
13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (*Cont'd*)

Cost of Sales

Total cost of sales increased by RM170.3 million, or 29.1 per cent., from RM585.8 million in fiscal 2000 to RM756.1 million in fiscal 2001 mainly as a result of increases in the cost of sales in the multi-channel subscription television and radio segments.

Multi-channel Subscription Television. The cost of sales for the multi-channel subscription television segment increased by RM159.1 million, or 28.6 per cent., from RM555.7 million in fiscal 2000 to RM714.8 million in fiscal 2001. The increase in cost of sales was mainly attributable to increases in programme provider fees, cost of set-top boxes, printing costs of ASTRO Guide and staff related costs, which were partially offset by a decline in depreciation for transponder lease.

As a result of the growth in the subscriber base, programme provider fees increased by RM62.3 million, or 64.6 per cent., from RM96.5 million in fiscal 2000 to RM158.8 million in fiscal 2001, cost of sales of set-top boxes increased by RM104.2 million, or 57.6 per cent., from RM181.0 million in fiscal 2000 to RM285.2 million in fiscal 2001, and, the printing costs of the ASTRO Guide increased by RM6.9 million, or 101.5 per cent. from RM6.8 million in fiscal 2000 to RM13.7 million in fiscal 2001. The growth in subscriber base was primarily due to a change in the distribution strategy of set-top boxes in the third quarter of fiscal 2000 as described below in the discussions of fiscal 2000. This change resulted in a full year impact in fiscal 2001 compared to only a one quarter impact in fiscal 2000.

Staff related costs increased by RM5.7 million, or 15.8 per cent., from RM36.1 million in fiscal 2000 to RM41.8 million in fiscal 2001 as a result of increased headcount and salary increment.

These increases were partially offset by a decline in depreciation of satellite transponder lease by RM28.2 million, or 56.5 per cent., from RM49.9 million in fiscal 2000 to RM21.7 million in fiscal 2001 following the termination of the MEASAT-2 ("M-2") satellite transponder lease agreement in January 2000 and the consequent write-off of M-2 transponder lease assets. Originally, in August 1997, 9 Ku-band transponders on the M-2 satellite were leased from BSS to support the regional expansion plans on the multi-channel subscription television services in Asian countries outside of Malaysia.

However, due to the Asian economic crisis and delays and suspension of the regional expansion plans in Indonesia and Taiwan, the regional plans were scaled back. Consequently, an agreement was entered into with BSS to terminate the M-2 transponder lease agreement effective 30 January 2000.

Radio. The cost of sales for the radio segment increased by RM6.3 million, or 41.2 per cent., from RM15.3 million in fiscal 2000 to RM21.6 million in fiscal 2001. The increase was mainly due to increases in costs which are variable and linked to advertising revenue such as broadcast licenses, copyright fees and management and intellectual property fees.

Others. Other cost of sales expense increased RM4.9 million, or 33.1 per cent., from RM14.8 million in fiscal 2000 to RM19.7 million in fiscal 2001, representing increased depreciation of property, plant and equipment and staff related costs.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Gross Loss

As a result of the foregoing, AAAN Bermuda's gross loss decreased by RM53.7 million, or 26.7 per cent., from a gross loss of RM201.1 million in fiscal 2000 to a gross loss of RM147.4 million in fiscal 2001. This improvement was mainly attributable to the narrowing of the gross loss in the multi-channel subscription television segment by RM41.0 million, or 20.1 per cent., from RM203.8 million in fiscal 2000 to RM162.8 million in fiscal 2001; the improvement in gross profit from the radio segment, which increased by RM16.2 million, or 100.0 per cent., from RM16.2 million in fiscal 2000 to RM32.4 million in fiscal 2001; partially offset by an increase in gross loss from the others segment of RM3.5 million, or 25.9 per cent., from RM13.5 million in fiscal 2000 to RM17.0 million in fiscal 2001.

Other Operating Income

Other operating income decreased by RM100.8 million from RM106.2 million in fiscal 2000 to RM5.4 million in fiscal 2001 as a result of a gain of RM97.9 million recognised in fiscal 2000 due to the termination of the M-2 transponder lease agreement in January 2000. The termination resulted in the removal of the remaining net book value of the transponder asset of RM237.8 million, and the lease obligations under the transponder lease agreement of RM395.2 million net of a termination fee of approximately RM59.5 million payable to BSS.

Marketing and Distribution Costs

Total marketing and distribution costs increased by RM22.0 million, or 31.0 per cent., from RM71.0 million in fiscal 2000 to RM93.0 million in fiscal 2001 as a result of increases in marketing and market research expenses, selling and distribution expenses and staff related costs.

Marketing and market research expenses increased by RM11.6 million, or 29.1 per cent., from RM39.9 million in fiscal 2000 to RM51.5 million in fiscal 2001 primarily as a result of higher media advertising and production expenses, increased promotional expenses due to the Sydney 2000 Olympics and a higher number of promotions in fiscal 2001.

Selling and distribution expenses increased by RM6.1 million, or 75.3 per cent., from RM8.1 million in fiscal 2000 to RM14.2 million in fiscal 2001 as a result of increased activation incentives paid to retailers and master distributors in line with the growth in subscriber base.

Staff related costs increased by RM2.1 million, or 14.1 per cent., from RM14.9 million in fiscal 2000 to RM17.0 million in fiscal 2001 as a result of increased headcount.

