



AsiaSat's 36.5%-owned SpeedCast offers high speed Internet access, multimedia content distribution and corporate broadcast services via AsiaSat 35.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial review

FINANCIAL RESULTS ANALYSIS

As a result of the global economic continuing slowdown since late 2000, overall demand for transponder capacity declined as economic uncertainty kept existing customers from expanding, while new entrants did not enter the market. The Company, however, was able to minimise the impact of the weak market, and experienced only a slight decline both in terms of turnover and profit attributable to shareholders. The financial results are highlighted below:

		2001	2000	% change
Turnover	HK\$M	969	1,003	-3
Profit attributable to shareholders	HK\$M	563	576	-2
Dividend	HK\$M	78	78	—
Shareholders' funds	HK\$M	2,870	2,385	20
Earnings per share	HK¢	144	148	-3
Dividend per share	HK¢	20	20	—
Dividend cover	Times	7	7	—
Return on shareholders' funds	%	20	24	-17
Net assets per share - book value	HK¢	735	611	20

Liquidity and financial resources

SOURCES OF FINANCING

The Group's principal use of capital during the year under review was the capital expenditure related to the construction of AsiaSat 4. The Group paid HK\$591 million for the purchase of property, plant and equipment. The payments were financed through cash flow from operations.

The Group has put in place a term loan credit facility of US\$250 million (the "Loan Facility") with AsiaSat as the 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. No drawdown was made. As at 31st December, 2001, there was no outstanding bank loan.

LANDING, EDWARDS
AIRFORCE BASE...



LATER AT THE TV STATION

IT MUST HAVE
BEEN AN EXCITING
TRIP. WASN'T SPACE
LONELY?

NO WAY- I WAS CONSTANTLY
IN TOUCH- EVEN WATCHED MY
FAVOURITE TV PROGRAMMES-
THANKS TO ASIASAT!

AsiaSat customers are assured of high reliability and integrity of service applications, anywhere in the Asia Pacific.

INTEREST AND REPAYMENT

The Loan Facility provides that (i) borrowings will bear interest at a rate based on LIBOR (London Interbank Offered Rate) plus a margin between 1.00% to 1.25% per annum depending on the EBITDA (Earnings before interest, tax, depreciation and amortisation) ratio achieved, (ii) the Loan Facility will have a term of five years and will be repaid in five equal semi-annual instalments, starting from November 2003, and (iii) subject to certain conditions, the Company may, without premium or penalty, prepay all or part of its borrowings under the Loan Facility.

SECURITY

The Loan Facility is secured by AsiaSat's assets, including its existing and future satellites, payments received in respect of transponder utilisation agreements on those satellites and assignments of construction and telemetry, tracking and control equipment contracts relating to AsiaSat'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 arm's-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 for the relevant financial year or, if lower, 25% of the net profit for the relevant financial year.

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.



AsiaSat provides coverage across the Asia Pacific region and reaches some 70% of the world's population.

INTEREST RATES

The interest rate on the Loan Facility is floating and based on LIBOR plus a margin between 1.00% to 1.25% per annum depending on the EBIDTA ratio achieved.

FINANCIAL INSTRUMENTS FOR HEDGING

Since 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 Company does not have any material investment in foreign currencies other than in U.S. or Hong Kong Dollars.

Order book

As at 31st December, 2001, the value of contracts on hand amounted to HK\$4,552 million (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.

Investment held

The investment held at the balance sheet date is disclosed in note 16 to the financial statements.

Material acquisitions and disposals of subsidiaries and associated companies

During the year, there were neither material acquisitions nor disposals of subsidiaries and associated companies.

Segmental information

The turnover of the Group, analysed by geographical location of customers, is disclosed in note 5 to the financial statements.

Employees and remuneration policies

As at 31st December, 2001, the Group had 80 permanent staff (2000: 75).

The Group considers its human resources as one of its most valuable assets and responsible for the Company's very creditable performance in 2001. 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.

Employees and remuneration policies (continued)

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 details of the movement and the outstanding share options granted by the Company are disclosed in note 21 to the financial statements.

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

Charge on group assets

AsiaSat 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 AsiaSat, including its existing and future satellites. In addition, the loan agreement contains certain financial covenants that, among other things, require AsiaSat to maintain a certain level of net assets, and restrict AsiaSat's amount of borrowings and liabilities.

Capital commitments

Details of the capital commitments of the Group are set out in note 27 to the financial statements.

As at 31st December, 2001, the Group had total capital commitments of HK\$1,060 million (2000: HK\$1,059 million), payable in one to two years, of which HK\$216 million (2000: HK\$745 million) was contracted for but not provided in the financial statements, and the remaining HK\$844 million (2000: HK\$314 million) was authorised by the Board but not contracted for.

Gearing ratio

As at 31st December, 2001, the debt-to-equity gearing ratio (i.e. total bank loans at year-end over shareholders' funds at year-end) was 0:100 (2000: 0:100). Had the Loan Facility been fully drawn as at the balance sheet date the ratio would have become 40:60.

Exchange rates and any related hedges

During the year, 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 31st December, 2001, almost all of 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 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.

Pursuant to the telemetry, tracking, control and monitoring licence granted by Hong Kong's 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. AsiaSat, 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.