

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Overall Performance

The Group recorded a profit attributable to shareholders of HK\$424 million (2002: HK\$555 million), a decline of 24%. The steeper decline in profit was attributable mainly to the anticipated increase in depreciation and in-orbit insurance upon commissioning of AsiaSat 4, the decrease in turnover and an additional provision of deferred tax for prior years as a result of the increase in tax rate.

### Turnover

Turnover for the year fell by 6% to HK\$896 million (2002: HK\$951 million). This was due largely to slower than expected growth, loss of customers on contract renewals and continued pricing pressure both on new leases and renewals.

### Cost of Services

Cost of services was HK\$313 million (2002: HK\$243 million), an increase of HK\$70 million, or 29%. The increase arose largely from the depreciation and in-orbit insurance of AsiaSat 4.

### Other Operating Income

Other operating income amounted to HK\$0.9 million (2002: Nil), most of which arose from the provision of in-orbit service support.

### Interest Income

Interest of HK\$5 million (2002: HK\$6 million) was generated on short-term deposits from funds on hand.

### Administrative Expenses

Administrative expenses decreased to HK\$56 million (2002: HK\$77 million), a decrease of HK\$21 million or 27%. The decrease was due largely to a reduction in performance bonuses and reversal of provision for doubtful debts.

### Finance Costs

Finance costs amounted to HK\$3 million (2002: Nil), which arose from the loan facility arranged for AsiaSat 4. Prior to the commencement of commercial operation of AsiaSat 4, these finance costs were capitalised.

### Share of Results of Associates

The share of loss from an associate, including amortisation of goodwill, amounted to HK\$16 million (2002: HK\$14 million).

### Impairment Loss

Impairment loss recognised during the year amounting to HK\$2 million (2002: Nil) arose from the write off of the goodwill in an associate, SpeedCast Holdings Limited.

## Management Discussion and Analysis

### FINANCIAL REVIEW (CONTINUED)

#### Taxation

The rate for Hong Kong Profits Tax for corporations was raised from 16% to 17.5% with effect from 1st April, 2003. As a result, the Company had to make an additional provision of HK\$17 million on deferred tax for prior years.

#### Financial Results Analysis

The financial results are highlighted below:

		<b>2003</b>	2002	% Change
Turnover	HK\$M	<b>896</b>	951	-6
Profit attributable to shareholders	HK\$M	<b>424</b>	555	-24
Dividend (excluding special dividend)	HK\$M	<b>125</b>	98	+28
Capital and reserves	HK\$M	<b>3,568</b>	3,347	+7
Earnings per share	HK cents	<b>109</b>	142	-23
Dividend per share (excluding special dividend)	HK cents	<b>32</b>	25	+28
Dividend cover before special dividend	Times	<b>3</b>	6	-50
Special dividend per share	HK cents	<b>Nil</b>	25	N/A
Return on shareholders' funds	%	<b>12</b>	17	-29
Net assets per share - book value	HK cents	<b>914</b>	858	+7

### LIQUIDITY AND FINANCIAL RESOURCES

#### Sources of Financing

The Group's principal use of capital during the year under review was the capital expenditure related to the construction of AsiaSat 4. In addition, the Group also made progress payments for the construction of the telemetry, tracking and control facilities at the Company's new Tai Po Earth Station. These payments 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 a grace period of three years for drawdown. Since no drawdown was made the Loan Facility automatically lapsed on 24th November, 2003. Cash flow generated from operating activities, was more than sufficient to meet the capital expenditure of AsiaSat 4 and other projects. At 31st December, 2003, there was no outstanding bank loan.

# Management Discussion and Analysis

## **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 payments. Hong Kong Dollar is pegged to U.S. Dollar at the exchange rate of HK\$7.80 to US\$1.00. The exchange movement has been kept within a narrow band. Therefore, the Group does not have any significant currency exposure.

### **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 currencies other than in U.S. Dollars or Hong Kong Dollars.

## **ORDER BOOK**

At 31st December, 2003, the value of contracts on hand amounted to HK\$3,720 million (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**

The Group maintained its interest in SpeedCast Holdings Limited ("SpeedCast") at 45.3%. SpeedCast provides three major services: broadband, corporate broadcast and multimedia.

For the year 2003, SpeedCast increased its turnover to HK\$28 million (2002: HK\$12 million), an increase of 133%. However, the company still incurred a loss of HK\$40 million (2002: HK\$49 million), an improvement of 18%. With increase in turnover, the loss is expected to reduce in the years to come.

At 31st December, 2003, the book value of the investment in SpeedCast has been written down to zero.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

During the year, there were neither material acquisitions nor disposals of subsidiaries and associated companies.

## **SEGMENT INFORMATION**

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

## Management Discussion and Analysis

### EMPLOYEES AND REMUNERATION POLICIES

At 31st December, 2003, the Group had 83 permanent staff (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), performance bonuses, share options (again applicable to certain grades of employees) and fringe benefits that are compatible with the market.

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

With the lapse of the US\$250 million loan facility on 24th November, 2003, the securities that were pledged to the banks are being released. There are no other charges on any of the Group's assets.

### CAPITAL COMMITMENTS

Details of the capital commitments of the Group are set out in note 25 to the financial statements.

At 31st December, 2003, the Group had total capital commitments of HK\$49 million (2002: HK\$286 million), of which HK\$21 million (2002: HK\$219 million) was contracted for but not provided in the financial statements, and the remaining HK\$28 million (2002 HK\$67 million) was authorised by the Board but not yet contracted.

### GEARING RATIO

At 31st December, 2003, the Company had no debt. Hence, the gearing ratio was zero.