Administrative Expenses

Total administrative expenses increased by RM31.1 million, or 19.9 per cent., from RM156.3 million in fiscal 2000 to RM187.4 million in fiscal 2001, primarily as a result of a write-off of expenditure related to a proposed NASDAQ listing cost amounting to RM16.5 million in fiscal 2001 and increases in allowances for bad and doubtful debts, insurance premiums and office and general expenses. The increase in the allowance for doubtful debts by RM5.3 million, or 189.3 per cent., from a write-back of an allowance of RM2.8 million in fiscal 2000 to an allowance of RM2.5 million in fiscal 2001 was due to a RM3 million reversal in fiscal 2000 of allowance for doubtful debts made in fiscal 1999 for transponder sublease receivables from Liann Yee Productions Co. Ltd of Taiwan. Insurance premiums increased by RM4.5 million, or 61.6 per cent., from RM7.3 million in fiscal 2000 to RM11.8 million in fiscal 2001 as a result of the increase in the Satellite Transponder Insurance policy premiums in fiscal 2001. In addition, office and general expenses increased by RM1.2 million, or 10.6 per cent., from RM11.3 million in fiscal 2000 to RM12.5 million in fiscal 2001 due to increases in warehousing and distribution costs and staff costs increased by RM4.2 million, or 14.1 per cent., from RM29.7 million in fiscal 2000 to RM33.9 million in fiscal 2001 due to annual salary increment.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

These were partially offset by the decrease in maintenance cost of RM4.8 million, or 43.2 per cent., from RM11.1 million in fiscal 2000 to RM6.3 million in fiscal 2001 as we incurred higher expenses to address the Y2K computer compliance issue in fiscal 2000.

Net Finance Costs

Net finance costs increased by RM62.9 million, or 109.8 per cent., from RM57.3 million in fiscal 2000 to RM120.2 million in fiscal 2001, primarily as a result of RM13.4 million finance costs incurred in relation to rescheduled lease payments in fiscal 2001, as compared to a finance income arising from the rescheduled lease payments of RM16.9 million in fiscal 2000, increase in interest expense on bank borrowings and other finance costs such as debt establishment costs in relation to the PDS and ECA facilities obtained in March and June 2000 respectively, finance costs in respect of the "A Series" RCPS and "B Series" RCPS issued during fiscal 2001 and interest expense payable to vendors under the vendor financing scheme for the purchase of set-top boxes. In addition, there were foreign exchange gains of RM11.0 million in fiscal 2000 as a result of the introduction of a fixed exchange rate of RM3.80 to U.S.\$1.00 on 2 September 1998, reflecting the general stabilisation of the Ringgit against foreign currencies in line with the introduction of the fixed exchange rate for Ringgit to U.S.\$.

These increases were partially offset by decreases in finance costs for the finance lease due to the termination of M-2 transponder lease on 30 January 2000 and finance costs on the corporate shareholders' advances due to repayment of RM69.7 million during fiscal 2001.

Losses from Investment in Associates

AAAN Bermuda's share of results in associates deteriorated by RM77.0 million from a net loss of RM3.3 million in fiscal 2000 to RM80.3 million in fiscal 2001. This decline was attributable to the impact of the impairment made in AAAN Bermuda's investments in Hsin-Chi Broadcast Co. Ltd. in Taiwan and TVB Publishing Holding Ltd. in Hong Kong of RM9.6 million and RM32.3 million respectively in fiscal 2001, and higher share of losses in associates of RM34.9 million in fiscal 2001 compared to a share of loss in associates of RM3.3 million in fiscal 2000.

Fiscal 2000 Compared to Fiscal 1999

Revenue

Revenue increased by RM146.3 million, or 61.3 per cent., from RM238.5 million in fiscal 1999 to RM384.8 million in fiscal 2000. This increase was mainly attributable to the increases in revenue from the multi-channel subscription television and radio businesses which accounted for 91.5 per cent. and 8.2 per cent. of total revenue respectively in fiscal 2000.

Multi-channel Subscription Television. Total revenue for the multi-channel subscription television segment increased by RM130.8 million, or 59.2 per cent., from RM221.1 million in fiscal 1999 to RM351.9 million in fiscal 2000. This increase was mainly attributable to an increase in sales of set-top boxes, subscription revenue and sales of advertising.

Sales of set-top boxes increased by RM88.2 million, or 541.1 per cent., from RM16.3 million in fiscal 1999 to RM104.5 million in fiscal 2000 as a result of the increase in sales of set-top boxes through AAAN Bermuda's own sales and distribution network from the launch of the second generation set-top boxes in September 1999. Sales of set-top boxes via AAAN Bermuda's own sales team and distribution channel was approximately 155,000 units in fiscal 2000, an increase of approximately 139,000 units from approximately 16,000 units sold in fiscal 1999. In fiscal 1999, approximately 44,000 units were sold through the distribution network of AAAN Bermuda's then sole supplier of set-top boxes.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Subscription revenue increased by RM28.6 million, or 16.0 per cent., from RM178.3 million in fiscal 1999 to RM206.9 million in fiscal 2000 as a result of an increase in the residential subscriber base with net addition of 114,135 in fiscal 2000. The growth in subscribers was substantially contributed by the launch of the new second generation set-top boxes in September 1999. The increase in subscription revenue was partially offset by the decrease in ARPU from RM84 per subscriber per month for fiscal 1999 to RM80 for fiscal 2000 mainly due to the impact of subscription rebates given to new subscribers as incentives in line with the introduction of channel packaging line-up in November 1999. As at the end of fiscal 2000, AAAN Bermuda had 296,923 residential subscribers, 12,965 multiple residential subscriptions and 30,141 non-residential subscriptions. Sales from advertising increased by RM8.4 million, or 39.2 per cent., from RM21.4 million in fiscal 1999 to RM29.8 million in fiscal 2000, reflecting increased advertising rates and increased demand for airtime from advertisers due to increase in subscriber base for multi-channel subscription television service.

Radio. Total revenue from the radio segment increased by RM14.8 million, or 88.6 per cent., from RM16.7 million in fiscal 1999 to RM31.5 million in fiscal 2000. Inventory fill rate increased from approximately 16 per cent. in fiscal 1999 to 32 per cent. in fiscal 2000.

Others. Total revenue from others segment increased by RM0.6 million, or 85.7 per cent., from RM0.7 million in fiscal 1999 to RM1.3 million in fiscal 2000 as a result of increased revenue from multi-media interactive services.

