AsiaSat 4

AsiaSat 4 is based on the Boeing 601 HP, or "high power", version of the body-stabilised spacecraft that incorporates such satellite innovations as Triple Junction Gallium Arsenide (GaAs) solar cells, advanced battery technology, and the latest Xenon-ion Propulsion System (XIPS).

It is the most powerful satellite of the Group. It generates over 10,000 watts of power using two sun-tracking, four-panel, solar arrays consisting of triple junction GaAs solar cells at the beginning of life, and has an operational life of over 15 years, made possible by both liquid bi-propellant and the XIPS propulsion system.

The use of triple junction GaAs solar cells improves the conversion efficiency of the energy in the sun's rays into spacecraft power, thus greatly enhancing AsiaSat 4's in-orbit performance. The XIPS system is needed primarily for North/South station-keeping. It is several times more efficient than conventional chemical propulsion. To ensure the highest levels of quality and reliability, extensive additional testing was conducted by Boeing engineers prior to AsiaSat's acceptance of the satellite.

Financial Review

Overall Performance

The Group recorded a profit attributable to shareholders of HK$240 million (2002: HK$280 million), a decline of 14%. The decline was largely due to the decrease in turnover and an additional provision for deferred tax for prior years, resulting from the increase in tax rate from 16% to 17.5%. This additional provision for current and prior years accounted for half of the decline.

Turnover

Turnover for the period fell by 5% to HK$456 million (2002: HK$479 million). This was in line with expectations considering the soft market and a corresponding increase in pricing pressure.

Cost of Services

Cost of services was HK$123 million (2002: HK$121 million), a slight increase of HK$2 million, or 2%, due to an increase in in-orbit satellite insurance.

Administrative Expenses

Administrative expenses decreased to HK$33 million (2002: HK$42 million), largely due to a lower provision of HK$1 million (2002: HK$8 million) for bad and doubtful debts and a recovery of HK$5 million (2002: Nil).

Other Operating Income

There was little other operating income in 2003.

Bank Interest Income

Interest of HK$3 million (2002: HK$2 million) was generated on short-term deposits.

Share of Results of Associates

The share of loss, including amortisation of goodwill, from an associate increased to HK$12 million. However, if the rental on the transponder capacity leased to the associate were to be taken into account, the net effect to the Group was neutral.

Taxation

The effective tax rate, excluding the provision for deferred tax for prior years, was maintained at approximately 12% (Standard rate in Hong Kong has been increased from 16% to 17.5%). Due to the change in tax rate, the Company has made a catch up provision of HK$17 million on deferred tax for prior years.

Financial Results Analysis

The financial results are highlighted below:

		Six months ended 30th June		
		2003	2002	% Change
Turnover	HK$M	**456**	479	-5
Profit attributable to shareholders	HK$M	**240**	280	-14
Dividend	HK$M	**31**	23	+35
Capital and reserves	HK$M	**3,415**	3,095	+10
Earnings per share	HK cents	**62**	72	-14
Dividend per share	HK cents	**8**	6	+33
Dividend cover	Times	**8**	12	-33
Return on shareholders' funds	%	**7**	9	-22
Net assets per share - book value	HK cents	**875**	793	+10

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 the building of a new Earth Station at Tai Po. These expenditures were financed through cash flow generated 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 generated from operating activities, is required to meet the capital expenditure of AsiaSat 4 and other projects. No drawdown of this facility was made during the period. As at 30th June, 2003, there was no outstanding bank loan.

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 biannual 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 (Tracking, Telemetry and Control) 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. Consent from the lenders is required to be sought for any distribution that exceeds the above limit.

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

ORDER BOOK

As at 30th June, 2003, the value of contracts on hand amounted to HK$3,808 million (31st December, 2002: HK$4,029 million), the majority of which will be realised over the next few years. Almost all the contracts are denominated in U.S. Dollars.

Significant Investments, Their Performance and Future Prospects

At 30th June, 2003, the Group had an interest of 45.3% in SpeedCast Holdings Limited ("SpeedCast").

SpeedCast provides three major services: high-speed Internet connectivity, multimedia content delivery, and corporate broadcast services. SpeedCast expanded its product line by launching two-way networking and Internet connectivity services.

For the period 2003, SpeedCast increased its turnover to HK$13 million (2002: HK$4 million), an increase of more than two times. The company also reduced its loss by 19% to HK$21 million (2002: HK$26 million).

At 30th June, 2003, the book value of the investment in SpeedCast, including goodwill, stood at HK$5 million.

