includes covenants customary for agreements of this type, including restrictions on the Group's ability to incur indebtedness, certain restrictions on the Company's ability to pay dividends, restrictions on affiliated transactions, certain financial covenants, covenants with respect to compliance with laws, maintenance of licences and permits required for the Group's business and a requirement that all future transponder utilisation agreements be entered into on an arms-length basis.

Restricted distributions

The Loan Facility provides that the Company may make aggregate annual dividend payments in an amount not exceeding 20% of EBITDA (earnings before interest, tax, depreciation and amortisation) for the relevant financial period or, if lower, 25% of the net profit for the relevant financial period.

CAPITAL STRUCTURE

Funding and treasury policy

The Group adopts conservative treasury policies and exercises tight control over its cash and risk management. Cash is generally placed in short term deposits denominated in U.S. Dollars to meet its capital expenditure. The banking facilities of the Group are largely denominated in U.S. Dollars that can be met by its U.S. Dollar revenue. Thus, the Group does not have any significant currency exposure.

Currencies in borrowings

Currently all the borrowings are denominated in U.S. Dollars.

Interest rates

The interest rate on the Loan Facility is floating and based on LIBOR plus a margin determined with reference to certain financial ratios.

Financial instruments for hedging

Since almost all the revenue of the Group is in U.S. Dollars there is no need to hedge its liabilities, which are also substantially denominated in U.S. Dollars.

Foreign currency investment

The Group does not have any material investment in foreign currencies other than in Hong Kong Dollars.

ORDER BOOK

As at 30th June, 2001, the value of contracts on hand amounted to HK$4,871 million (31st December, 2000: HK$4,672 million), the majority of which will be realised over the next few years. All the contracts are denominated in U.S. Dollars.

SEGMENT INFORMATION

The turnover of the Group, analysed by geographical location of customers, is disclosed in note 4 to the condensed financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2001, the Group had 78 permanent staff (31st December, 2000: 75).

The Group considers its human resources as one of its most valuable assets. The talent pool that the Group draws from overlaps with the telecommunications, information technology and some high-tech equipment vendor industries.

The Group has established a performance based appraisal system. The present remuneration package consists of salaries, housing benefits (applicable to certain grades of employees), discretionary bonuses, share options (again applicable to certain grades of employees) and fringe benefits that are compatible with the market.

Pursuant to the share option scheme of the Company adopted on 3rd June, 1996 (the "Scheme"), the Board of Directors of the Company may grant options to any full time employees of the Company or any of its subsidiaries to subscribe for shares in the Company at the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

The Group does not operate an in-house regular training programme. However, the Group does provide ad hoc training on new developments/facilities and sponsor employees to attend external vocational training that is relevant to their jobs and their career progression.

CHARGES ON GROUP ASSETS

The Group entered into the Loan Facility 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 satellites and a fixed and floating charge over the assets of the Group, including its existing and future satellites. In addition, the loan agreement contains certain financial covenants that, among other things, require the Group to maintain a certain level of net assets, and restrict the Group's amount of borrowings and liabilities.

CAPITAL COMMITMENTS

Details of the capital commitments of the Group are set out in note 13 to the condensed financial statements.

As at 30th June, 2001, the Group had total capital commitments of HK$778 million (31st December, 2000: HK$1,059 million), payable in one to two years, of which HK$469 million (31st December, 2000: HK$745 million) was contracted for but not provided in the financial statements and the remaining HK$309 million (31st December, 2000: HK$314 million) was authorised by the Board but not contracted for.

GEARING RATIO

As at 30th June, 2001, the debt-to-equity gearing ratio (i.e. total bank loans at period-end over shareholders' funds at period-end) was 0:100 (31st December, 2000: 0:100). Had the Loan Facility been fully drawn as at the balance sheet date the ratio would be 42:58.

EXCHANGE RATES AND ANY RELATED HEDGES

During the period, almost all of the Group's revenues, premiums for satellite insurance coverage and debt service and substantially all capital expenditure were denominated in U.S. Dollars. The Group's remaining expenses were primarily denominated in Hong Kong Dollars. As at 30th June, 2001, almost all the Group's transponder utilisation agreements, transponder purchase agreements, borrowings, obligations to construct and launch satellites and to purchase telemetry, tracking and control equipment were denominated in U.S. Dollars. Hence, the Group does not have any significant currency exposure and does not need to hedge.

CONTINGENT LIABILITIES

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 lease payments for transponders used by the Group's customers for purposes of 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 condensed 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$23.4 million (INR131 million) for the assessment year 1997-1998 and approximately HK$25.2 million (INR141 million) for the assessment year 1998-1999. No assessment has yet been made for the 1999-2000 or 2000-2001 assessment years. 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 and has filed appeals for each of the assessment years 1997-1998 and 1998-1999. Since it is not considered probable that the Group will be required to make any settlement in respect of these assessments, no provision has been recognised in these condensed financial statements.

Pursuant to the telemetry, tracking, control and monitoring licence granted by the Chief Executive in Council under the Telecommunications Ordinance (Laws of Hong Kong, Cap 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 channels onboard AsiaSat 4. Asia Satellite Telecommunications Company Limited, as the Licensee, 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.