Cost of Sales

Total cost of sales increased by RM161.4 million, or 38.0 per cent., from RM424.4 million in fiscal 1999 to RM585.8 million in fiscal 2000 mainly as a result of increases in the cost of sales in the multi-channel subscription television segment.

Multi-channel Subscription Television. The cost of sales for the multi-channel subscription television segment increased by RM161.3 million, or 40.9 per cent., from RM394.4 million in fiscal 1999 to RM555.7 million in fiscal 2000. This increase in cost of sales was mainly attributable to increases in cost of set-top boxes, amortisation of programme stocks and programme provider fees. As a result of growth in subscriber base, the cost of set-top boxes increased by RM130.0 million, or 254.9 per cent., from RM51.0 million in fiscal 1999 to RM181.0 million in fiscal 2000, while programme provider fees increased by RM7.1 million, or 7.9 per cent., from RM89.4 million in fiscal 1999 to RM96.5 million in fiscal 2000. The growth in subscriber base was primarily due to a change in the distribution strategy of set-top boxes such that commencing in the third quarter of fiscal 2000, set-top boxes were purchased from two suppliers and sold through AAAN Bermuda's own sales and distribution network and a network of independent distributors and retailers. AAAN Bermuda sold approximately 155,000 units of set-top boxes in fiscal 2000 compared to approximately 16,000 units sold through AAAN Bermuda's sales and distribution network. Prior to this period, set-top boxes were imported by AAAN Bermuda's then sole supplier of set-top boxes and sold through their distribution network into the market and for those set-top boxes sold through their network. AAAN Bermuda incurred only that portion of set-top box costs that the supplier did not recover from the market. Approximately 44,000 units were sold through the distribution network of AAAN Bermuda's then sole supplier of set-top boxes in fiscal 1999.

Amortisation of programme stocks increased by RM12.8 million, or 15.4 per cent., from RM83.2 million in fiscal 1999 to RM96.0 million as a result of the higher programme acquisition for the locally packaged channels and increased cost of sports rights.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(Cont'd)*

Radio. The cost of sales for the radio segment decreased by RM0.6 million, or 3.8 per cent., from RM15.9 million in fiscal 1999 to RM15.3 million in fiscal 2000. The decrease was mainly due to a reduction in transmission carrier costs of RM1.2 million or 16.7 per cent. from RM7.2 million in fiscal 1999 to RM6.0 million in fiscal 2000 arising from the early payment discount granted by Telekom (M) Berhad.

Others. Other cost of sales expense increased by RM0.7 million, or 5.0 per cent., from RM14.1 million in fiscal 1999 to RM14.8 million in fiscal 2000, representing increased amortisation of film library.

Gross Loss

As a result of the foregoing, AAAN Bermuda's gross loss increased by RM15.2 million, or 8.2 per cent., from a gross loss of RM185.9 million in fiscal 1999 to a gross loss of RM201.1 million in fiscal 2000. This deterioration was mainly attributable to the increase of the gross loss in the multi-channel subscription television segment by RM30.6 million, or 17.7 per cent., from RM173.2 million in fiscal 1999 to RM203.8 million in fiscal 2000; partially offset by an improvement in gross profit from the radio segment, which increased RM15.4 million, from RM0.8 million in fiscal 1999 to RM16.2 million in fiscal 2000; while the gross loss from the others segment increased by RM0.1 million, or 0.7 per cent., from RM13.4 million in fiscal 1999 to RM13.5 million in fiscal 2000.

Other Operating Income

Other operating income increased by RM71.7 million from RM34.5 million in fiscal 1999 to RM106.2 million in fiscal 2000 as a result of a gain of RM97.9 million recognised in fiscal 2000 as a result of the termination of the M-2 transponder lease agreement in January 2000. In fiscal 1999, rental income of approximately RM31.7 million was recognised from 2 subleases on the M-2 transponders to Liann Yee Productions Co. Ltd of Taiwan on behalf of Hsin-Chi, a related party and Pacific Cable & DTU Systems Inc., a local joint venture partner in Philippines. However, due to the uncertain nature of the receivables as a result of the changes in regulations in Taiwan and the Asian economic crisis, full allowances on the outstanding receivables were made in fiscal 1999. No rental income was recognised in fiscal 2000 as the subleases were terminated in line with the termination of the M-2 transponder lease agreement.

Marketing and Distribution Costs

Total marketing and distribution costs increased by RM20.8 million, or 41.4 per cent., from RM50.2 million in fiscal 1999 to RM71.0 million in fiscal 2000 as a result of increases in marketing and market research expenses and selling and distribution expenses.

Marketing and market research expenses increased by RM13.9 million, or 53.5 per cent., from RM26.0 million in fiscal 1999 to RM39.9 million in fiscal 2000 primarily as a result of increased marketing activities associated with the launch of second generation set-top boxes in fiscal 2000 and the introduction of new channel packaging line-up in November 1999.

Selling and distribution expenses increased by RM7.8 million, from RM0.3 million in fiscal 1999 to RM8.1 million in fiscal 2000 as a result of increased activation incentives paid to retailers and master distributors and higher sales incentives incurred for multi-channel subscription television sales.

Staff-related costs declined marginally by RM0.5 million, or 3.2 per cent., from RM15.4 million in fiscal 1999 to RM14.9 million in fiscal 2000.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Administrative Expenses

Total administrative expenses increased by RM18.5 million, or 13.4 per cent., from RM137.8 million in fiscal 1999 to RM156.3 million in fiscal 2000 primarily as a result of increases in professional and consultancy fees, maintenance costs and office and general expenses. The increase in the professional and consultancy fees of RM25.6 million or 71.3 per cent., from RM35.9 million in fiscal 1999 to RM61.5 million in fiscal 2000, was primarily attributable to legal fees incurred in relation to an arbitration dispute with one of AAAN Bermuda's suppliers which was settled in June 2001 and consultancy fees to address the Y2K readiness project in fiscal 2000. Maintenance costs increased by RM10.3 million, or 1,287.5 per cent., from RM0.8 million in fiscal 1999 to RM11.1 million in fiscal 2000 as a result of the maintenance of broadcast equipment following the expiry of equipment warranties and costs related with addressing the Y2K computer compliance issue in fiscal 2000. Office and general expenses increased by RM4.7 million, or 71.2 per cent., from RM6.6 million in fiscal 1999 to RM11.3 million in fiscal 2000, resulting from an increase in warehousing and distribution costs associated with the increased sales of set-top boxes.