The participation in SpeedCast is a strategic and long-term investment.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the period, there were neither material acquisitions nor disposals of subsidiaries or associated companies.

Segment Information

The turnover of the Group, analysed by location of customers, is disclosed in note 3 to the condensed financial statements.

Employees and Remuneration Policies

As at 30th June, 2003, the Group had 85 permanent staff (31st December, 2002: 83).

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 (applicable to certain grades of employees) and fringe benefits that are compatible with the market.

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 12 to the condensed financial statements.

As at 30th June, 2003, the Group had total capital commitments of HK$99 million (31st December, 2002: HK$286 million), of which HK$50 million (31st December, 2002: HK$219 million) was contracted for but not provided in the financial statements, and the remaining HK$49 million (31st December, 2002: HK$67 million) was authorised by the Board but not contracted for.

GEARING RATIO

As at 30th June, 2003, 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 36:64.

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, 2003, 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 against currency fluctuation.

CONTINGENT LIABILITIES

At 30th June, 2003, the Group had significant contingencies as follows:

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 or 2002-2003 assessment years.

The Group filed appeals for each of the assessment years 1997-1998 and 1998-1999. The Indian tax authorities initiated tax recovery measures against the Group in January 2002. In order to expedite the legal proceeding in India and obtain a stay of the recovery measures, the Group made a tax pre-payment totalling approximately HK$19 million (INR120 million) to the Government of India.

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 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 purpose 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, as stated above, the Group has filed an appeal against the Tribunal's decision. The appeal has been admitted by the High Court and is pending before the Court. Accordingly, no provision has been recognised for Indian income tax in the Group's condensed financial statements.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with Hong Kong GAAP. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. The Company continually evaluates these estimates and judgments, including those related to estimated useful lives of satellites, impairment losses on satellites, allowance for doubtful accounts, and contingent liabilities related to tax assessments from Indian tax authorities. The Company bases these estimates and judgments on its historical experience and other factors that it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company has identified below the accounting policies that are the most critical to its consolidated financial statements.

Useful Lives of In-orbit Satellites

The Company's operations are capital intensive and it has significant investments in satellites. The carrying value of the Company's in-orbit satellites (AsiaSat 2 and AsiaSat 3S) represented 36% of its total assets as of 30th June, 2003 (31st December, 2002: 39%). The Company estimates the useful lives of satellites in order to determine the amount of depreciation expense to be recorded during the reported period. The useful lives are estimated at the time satellites are put into orbit and are based on historical experience with other satellites as well as the anticipated technological evolution or other environmental changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these satellites may need to be shortened, resulting in the recognition of increased depreciation in a future period. Similarly, if the actual lives of satellites are longer than the Company has estimated, the Company would have a smaller depreciation expense. As a result, if the Company's estimations of the useful lives of its satellites are not accurate or are required to be changed in the future, the Company's net income in future periods would be affected.

Realisability of the Carrying Amounts of Long-lived Assets

The Company is required to evaluate at each balance sheet date whether there is any indication that the carrying amounts of long-lived assets (primarily its satellites) may be impaired. If any such indication exists, the Company should estimate the recoverable amount of the long-lived assets. An impairment loss is recognised for the excess of the carrying amount of such long-lived assets over their recoverable amounts. The value in use is the discounted present value of the cash flows expected to arise from the continuing use of long-lived assets and cash arising from its disposal at the end of its useful life. The estimates of the cash flows are based on the terms and period of existing transponder utilisation agreements ("Existing Agreements").

Modifications to the terms of the Existing Agreements that result in shorter utilisation periods than previously agreed and/or those that result in the reduction in agreed rates will result in a lower recoverable amount (if the discount rate used is not changed); which may, in turn, result in a situation wherein the recoverable amounts are less than the carrying amounts (therefore, an impairment loss would need to be recognised).

Allowance for Doubtful Accounts

The Company maintains allowance for doubtful accounts, and for estimated losses that result from the inability of its customers to make the required payments. The Company bases its allowances on the likelihood of recoverability of account receivables based on past experience and current collection trends that are expected to continue. The Company's evaluation also includes the length of time the receivables are past due and the general business environment.

If changes in these factors occur, or the historical data the Company uses to calculate the allowance for doubtful accounts as of 30th June, 2003 does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the Company's future results of operations could be adversely affected.

Contingency Related to Indian Tax Assessments

The issue of Indian tax was covered under Contingent Liabilities above.