

Asia Satellite Telecommunications Holdings Limited



Interim Report 2004

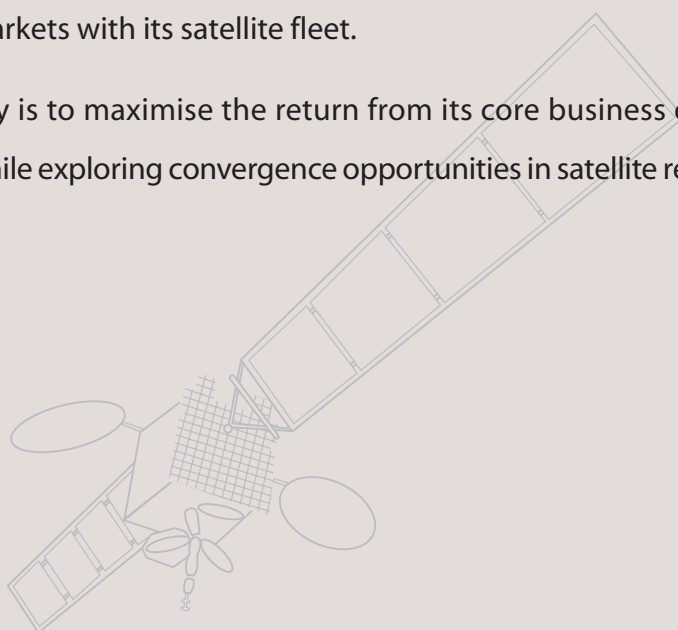
AsiaSat

Asia Satellite Telecommunications Holdings Limited (the “Company”), which indirectly owns Asia Satellite Telecommunications Company Limited (“AsiaSat”) and other subsidiaries, (together the “Group”) is listed on the stock exchanges of Hong Kong (1135) and New York (SAT).

AsiaSat is Asia’s premier provider of high quality satellite services to broadcasting and telecommunications markets with its satellite fleet.

The Company’s strategy is to maximise the return from its core business of satellite transmission services while exploring convergence opportunities in satellite related new growth industries.

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Contents

1	Chairman’s Statement	22	Condensed Consolidated Statement of Changes in Equity
7	Corporate Governance and Other Information	23	Condensed Consolidated Cash Flow Statement
14	Management Discussion and Analysis	24	Notes to the Condensed Financial Statements
18	Independent Review Report	35	Supplementary Information for ADR Holders
19	Condensed Consolidated Income Statement	38	Shareholder Information
20	Condensed Consolidated Balance Sheet		

A Tough Year Continues, but Some Optimism Ahead

In the Asia Pacific satellite sector, the first six months of 2004 continued to be sluggish, with transponder demand lagging behind early signs of improvement in some regional financial, consumer and tourism markets. While AsiaSat achieved stronger results in the period through the inclusion of a one-off receipt, the results for the second half are expected to continue to reflect the current market conditions.

In the first half of 2004, however, the Company achieved a creditable increase in the transponder capacity leased, and there are other positive indicators that underscore our sustained optimism for future years.

There are signs of relaxation in China's media regulations that will allow for more television channels. There is also evidence of further progress in the establishment of DTH (direct-to-home) systems for China and India, and the growth of HDTV (High Definition Television) in the United States and Europe. These developments will continue to promote an increase in television channels and a requirement for more bandwidth. This activity is certainly encouraging for AsiaSat and may signal an improvement in the Asia Pacific region in the not too distant future.

As we look ahead, we remain steadfast in our positive view of this long-term business. AsiaSat is the market leader in Asia and is extremely well positioned financially and operationally to benefit from the economic upturn as the effects of the strengthening economies filter through to our customers, and to their consumers.

Interim Results

Turnover for the first half of 2004 amounted to HK\$551 million (2003: HK\$456 million), an increase of 21%. The accounts for the period include a one-off lump sum receipt of HK\$123 million for early termination of a transponder utilisation agreement. After reversing that portion of the income from the contract accounted for on a straight-line basis in prior years, the one-off contribution to turnover in the first half of 2004, was HK\$103 million. The profit attributable to shareholders was HK\$254 million (2003: HK\$240 million), an increase of 6%. The smaller increase in profit was due to the anticipated additional depreciation and in-orbit insurance on the new AsiaSat 4 satellite. The one-off receipt distorts significantly the results of the underlying business for the half year under review. Excluding that item, turnover was HK\$448 million, a decrease of just under 2% below that of the same period in the prior year, and profit attributable to shareholders was HK\$162 million, a larger 32% decrease, for the same reasons as stated above. Operating expenses, in the first half of 2004, other than in-orbit insurance and provision for doubtful debts, increased moderately attributable, principally, to the new Earth Station facility at Tai Po. The Group's EBITDA (earnings before interest, tax, depreciation and amortisation) margin declined to 80% (2003: 85%) as a result of the higher in-orbit insurance after the commissioning of AsiaSat 4.