The increase was partially offset by a decrease in allowance for doubtful debts by RM24.1 million from an allowance of RM21.3 million in fiscal 1999 to a write-back of allowance of RM2.8 million in fiscal 2000 due to a one-off allowance made in fiscal 1999 of RM20.4 million for outstanding transponder sublease receivables from Liann Yee Productions Co. Ltd of Taiwan on behalf of Hsin-Chi, a related party and Pacific Cable & DTU Systems Inc., a local joint venture partner in Philippines. However, due to the uncertain nature of the receivables as a result of the changes in regulations in Taiwan and the Asian economic crisis, full allowances on the outstanding receivables were made in fiscal 1999.

Net Finance Income/Costs

Net finance costs increased by RM171.4 million from a net finance income of RM114.1 million in fiscal 1999 to a net finance cost of RM57.3 million in fiscal 2000. The net finance income in fiscal 1999 was primarily due to the recognition of unrealised foreign exchange gain of RM205.9 million related to the U.S.\$ denominated debt represented by the transponder leases liabilities and to a lesser extent, foreign currency liabilities on contracts such as internationally sourced programming and equipment. The gain reflects the introduction of a fixed exchange rate of RM3.80 to U.S.\$1.00 on 2 September 1998. As a result of the fixed exchange rate established by the Malaysian Central Bank, the Ringgit appreciated against the U.S.\$ from September 1998.

The increases in finance costs were partially offset by finance income arising from the rescheduled lease payments of RM16.9 million recognised in fiscal 2000, decreases in interest expenses on finance leases, bank borrowings due to lowering of effective interest rate charged on the revolving credit facility and corporate shareholder's advances.

Losses from Investment in Associates

AAAN Bermuda's share of results in associates improved by RM4.0 million or 54.8 per cent, from a net loss of RM7.3 million in fiscal 1999 to RM3.3 million in fiscal 2000. RM3.0 million of these losses in fiscal 2000 relate to a 35.7 per cent. share in the losses of Hsin-Chi while the balance of RM0.3 million loss was attributable to a 48.9 per cent. share in the losses of Kristal-ASTRO.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

CELESTIAL PICTURES

Overview

Since commencing commercial operations in fiscal 2001, Celestial Pictures has achieved increasing revenue recognising RM0.7 million in fiscal 2001, RM3.4 million in fiscal 2002 and RM8.3 million in fiscal 2003. Substantially all of Celestial Pictures' revenues have come from sales of VCD and DVD versions of its films and licensing income. Cost of sales mainly comprises amortisation expenses related to the films it releases.

Results of Operations of Celestial Pictures

	←----- Year ended 31 January ----->				
	1999	2000	2001	2002	2003
	RM 000	RM 000	RM 000	RM 000	RM 000
Revenue	-	-	733	3,438	8,284
Cost of sales	-	-	(696)	(4,093)	(14,558)
Gross profit/(loss)	-	-	37	(655)	(6,274)
Marketing and distribution costs	-	-	(480)	(980)	(4,863)
Administrative expenses	(64)	(13)	(2,008)	(8,735)	(31,330)
Loss from operations	(64)	(13)	(2,451)	(10,370)	(42,467)
Finance cost (net)	-	-	(811)	(661)	(2,012)
Loss from ordinary activities before taxation	(64)	(13)	(3,262)	(11,031)	(44,479)
Taxation	-	-	-	-	-
Net loss	(64)	(13)	(3,262)	(11,031)	(44,479)

Fiscal 2003 Compared to Fiscal 2002

Revenue

Revenue increased by RM4.9 million, or 144.1 per cent., from RM3.4 million in fiscal 2002 to RM8.3 million in fiscal 2003. This increase was mainly attributable to an increase in sales of video products of RM5.8 million due to the release of 43 films from the Shaw Brothers' Library.

Cost of Sales

Total cost of sales increased by RM10.5 million, or 256.1 per cent., from RM4.1 million in fiscal 2002 to RM14.6 million in fiscal 2003 mainly as a result of an increase of RM9.0 million in amortisation costs, from RM4.1 million in fiscal 2002 to RM13.1 million in fiscal 2003, related to 43 films released in fiscal 2003.

Gross Loss

As a result of the foregoing, Celestial Pictures' gross loss increased by RM5.6 million from RM0.7 million in fiscal 2002 to RM6.3 million in fiscal 2003.

Marketing and Distribution Costs

Total marketing and distribution costs increased by RM3.9 million, or 390.0 per cent., from RM1.0 million in fiscal 2002 to RM4.9 million in fiscal 2003. These increases were mainly attributable to advertising and distribution costs related to the release of 43 films in fiscal 2003.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Administrative Expenses

Total administrative expenses increased by RM22.6 million, or 259.8 per cent. from RM8.7 million in fiscal 2002 to RM31.3 million in fiscal 2003, mainly due to increases in headcount which raised staff costs from RM3.9 million in fiscal 2002 to RM13.6 million in fiscal 2003, as well as increases in legal and professional fees of RM4.0 million as a result of additional licensing and distribution contracts.

Net Finance Costs

Net finance costs increased by RM1.3 million, or 185.7 per cent., from RM0.7 million in fiscal 2002 to RM2.0 million in fiscal 2003, primarily as a result of increases in interest expense paid on borrowings.

Fiscal 2002 Compared to Fiscal 2001

Revenue

Revenue increased by RM2.7 million, or 385.7 per cent., from RM0.7 million in fiscal 2001 to RM3.4 million in 2002. This increase was mainly attributable to the release of two films in fiscal 2002 from one film in fiscal 2001.

