Notes to the Condensed Financial Statements

For the six months ended 30th June, 2003

1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") and with Statement of Standard Accounting Practice ("SSAP") 25 *Interim Financial Reporting*.

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2002, except as described below.

In the current period, the Group has adopted, for the first time, the revised Statement of Standard Accounting Practice 12 *Income Taxes* issued by the Hong Kong Society of Accountants ("SSAP 12 (Revised)"), which has resulted in the adoption of the following revised accounting policy.

Income Taxes

In the current period, the Group has adopted SSAP 12 (Revised) *Income Taxes*. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. Turnover

The Group's primary reporting format for segment reporting purposes under SSAP 26 *Segment Reporting* is the geographical basis. However, the Group's operating assets consist primarily of its satellites which are used, or are intended for use, for transmission to multiple geographical areas and therefore cannot be allocated between geographical segments. Accordingly, no geographical analysis of assets and liabilities has been presented.

For the six months ended 30th June, 2003

3. TURNOVER (CONTINUED)

The geographical segments of the operations of the Group are as follows:

The following table provides an analysis of the Group's sales and result by geographical market:

Period ended 30th June, 2003

	Australia	Hong Kong	Greater China, including Taiwan	United States of America	British Virgin Islands	Singapore	United Kingdom	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**18,786**	**166,850**	**103,820**	**35,564**	**20,067**	**7,642**	**12,004**	**90,825**	**455,558**
Result									
Segment result	**12,363**	**109,805**	**68,324**	**23,405**	**13,206**	**5,029**	**7,900**	**59,772**	**299,804**
Other operating income									**80**
Bank interest income									**2,687**
Profit from operations									**302,571**
Share of results of associates									**(9,125)**
Profit before taxation									**293,446**
Taxation									**53,297**
Profit for the period									**240,149**

Period ended 30th June, 2002

	Australia	Hong Kong	Greater China, including Taiwan	United States of America	British Virgin Islands	Singapore	United Kingdom	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	18,554	171,914	103,729	38,402	20,071	12,391	17,526	96,196	478,783
Result									
Segment result	12,245	113,456	68,456	25,344	13,246	8,177	11,566	63,485	315,975
Bank interest income									2,151
Profit from operations									318,126
Share of results of associates									(4,071)
Profit before taxation									314,055
Taxation									34,233
Profit before minority interest									279,822
Minority interest									1
Profit for the period									279,821

4. PROFIT FROM OPERATIONS

	Six months ended 30th June	
	2003	2002
	HK$'000	HK$'000
Profit from operations has been arrived at after charging:		
Depreciation charges in respect of property, plant and equipment	**83,139**	83,400
Amortisation of goodwill arising from acquisition of associates (included within administrative expenses)	**3,250**	2,826

5. TAXATION

	Six months ended 30th June	
	2003	2002
	HK$'000	HK$'000
The charge comprises:		
Hong Kong Profits Tax	**18,475**	25,141
Deferred taxation charge (credit)		
Current year	**5,944**	(8)
Attributable to increase in tax rate for prior years	**17,433**	—
	41,852	25,133
Overseas tax	**11,445**	9,100
	53,297	34,233

A significant portion of the Group's profit is treated as earned outside of Hong Kong and is not subject to Hong Kong Profits Tax. Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the period.

Overseas tax is calculated at approximately 5% to 12% of the gross revenue earned in certain of the overseas jurisdictions.

The Group currently has a tax case with the Indian tax authorities, details of which are set out in note 13.

5. TAXATION (CONTINUED)

The charge for the period can be reconciled to the profit before taxation per the condensed consolidated income statement as follows:

	Six months ended 30th June	
	2003	2002
	HK$'000	HK$'000
Profit before taxation	**293,446**	314,055
Tax at the domestic income tax rate of 17.5% (2002: 16%)	**51,353**	50,249
Tax effect of expenses that is not deductible in determining taxable profit	**3,749**	2,291
Tax effect of income that is not taxable in determining taxable profit	**(12,840)**	(14,092)
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	**17,433**	—
Effect of differing tax rates of subsidiaries and associates operating in other jurisdictions	**(6,398)**	(4,215)
Tax expense for the year	**53,297**	34,233

6. DIVIDEND

On 20th May, 2003, a final dividend of HK$0.19 per share (2002: HK$0.14) and a special dividend of HK$0.25 per share (2002: Nil) were paid to shareholders as the final and special dividends for 2002.

The directors have determined that an interim dividend for 2003 of HK$0.08 per share (2002: HK$0.06) should be paid on 18th November, 2003 to the shareholders on the register of members on 16th October, 2003.