During the period, the Group achieved a net cash inflow of HK\$207 million after paying capital expenditure of HK\$37 million and dividends of HK\$94 million, and subscribing to the rights issue of HK\$12 million in SpeedCast. At 30th June, 2004, the Group reported a cash balance of HK\$867 million. The Group remains debt free.

Dividend

The Board has declared an interim dividend for 2004 of HK\$0.08 per share (2003: HK\$0.08), the same as last year. This dividend is payable on 16th November, 2004 to shareholders on the share register as of 14th October, 2004. The share register will be closed from 7th to 14th October, 2004, both days inclusive.

Operations Review

IN-ORBIT SATELLITES

During the first six months of 2004, the Group's three in-orbit satellites, AsiaSat 2, AsiaSat 3S, and our new AsiaSat 4, continued to perform well with no interruptions or breaks in customer service. There was no permanent technical impact from the temporary attitude anomaly that affected AsiaSat 2 in late 2003.

Strategically positioned over the Asian landmass, the satellites provide our customers with comprehensive coverage of some 70% of the world's population. It is no coincidence that this facility, combined with AsiaSat's service standards, have resulted in AsiaSat 3S being the satellite platform for one of the largest television viewerships in the world. Details of each of our satellites are below:-

AsiaSat 2, launched in 1995, orbits at 100.5°E. It carries 24 C-band and 9 Ku-band transponders, and its overall utilisation rate at 30th June, 2004 was 41% (31st December, 2003: 54%). The decline was due to some customers migrating from AsiaSat 2 to AsiaSat 3S after the 2003 attitude event.

AsiaSat 3S, launched in 1999, is stationed at 105.5°E, and carries a payload of 28 C-band and 16 Ku-band transponders. Its overall utilisation rate at 30th June, 2004 was 74% (31st December, 2003: 59%). The increase was partly due to the migration from AsiaSat 2 to AsiaSat 3S and commencement of some new contracts.

AsiaSat 4, launched in April 2003, is positioned at the 122°E slot, and carries 28 C-band and 20 Ku-band transponders, including four Hong Kong BSS (broadcast satellite service) transponders. Its overall utilisation rate at 30th June, 2004, was 18% (31st December, 2003: 10%).

The total number of transponders on the Company's satellites leased and sold at 30th June, 2004 was 55 (31st December, 2003: 49), an increase of 12% over the previous six months in terms of transponder capacity.

TAI PO EARTH STATION

The Satellite Control Centre, housed in our new Earth Station, became fully operational in December, 2003, and the complex received its final occupation permit in January this year. This facility further underlines AsiaSat's commitment to its customers to provide an unmatched level of service and reliability, 24 hours a day. The integrity of our delivery is achieved through duplicating, at Tai Po, our primary circuits and facilities, which are provided by our Earth Station in Stanley.

Located at the Tai Po Industrial Estate in Hong Kong, the new station comprises 5,711 square metres of space in a two-level building, together with five full performance antennas, four of 7.3 metres, and one of 11.3 metres. It also enables AsiaSat to provide other customer-focused value-added services.

STANLEY EARTH STATION

This station comprises seven full performance antennas, one of 5 metres, three of 6 metres, one of 9 metres and two of 11 metres. It offers full facilities to control and monitor our satellite fleet.

CONTRACTS WITH MAJOR CUSTOMERS

In April, a principal customer of AsiaSat effected a corporate restructuring and change of ownership. For AsiaSat, this transaction resulted in the early termination of a long-term transponder capacity agreement on our AsiaSat 3S satellite, and a compensatory lump sum receipt as reported above.

In February this year, we announced that we had signed a backup and services agreement for the Tai Po Earth Station with a wholly-owned subsidiary of News Corporation, STAR, Asia's leading multi-platform content and service provider. Under the agreement, AsiaSat houses Star's backup broadcast and RF (Radio Frequency) equipment for downlinking and emergency uplinking their signals to AsiaSat 3S, and other related services. The fees from the services rendered will help us mitigate the operating costs of the Tai Po Earth Station.

MARKET REVIEW

I have mentioned above, and in my Statement in March, that recovery of the transponder market in Asia Pacific continues to be slow and lags both behind early improvements in some regional economies, and certain positive trends elsewhere in the world. In the Asia Pacific, we have not seen any noticeable improvement in the oversupply of transponder capacity, especially in Ku-band, nor have we seen any improvement in transponder pricing.

MARKET REVIEW (CONTINUED)

During the first half of 2004, the Company signed a number of new contracts. The most significant of these was the sale of a Ku-band transponder to the Civil Aviation Administration of China for the life of AsiaSat 4. The transponder sale, effective 30th June this year, will be used to provide a country-wide air traffic control and monitoring management system in China. AsiaSat also signed leases with the People's Republic of Bangladesh's national broadcaster and Galaxy Satellite Broadcasting Limited, for the use of C-band capacity, to broadcast their programmes, on AsiaSat 3S.