Cost of Sales

Total cost of sales increased by RM3.4 million, or 485.7 per cent., from RM0.7 million in fiscal 2001 to RM4.1 million in fiscal 2002, mainly as a result of an increase of RM3.9 million in amortisation costs from RM0.2 million in fiscal 2001 to RM4.1 million in fiscal 2002 for the two films released in fiscal 2002.

Gross Loss

As a result of the foregoing, Celestial Pictures' gross profit decreased by RM0.7 million from a gross profit of RM0.04 million in fiscal 2001 to a gross loss of RM0.7 million in fiscal 2002.

Marketing and Distribution Costs

Total marketing and distribution costs increased by RM0.5 million, or 100.0 per cent., from RM0.5 million in fiscal 2001 to RM1.0 million in fiscal 2002. These increases were mainly attributable to publicity costs surrounding the release of two films in fiscal 2002.

Administrative Expenses

Total administrative expenses increased by RM6.7 million, or 335.0 per cent. from RM2.0 million in fiscal 2001 to RM8.7 million in fiscal 2002, mainly due to increases in staff costs from RM1.5 million in fiscal 2001 to RM3.9 million in fiscal 2002.

Net Finance Costs

Net finance costs decreased by RM0.1 million, or 12.5 per cent., from RM0.8 million in fiscal 2001 to RM0.7 million in fiscal 2002 primarily as a result of a reduction in interest expense on borrowings.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Liquidity and Capital Resources

AAAN Bermuda and MEASAT Cash Flows

The following table sets forth (i) AAAN Bermuda's consolidated statements of cash flows for fiscal years 2001, 2002 and 2003 and (ii) MEASAT's consolidated statements of cash flows for fiscal years 1999 and 2000.

	<--- MEASAT --->		<----- AAAN Bermuda ----->				
	<----- Year ended 31 January ----->						For six months ended 31
	1999 RM 000	2000 RM 000	2001 RM 000	2002 RM 000	2003 RM 000	July 2003 RM 000	
Net cash (used in)/from operating activities	(187,382)	(141,074)	(382,129)	22,434	286,060	54,055	
Net cash used in investing activities	(59,735)	(28,936)	(110,282)	(21,550)	(27,103)	(25,680)	
Net cash from/(used in) financing activities	259,884	191,992	513,414	50,284	(198,870)	(35,346)	
Net effect of foreign currency translation on cash and cash equivalents	683	-	-	(65)	(57)	(133)	
Net increase/(decrease) in cash and cash equivalents	13,450	21,982	21,003	51,103	60,030	(7,104)	

Fiscal 2003 Compared to Fiscal 2002

Net cash from operating activities increased by RM263.7 million from RM22.4 million in fiscal 2002 to RM286.1 million in fiscal 2003. The increase was primarily due to improvements in cash flows from operating activities (net loss/profit adjusted for non-cash items) of RM70.8 million and an increase in working capital of RM187.7 million as a result of increase in payables and provision for liabilities and charges, partially offset by an increase in inventories, receivables and prepayments.

Net cash used in investing activities increased by RM5.5 million or 25.5 per cent from RM21.6 million in fiscal 2002 to RM27.1 million in fiscal 2003. The increase was primarily attributable to purchases of equipment, fixtures and fittings, and software and this was partially offset by disposals of broadcast and transmission equipment during fiscal 2003.

Net cash used in financing activities increased by RM249.2 million from a net cash inflow of RM50.3 million in fiscal 2002 to a net cash outflow of RM198.9 million in fiscal 2003. The increase was primarily due to the utilisation of funds for payments of lease rentals and interests on the finance lease as well as repayment of borrowings. There was no cash inflow in fiscal 2003 while in fiscal 2002, there was a receipt of a RM125 million advance from a corporate shareholder.

As a result of the above factors, cash and cash equivalents for fiscal 2003 increased by RM60.0 million.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (*Cont'd*)

Fiscal 2002 Compared to Fiscal 2001

Net cash from operating activities increased by RM404.5 million from net cash outflow of RM382.1 million in fiscal 2001 to a net cash inflow of RM22.4 million in fiscal 2002. The increase was primarily due to improvements in cash flows from operating activities (net loss adjusted for non-cash items) of RM233.5 million and an increase in working capital of RM176.4 million in fiscal 2002, as a result of increase in payables and decrease in inventories in fiscal 2002.

Net cash used in investing activities decreased by RM88.7 million or 80.4 per cent from RM110.3 million in fiscal 2001 to RM21.6 million in fiscal 2002. The decrease was primarily attributable to higher purchases of equipment, fixtures and fittings and software in fiscal 2001. In addition, in fiscal 2001, AAAN Bermuda invested RM57.2 million in two associates, TVBPH and Kristal-ASTRO.

Net cash inflow from financing activities decreased by RM463.1 million or 90.2 per cent from RM513.4 million in fiscal 2001 to RM50.3 million in fiscal 2002. The decrease was principally due to lower cash inflow from lower drawdown of the ECA and PDS facilities in fiscal 2002. There was no RCPS issued in fiscal 2002 while in fiscal 2001, the "A Series" RCPS and "B Series" RCPS were issued.

As a result of the above factors, cash and cash equivalents for fiscal 2002 increased by RM51.1 million.

Fiscal 2001 Compared to Fiscal 2000

Net cash used in operating activities increased by RM241.0 million from RM141.1 million in fiscal 2000 to RM382.1 million in fiscal 2001. The increase was primarily due to increase in cash flows used in operating activities (net loss adjusted for non-cash items) of RM49.9 million and decrease in working capital of RM192.3 million mainly as a result of decrease in payables.

Net cash used in investing activities increased by RM81.4 million from RM28.9 million in fiscal 2000 to RM110.3 million in fiscal 2001. The increase was primarily attributable to increase in purchases of property, plant and equipment and software during fiscal 2001. In addition, in fiscal 2001, AAAN Bermuda invested RM57.2 million in TVBPH.

