FINANCIAL REVIEW

Financial Results Analysis

During the period under review, the Group experienced a slight decline in turnover but gained a marginal increase in profit attributable to shareholders. The financial results are highlighted below:

		Six months ended 30th June		
		2002	2001	% change
Turnover	*HK$M*	**479**	481	—
Profit attributable to shareholders	*HK$M*	**280**	278	+1
Dividend	*HK$M*	**23**	23	—
Shareholders' funds	*HK$M*	**3,095**	2,609	+19
Earnings per share	*HK cents*	**72**	71	+1
Dividend per share	*HK cents*	**6**	6	—
Dividend cover	*Times*	**12**	12	—
Return on shareholders' funds	*%*	**9**	11	-18
Net assets per share - book value	*HK cents*	**793**	669	+19

With the current market situation and the oversupply of transponder capacity particularly in Ku-band transponders, the Group does not expect an improvement in the second half of the year.

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 and further investment in an associate. In addition, the Group also made progress payments of HK$31 million for the construction of telemetry, tracking and control ("TT&C") facilities at Tai Po. These payments were financed through cash flow from operating activities.

On 24th November, 2000, the Company and its subsidiary, AsiaSat, 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 AsiaSat as the borrower and the Company as the 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 operating activities is required to meet the capital expenditure of AsiaSat 4 and other projects. No drawdown was made of this facility during the period. As at 30th June, 2002, there was no outstanding bank loan.

LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

Interest and Repayments

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) ratios 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. The Loan Facility provides that the Group must use a 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 AsiaSat'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 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 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 between 1.00% to 1.25% per annum depending on the EBITDA ratios achieved.

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

ORDER BOOK

As at 30th June, 2002, the value of contracts on hand amounted to HK$4,083 million (31st December, 2001: HK$4,552 million), the majority of which will be realised over the next few years. Almost all the contracts are denominated in U.S. Dollars.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the period, there were neither material acquisitions nor disposals of subsidiaries and associated companies save for the additional capital contribution to SpeedCast Holdings Limited amounting to US$4 million by way of cash and transponder capacity of US$2.5 million and US$1.5 million respectively. After this, SpeedCast Holdings Limited has become a 45.3% associate of the Group.

SEGMENT INFORMATION

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

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2002, the Group had 82 permanent staff (31st December, 2001: 80).

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 Company's new share option scheme adopted on 25th January, 2002 (the "Share Option Scheme"), the Board of Directors of the Company may grant options to any employees (including officers and directors) of the Company or any of its subsidiaries to subscribe for shares in the Company. The subscription price shall be such a price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant but the subscription price shall not be less than whichever is the higher of (i) the closing price of the shares as stated in The Hong Kong Stock Exchange Limited's (the "Stock Exchange") daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share.

The Group does not operate an in-house regular training programme. However, the Group 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.

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 Group's 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, 2002, the Group had total capital commitments of HK$951 million (31st December, 2001: HK$1,060 million), payable in one to two years, of which HK$267 million (31st December, 2001: HK$216 million) was contracted for but not provided in the financial statements and the remaining HK$684 million (31st December, 2001: HK$844 million) was authorised by the Board but not contracted for.

GEARING RATIO

As at 30th June, 2002, the Company had no debt. Had the Loan Facility been fully drawn as at the balance sheet date the ratio would be 39:61.

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, 2002, 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

At 30th June, 2002, the Group had significant contingencies as follows:

(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 or 2001-2002 assessment years.

The methodology for calculation of the income taxable in India, and the additional tax expense that may be incurred by the Group is still not yet clear. As it is still not possible to estimate the amount payable by the Group, no provision continues to be recognised in these condensed financial statements.

CONTINGENT LIABILITIES (CONTINUED)

The Indian tax authorities have initiated tax recovery measures against the Group. The Group filed appeals for each of the assessment years 1997-1998 and 1998-1999. In order to expedite the legal proceedings in India, the Group has paid deposits totalling approximately HK$19 million (INR120 million) 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 continues to believe that it is not 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 condensed financial statements.

Should AsiaSat be unsuccessful in its assertion that it has no liability in respect of these earlier years, the related obligation (including interest after 21st March, 2001) would need to be recorded thereby reducing its income. Likewise, once the position for the period after 1st April 2001 becomes clear, the liability, if any, for that period will also need to be recorded.

(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. AsiaSat, 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.

CRITICAL ACCOUNTING POLICIES

Revenue from transponder utilisation agreements is recognised on a straight line basis over the period of the agreements. The excess of lease rental revenue recognised on a straight line basis over lease rentals received and receivable from customers in accordance with the contract terms is shown as unbilled lease rental receivable. Revenue from the sale of transponder capacity under transponder purchase agreements is recognised on a straight-line basis from the date of delivery of the transponder capacity until the end of the design life of the satellite. Should a customer terminate their transponder utilisation agreement before the end of the term of the agreement, the Company will have to record a bad debt as a consequence of having had to recognise the income in advance of the contractual payment being due.