At 30th June, 2004, the Group held contracts on hand worth HK\$3.2 billion (31st December, 2003: HK\$3.7 billion), of which, approximately HK\$400 million will be recognised in the second half of 2004.

Business Development

The Group continues to develop existing relationships, and to take initiatives to build new businesses. While these are not expected to make a contribution in the short term, they form the base for opportunities in the future.

ASSOCIATE COMPANY

In April, SpeedCast Holdings Limited ("SpeedCast") made a rights issue of US\$3 million. AsiaSat subscribed to half of the US\$3 million and increased its holding from 45% to 47%. The remaining balance was subscribed by another shareholder, who became the second largest shareholder, with a 28% holding. The additional funds will be used for working capital and the expansion of hub capacity. At 30th June, 2004, SpeedCast had a cash balance of US\$2.6 million.

SpeedCast provides three major services: broadband, multimedia and corporate broadcast. Two-way broadband service turnover continued to grow during the first half and, in the coming months, it is expected that the momentum in revenue growth from its broadband service will continue.

For the first six months, SpeedCast achieved a turnover of HK\$21 million (2003: HK\$13 million), an increase of 62%, and reduced its loss to HK\$7 million (2003: HK\$21 million), an improvement of 67%. During this period, AsiaSat generated HK\$8 million as utilisation fees on transponder capacity leased to SpeedCast.

The Group reported its share of results in SpeedCast using the equity accounting method. After the rights issue subscription, the Group has recognised its share of loss of SpeedCast amounting to HK\$11 million for this six month period, which included prior period losses of SpeedCast not yet shared by the Group for approximately HK\$9 million as the original investment costs in SpeedCast were already written down to zero. The carrying value of the Group's interest in SpeedCast was approximately HK\$0.6 million at 30th June, 2004 after the share of loss for the period. The Group does not expect there will be any further significant losses of SpeedCast to be shared in the future.

JOINT VENTURE IN CHINA

In March, AsiaSat entered into a joint venture with a partner to provide corporate data networks and services in China using VSAT (very small aperture terminal) technology. The company has applied for, and been granted, a Sino-foreign joint venture permit and a business permit. We anticipate that the joint venture will begin operations in the second half of 2004.

FIXED CARRIER LICENCE

During the period under review, AsiaSat has been granted a Fixed Carrier Licence by the Office of the Telecommunications Authority of Hong Kong. This will permit AsiaSat to provide television uplink and telecommunications services via satellite and will enable us to provide backup uplink services to STAR in the event of an emergency.

NON-DOMESTIC TELEVISION LICENCE

In May 2004, Skywave TV Company Limited (formerly known as Auspicious City Limited) ("Skywave"), a subsidiary of Asia Satellite Telecommunications Company Limited, was granted a Non-domestic Television Programme Service Licence for 12 years by the Broadcasting Authority of Hong Kong. Skywave intends to set up a low cost regional DTH service, providing selected programming to the markets of Macau, Hong Kong, Taiwan and to subscribers in Southern China licenced to receive foreign television services. This DTH service will use the four BSS transponders on AsiaSat 4.

Outlook

AsiaSat is performing well in difficult trading conditions and relative to its competitors. We are also building for the future, and we continue to broaden our customer base, and improve our facilities and our operational efficiency.

Regrettably, the Asian transponder market remains sluggish, and there are few near term signs of new market entrants or business expansion among existing or potential customers. Thus, there is little room for optimism for the remainder of this year and taking the additional depreciation and insurance costs into account, it is unlikely that the Company's results for 2004 will exceed those of the prior year.

The drivers of our business, however, are unchanged - television distribution and private network telecommunications - and we believe in their future prospects. Both customer groups demand broad coverage over large geographic areas, at a fixed cost, and satellites provide the best solution. This is especially so in the far-flung and disparate Asia Pacific region. Certainly, AsiaSat will be the best-positioned provider of these services once the market recovery reaches our customer base.

Thus, we remain confident in the future of satellite telecommunications in the region, and AsiaSat's progress will continue to be built on the Company's reputation for delivering the most reliable satellite communications quality, and the best capacity and service delivery in the market.

Directors and Staff

On 11th March, 2004, the Company announced that Mr. KO Fai Wong had been appointed as a Non-executive Director. Mr. Ko is the Deputy General Manager of Shortridge Limited and an Alternate Director of the Company. Mr. Ko succeeds Mr. LI Tong Zhou. Upon his retirement from CITIC Group, Mr. Li resigned as a Director as of the same date after serving the Company for fifteen years. On behalf of the Directors, I thank Mr. Li for his valuable contribution, and welcome Mr. Ko to the Board.

Finally, I would like to thank each member of the Board, Management and Staff for their untiring work and dedication to the Company during these recent challenging times. It is they who are responsible for maintaining AsiaSat's reputation for excellence and its position as the market leader.

Mi Zengxin

Chairman

Hong Kong, 19th August, 2004