Net cash from financing activities increased by RM321.4 million from RM192.0 million in fiscal 2000 to RM513.4 million in fiscal 2001. The increase was primarily due to higher cash inflow from drawdowns of the ECA and PDS facilities and the issuance of "A Series" RCPS and "B Series" RCPS in fiscal 2001.

As a result of the above factors, cash and cash equivalents for fiscal 2001 increased by RM21.0 million.

Fiscal 2000 Compared to Fiscal 1999

Net cash used in operating activities decreased by RM46.3 million from RM187.4 million in fiscal 1999 to RM141.1 million in fiscal 2000. The decrease was primarily due to increase in working capital of RM125.9 million as a result of increase in payables and was partially offset by increase in cash flows used in operating activities (net loss adjusted for non-cash items) of RM77.7 million.

Net cash used in investing activities decreased by RM30.8 million from RM59.7 million in fiscal 1999 to RM28.9 million in fiscal 2000. The decrease was attributable to the investment of RM43.9 million in an associate, Hsin-Chi Broadcast Co. Ltd. This was partially offset by proceeds of RM11.7 million arising from disposal of property, plant and equipment in fiscal 1999. There was no disposal of property, plant and equipment in fiscal 2000.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Net cash from financing activities decreased by RM67.9 million from RM259.9 million in fiscal 1999 to RM192.0 million in fiscal 2000. The decrease was primarily due to the utilisation of funds for payment of lease rentals. In addition, in fiscal 1999, there were proceeds of RM105.0 million arising from issuance of ordinary shares and advances of RM132.0 million from a corporate shareholder.

As a result of the above factors, cash and cash equivalents for fiscal 2000 increased by RM22.0 million.

Celestial Pictures Cash Flows

The following table sets forth Celestial Pictures consolidated cash flow statements for fiscal years 2001, 2002 and 2003.

	← Year ended 31 January →			For six months ended
	2001	2002	2003	31 July 2003
	RM 000	RM 000	RM 000	RM 000
Net cash used in operating activities	(2,021)	(12,483)	(28,955)	(3,303)
Net cash used in investing activities	(247,659)	(1,356)	(16,864)	(30,419)
Net cash from financing activities	250,533	16,758	53,497	32,826
Net increase/(decrease) in cash and cash equivalents	853	2,919	7,678	(896)

Fiscal 2003 Compared to Fiscal 2002

Net cash used in operating activities increased by RM16.5 million from RM12.5 million in fiscal 2002 to RM29.0 million in fiscal 2003. The increase was primarily due to increase in cash used in operating activities (net loss adjusted for non-cash items) of RM22.4 million and a decrease in the change in working capital of RM5.9 million as a result of increase in inventories, receivables, prepayments and deposits offset by the increase in payables.

Net cash used in investing activities increased by RM15.5 million from RM1.4 million in fiscal 2002 to RM16.9 million in fiscal 2003. The increase was primarily attributable to the increase in film library and programme rights and purchases of property, plant and equipment during fiscal 2003.

Net cash from financing activities increased by RM36.7 million from RM16.8 million in fiscal 2002 to RM53.5 million in fiscal 2003. The increase was due to proceeds from intercompany borrowings.

Fiscal 2002 Compared to Fiscal 2001

Net cash used in operating activities increased by RM10.5 million from RM2.0 million in fiscal 2001 to RM12.5 million in fiscal 2002. The increase was primarily due to increase in the change in working capital of RM6.9 million in fiscal 2002 as a result of increase in prepayments and deposits offset by the decrease in payables.

Net cash used in investing activities decreased by RM246.3 million from RM247.7 million in fiscal 2001 to RM1.4 million in fiscal 2002. The decrease was primarily attributable to the net decrease in film library and programme rights during fiscal 2002.

Net cash from financing activities decreased by RM233.7 million from RM250.5 million in fiscal 2001 to RM16.8 million in fiscal 2002. The decrease was due to decrease in proceeds from intercompany borrowings.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Working Capital, Commitments and Contingent Liabilities

Working Capital

The Board believes that, after taking into consideration the expected proceeds from the Initial Public Offering and banking facilities currently available to it, ASTRO has adequate liquidity and capital resources for its present requirements and the requirements for 12 months following the date hereof.

ASTRO expects to meet its working capital, debt service, liabilities and commitment requirements principally through:

- Cash generated from operations;
- Use of a portion of the net proceeds from the Initial Public Offering;
- Existing and future financing arrangements, including the BPI facility and the Facilities;

See Section 14 of this Prospectus for a description of ASTRO's material indebtedness.

ASTRO may need to raise capital in the future if its cash flow from operations is not adequate to meet liquidity requirements or if ASTRO pursues new projects. Depending on capital requirements, market conditions and other factors, ASTRO may raise additional funds through debt or equity offerings or through the sale of assets. In the event that such financing cannot be obtained, ASTRO may be compelled to scale back its plans for future business expansion.

Commitments

As at 31 July 2003, AAAN Bermuda had known commitments as set forth below:

	As at 31 July 2003 RM 000
Property, plant and equipment	6,138
Investment in an associate, TVBPH	9,482
Film library and programme rights	53,558
	<u>69,178</u>

As at 31 July 2003, Celestial Pictures had known commitments as set forth below:

	As at 31 July 2003 RM 000
Film library	
- Remastering costs	48,123
- Other film library costs	18,331
Non-cancellable operating leases	68
	<u>66,522</u>

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Contingent Liabilities

As at 31 July 2003, AAAN Bermuda has the following bank guarantees and letters of credit for which the liabilities have not been provided for in AAAN Bermuda's audited consolidated financial statements:

	As at 31 July 2003 RM 000
Set top boxes	68,202
Utilities	810
Custom duties, stamp duties and import duties	956
Programme rights	13,747
	<hr/> 83,715 <hr/>

Celestial Pictures did not have any material contingent liabilities as at 31 July 2003.