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK$240,149,000 (2002: HK$279,821,000) and on the weighted average of 390,266,000 (2002: 390,266,000) ordinary shares in issue during the period.

The computation of diluted earnings per share presented for the six months ended 30th June, 2002 and 2003 does not assume the exercise of the outstanding options because the exercise price of the Company's options was higher than the average market price for the shares.

8. Additions to Property, Plant and Equipment

The Group spent approximately HK$78,000,000 (2002: HK$79,000,000) and HK$58,000,000 (2002: HK$31,000,000) on the construction and acquisition of a new satellite, AsiaSat 4, and a satellite earth station, respectively.

9. Trade and Other Receivables

	30.6.2003	31.12.2002
	HK$'000	HK$'000
Trade receivables	**74,610**	74,430
Receivable from CITIC Technology Company Limited	**48,609**	983
Other receivables	**463**	352
Deposits and prepayments	**25,259**	20,204
	148,941	95,969

The Group does not normally provide credit terms to its trade customers and the Group usually bills its trade customers quarterly in advance in accordance with its transponder utilisation agreements. The aged analysis of trade receivables is stated as follows:

	30.6.2003	31.12.2002
	HK$'000	HK$'000
0 to 30 days	**28,241**	32,525
31 to 60 days	**6,956**	7,671
61 to 90 days	**9,654**	3,619
91 to 180 days	**20,756**	18,949
181 days or above	**9,003**	11,666
	74,610	74,430

The receivable from CITIC Technology Company Limited ("CitiTech") represents the proceeds collected from the China customers by CitiTech on behalf of the Group, which has not been remitted to the Group as at the interim report date. CitiTech is a subsidiary of China International Trust and Investment Corporation ("CITIC"), which is a major shareholder of the Company throughout the period.

10. SHARE CAPITAL

	Authorised	Issued and fully paid
	HK$'000	HK$'000
Ordinary shares of HK$0.10 each		
Balance at 31st December, 2002 and 30th June, 2003	**55,000**	**39,027**

11. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payments paid under operating leases during the period:

	Six months ended 30th June	
	2003	2002
	HK$'000	HK$'000
Premises	**1,984**	2,198

At 30th June, 2003, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30.6.2003	31.12.2002
	HK$'000	HK$'000
Within one year	**5,100**	5,689
In the second to fifth year inclusive	**3,210**	5,664
	8,310	11,353

Operating lease payments represent rentals payable by the Group for certain of its office and residential premises. Leases are negotiated for an average term of two years.

11. OPERATING LEASE COMMITMENTS (CONTINUED)

The Group as lessor

Income from the provision of satellite transponder capacity during the period was HK$447,863,000 (2002: HK$471,747,000). The satellites of the Group are held for provision of satellite transponder capacity. The satellite transponders have committed users for a range of one to ten years.

At 30th June, 2003, the Group had contracted with customers for the following future minimum lease payments:

	30.6.2003	31.12.2002
	HK$'000	HK$'000
Within one year	**800,074**	786,157
In the second to fifth year inclusive	**1,802,241**	1,852,185
After five years	**1,205,501**	1,390,753
	3,807,816	4,029,095

12. CAPITAL COMMITMENTS

At 30th June, 2003, the capital commitments in respect of AsiaSat 4 and other assets are as follows:

	30.6.2003	31.12.2002
	HK$'000	HK$'000
AsiaSat 4		
Contracted for but not provided in the financial statements	**—**	116,473
Authorised but not contracted for	**—**	11,863
A satellite earth station		
Contracted for but not provided in the financial statements	**49,483**	101,665
Authorised but not contracted for	**49,348**	55,369
Other assets		
Contracted for but not provided in the financial statements	**381**	483
	99,212	285,853

13. 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 proceedings in India and obtain a stay of recovery measures, the Group made a tax pre-payment totalling approximately HK$19 million (INR120 million) to the Government of India.

13. Contingent Liabilities (continued)

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 payment 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. 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.

14. Pledge of assets

On 24th November, 2000, the Group signed an agreement for a US$250 million loan facility with a consortium of banks 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 the existing satellites and a fixed and floating charge over the assets of the Group. The interest rate of this loan is floating and based on London Interbank Offered Rate ("LIBOR") plus a margin between 1.00% to 1.25% per annum depending on certain financial ratios achieved by the Group. Borrowings under the loan are repayable in five equal biannual prepayments of principal and interest commencing in November 2003. In addition, the loan agreement contains certain financial covenants, which, among other things, requires the Group to maintain a certain level of net assets and cash flow ratios, restricts dividend payments, and the Group's amount of borrowings and liabilities. The loan facility has not been drawn down at 31st December, 2002 or 30th June, 2003.