Significant investments, their performance and future prospects (continued)

For the year 2002, SpeedCast increased its turnover to HK$12 million (2001: HK$4 million), an increase of 200%. However, the company still incurred a loss of HK$49 million (2001: HK$119 million), but this was a reduction of 59%.

At 31st December, 2002, the book value of the investment in SpeedCast, including goodwill, stood at HK$18 million. In a worst case scenario, this is the maximum exposure that the Group would have to bear.

The participation in SpeedCast is a strategic, long-term investment and, as originally contemplated, the Group does not expect a return from the joint venture in the near term. However, over the longer term, the prospects for SpeedCast remain promising.

Material acquisitions and disposals of subsidiaries and associated companies

During the year, there were neither material acquisitions nor disposals of subsidiaries and associated companies save for the additional capital contribution to SpeedCast 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 investment, SpeedCast 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 financial statements.

Employees and remuneration policies

As at 31st December, 2002, the Group had 83 permanent staff (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

Employees and remuneration policies (continued)

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; or (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 is relevant to their jobs and their career progression.

Charges on group assets

AsiaSat entered into the Loan Facility 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 AsiaSat's 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 25 to the financial statements.

As at 31st December, 2002, the Group had total capital commitments of HK$286 million (2001: HK$1,060 million), of which HK$219 million (2001: HK$216 million) was contracted for but not provided in the financial statements and the remaining HK$67 million (2001: HK$844 million) was authorised by the Board but not contracted for.

Gearing ratio

As at 31st December, 2002, the Company had no debt. Had the Loan Facility been fully drawn down as at the balance sheet date, the debt to equity ratio would have become 37:63.

Exchange rates and any related hedges

During the year, 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 31st December, 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 31st December, 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 had 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, 2001-2002 or 2002-2003 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 and obtain a stay of the recovery measures, the Group made a tax payment totalling approximately HK$19 million (INR120 million) to the Government of India.

In relation to the appeal filed for assessment year 1997-1998, the Income-tax Appellate Tribunal (the "Tribunal") has held that the Group is subject to Indian income tax even prior to 1st April, 2001 in respect of income from the provision of satellite transponder capacity to the Group's customers for the purposes of those customers carrying on business in India or earning income from any source in India. The Tribunal has directed Indian tax authorities to make a fresh computation of taxable income. No revised assessment has been received by the Group to date. The Group does not believe that it is liable for Indian income tax as held by the Tribunal and is planning to file an appeal against the Tribunal's decision.

In addition, based on the general principles set forth by the Tribunal, the amount of income taxable in India depends on the payments 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, if the decision by Tribunal becomes final. Accordingly, no provision has been recognised for Indian income tax in these financial statements.

(b) Pursuant to the telemetry, tracking, control and monitoring licence granted in Hong Kong 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 RECOGNITION

To confirm with the U.S. and Hong Kong GAAP requirements, 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 any customers terminate their transponder utilisation agreements before the end of the term of the agreements, 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.