Utilisation of Taxation Benefits

As an approved MSC company, MBNS benefits from the Government's Bill of Guarantees and other financial incentives. Owing to the capital intensive nature of its business, MBNS opted for investment tax allowance and also enjoyed exemption from customs duties on import of multimedia equipment. The investment tax allowance was granted for a period of five years from 15 August 1994 to 14 August 1999. On the annual assessment for the year 2003, based on MBNS's tax return filed on 29 August 2003, MBNS had unutilised tax losses of RM1,539,747,045 and available capital allowances and investment tax allowance of RM474,302,361 and RM455,730,962 respectively. Subject to the agreement of the tax authorities, the unutilised tax losses and allowances can be utilised against future taxable profit of MBNS. In this regard, MBNS has accumulated a significant tax credit as a result of its unutilised tax losses, capital allowances and investment tax allowance which it will benefit in the form of accumulated tax credits in the coming years.

For accounting purposes, in the financial year ended 31 January 2003, MBNS has recognised the tax losses and capital allowances as deferred tax assets amounting to RM564 million. This forms part of the total deferred tax assets of RM613 million recognised for the financial year ended 31 January 2003. MBNS expects that its effective tax rates will in the future exceed what it had experienced historically on commencement of the utilisation of unabsorbed tax losses and capital allowances applicable to MBNS against its future taxable profits which will result in reversal of the deferred tax assets. However, the availability of historic investment tax allowances in MBNS will contribute to lowering its effective tax rates in the fiscal years that the investment tax allowances are utilised.

Market Risk

AAAN Bermuda is exposed to foreign exchange and interest-rate risk primarily associated with underlying liabilities. Currently, AAAN Bermuda has no derivatives contracts to hedge against foreign currency fluctuations or interest rate changes, nor does AAAN Bermuda speculate in foreign currency.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Foreign Currency Exchange Rate Risk

AAAN Bermuda's reporting and functional currency is the Ringgit Malaysia. Since 2 September 1998, the Ringgit has been fixed at an exchange rate against the U.S. dollar of U.S.\$1.00 to RM3.80. This fixed exchange rate, has minimised AAAN Bermuda's exposure to fluctuation in foreign exchange rates against U.S.\$ in respect of AAAN Bermuda's purchases, further helping to reduce the impact of foreign exchange movements. While the Government has indicated that it does not intend to allow the Ringgit to float against the U.S. dollar or adjust the rate at which the Ringgit is fixed, AAAN Bermuda can give no assurance that the Government will not adopt such a policy or, if adopted, what the effect would be on AAAN Bermuda's businesses. Notwithstanding that the exchange rate for the Ringgit has been fixed, AAAN Bermuda remains exposed to movements in other currencies.

AAAN Bermuda has incurred, and expects to continue to incur, expenses and liabilities in U.S. dollars, primarily because many of the licensed programming acquisition costs are denominated in U.S. dollars. There have been no material operating trends or effects on AAAN Bermuda's liquidity as a result of fluctuations in currency exchange rates.

While currently AAAN Bermuda does not have any foreign currency-related derivatives, as a policy, forward foreign currency exchange contracts are used to limit exposure to currency fluctuations on foreign currency receivables and payables, and on cash flows generated from anticipated transactions denominated in foreign currencies.

Celestial Pictures operates internationally and is exposed to foreign currency exchange risk as a result of the foreign currency transaction entered into by the group in currencies other than their functional currencies. Most of Celestial Pictures' foreign currency transactions are conducted in the U.S.\$, which currently has a fixed exchange rate relative to the HK\$. Therefore, there is no exposure to foreign currency rate fluctuations denominated in U.S.\$ as long as the exchange rate remains fixed and the exposure to other foreign currency rate fluctuations is minimal.

Interest Rate Risk

AAAN Bermuda has historically been exposed to market risk through changing interest rates. AAAN Bermuda is also exposed to interest rate fluctuations through its various sources of financing. As at 31 July 2003, AAAN Bermuda had total borrowings owed to banks, finance lease liabilities and advances from corporate shareholder of approximately RM1,295.6 million.

As at 31 July 2003, borrowings owed to banks and finance lease liabilities amounted to an aggregate of RM1,107.7 million at effective interest rates ranging from 3.3 per cent. per annum to 8.8 per cent. per annum and a weighted-average interest rate of 8.1 per cent. per annum. Sixty three per cent. of AAAN Bermuda's principal amount of borrowings are at fixed interest rates averaging 8.1 per cent. per annum and the balance of AAAN Bermuda's principal amount of borrowings is at floating interest rates averaging 5.6 per cent. per annum. For a further discussion of the material terms of these indebtedness, see Section 14 of this Prospectus.

On 14 February 2002, AAAN Bermuda also obtained financing through shareholder loans from UTES. These shareholder loans are unsecured and subordinated to the ECA, PDS and BPI facilities unless repaid by an equivalent amount of equity injection. As at 31 July 2003, outstanding shareholder loans amounted to an aggregate of RM187.9 million with effective interest rates ranging from 8.5 per cent. per annum to 9.5 per cent. per annum.

Celestial Pictures' interest rate exposure arises principally from the group's borrowings. The interest rate risk is managed through the use of interest-free and floating rate corporate advances.

See Section 14 of this Prospectus.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (*Cont'd*)

Seasonality

AAAN Bermuda does not experience significant fluctuations in its business due to seasonal factors, although new subscriptions to the multi-channel subscription television services tend to be higher during holidays, particularly extended school holidays, and churn rates tend to be higher during the first quarter of each fiscal year. Radio revenue is weighted towards the second half of the fiscal year as a result of increases in inventory demand due to the festive period.

AAAN Bermuda experiences periodic outages of its multi-channel subscription television signal during heavy rain, referred to as "rain outage". AAAN Bermuda has taken steps to minimise the risk of rain outage on its uplink through the use of higher power and larger satellites. AAAN Bermuda estimates that rain outage both on its uplink and downlink facilities affect approximately 0.5 per cent. of its total transmission time over the last 12 months. The ability to hot switch with the planned Cyberjaya back-up facility is expected to further reduce rain outage on the uplink. For a further discussion of the plans to put in place a disaster recovery operation, see Section 7.16 of this Prospectus.

Rain outage is a more prevalent problem on the downlink to subscribers' homes due to the relatively smaller satellite dishes used on the receiving end. While rain outage is an inherent difficulty with all DTH broadcast systems, the periodically heavy rain in Malaysia, particularly during the rainy season is more of an impediment than in other areas. AAAN Bermuda has attempted to address these issues by educating subscribers as to the source of the rain outage problem.

Inflation

AAAN Bermuda does not believe that inflation has had a material impact on its business, financial condition or results of operations. If Malaysia were to experience significant inflation, AAAN Bermuda may not be able to fully offset the resulting higher costs through rate increases to subscribers and advertisers. AAAN Bermuda's failure or inability to do so could adversely affect its business, financial condition and results of operations.

Critical Accounting Policies

In accounting for certain transactions and operations of its business, ASTRO's management establishes policies for the recognition of revenue and expense, some of which require management to develop estimates and expectations regarding future events, including estimates for the useful lives of assets, the ability to generate revenue from the broadcast of acquired programming and the likelihood of receiving payments from third parties. The assumptions underlying these recognition standards are, of necessity, subjective in nature. The ability to effectively and accurately establish, monitor and adjust these standards may have a material impact on the accuracy and quality of the financial information reported by ASTRO. It is important to understand the underlying assumptions and policies adopted by ASTRO when analysing ASTRO's financial conditions and results of the operations.

Revenue Recognition

Subscription fees consist of charges for the provision of multi-channel subscription television services. Such fees are recognised as earned over the period services are provided. Advertising revenues, derived from the placement of advertising on ASTRO's multi-channel subscription television and radio channels and in its publications, are recognised in the period in which the commercials are aired or the advertisements are published. Revenue from other sources are recognised in the period in which services are provided, in the case of property rentals, or the merchandise is delivered and accepted by customers, in the case of set-top boxes.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Film Library and Programme Rights

The film library comprises acquired films and films produced by ASTRO, either internally or externally, and production in progress with the primary intention to exploit the library through release and licensing of such films as part of ASTRO's long-term operations. The library is stated at cost less accumulated amortisation.

The cost of films produced for ASTRO and production in progress includes direct costs and production overheads incurred in relation to the production of the library.

The cost of the film library is amortised on an individual title basis, based on the proportion of the actual income earned during the period against the estimated ultimate revenue expected to be earned over the revenue period, not exceeding five years, commencing from the date when revenue is first generated. Amortisation is included in cost of sales.

The programme rights comprise rights licensed from third parties and programmes produced for ASTRO, either internally or externally, and production in progress with the primary intention to broadcast in the normal course of ASTRO's operating cycle. The rights are stated at cost less accumulated amortisation.

The programme rights are amortised on an accelerated basis over the licence period, or estimated useful life if shorter, from the date of first transmission in a particular territory, to match the costs of consumption with the estimated benefits to be received. Amortisation is included in cost of sales. The amortisation period is no more than five years.

The cost of programme rights for sports, current affairs and light entertainment is fully amortised on the date of first transmission.

Where an indication of impairment exists, the carrying amount of the film library and programme rights is assessed and written down immediately to its recoverable amount.

Turnaround Channel Transmission Rights

The cost of turnaround channels, where ASTRO has immediate transmission rights is expensed as incurred.

Property, Plant and Equipment and Long-lived Assets

Property, plant and equipment and other long-lived assets are recorded at the historical cost less accumulated depreciation or accumulated amortisation. The assets are depreciated or amortised over their respective useful lives commencing from the date that the asset is ready for use. Interest costs incurred during the construction of production and broadcasting assets are capitalised until the assets are ready for use. The capitalised costs are amortised over the related assets' estimated useful lives. Maintenance and repair expenditures are expensed as incurred, while expenditures for modifications and improvements which increase the expected useful lives of the assets are capitalised. Depreciation and amortisation expense is charged using the straight-line method. Where an indication of impairment exists, the carrying amount is assessed and, if necessary, written down immediately to its recoverable amount.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Segment Reporting

ASTRO presents its business segment information in the financial statements on a basis consistent with how the principal activities of the group are structured, operated and reported. Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. There are three principal business segments, comprising of multi-channel subscription television, radio and content creation, aggregation and distribution. Geographical segment information is also presented based on the countries in which AAAN Bermuda's customers are located – currently substantially all of its customers are located in Malaysia.

Income and Deferred Taxation

ASTRO has not historically paid significant amounts of corporate tax as only the radio business has generated taxable profits, which has been presented as current tax. Temporary taxable differences, the future reversal of which will give rise to taxable income, are provided for in full and are included as deferred tax liabilities in the financial statements. ASTRO has significant amounts of brought forward capital allowances, other temporary deductible differences and unutilised tax losses. ASTRO assesses at each period end, whether there is sufficient convincing evidence that these potential credits are capable of reversal and utilisation in future periods.

Allowance for Doubtful Accounts

ASTRO provides for the credit risk inherent in its receivables by monitoring the level of arrears and providing an appropriate level of bad debt allowance based on the amount and extent of arrears.

Finance Leases

ASTRO capitalises as fixed assets those assets which it holds under leases which confer substantially all of the risks and rewards of ownership to the group. The only significant asset held by ASTRO under such arrangements is the satellite transponder used in the multi-channel subscription television business. Accordingly, the related finance lease obligation is included as part of borrowings.

Borrowings

Borrowings are initially stated at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

RCPS

The RCPS issued by ASTRO are classified as equity and/or liability according to the economic substance of the RCPS at the initial date of recognition. For RCPS classified as compound instrument, the fair value of the liability component is calculated using a market interest rate for an equivalent non-convertible financial instrument. The residual amount, representing proceeds less the fair value of the liability component, is classified as equity. The finance cost is accreted evenly over the accounting periods subsequent to the issue of the instrument.

13. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Cont'd)

Provisions

Provisions are recognised when ASTRO has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

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