Financial Review

OVERALL PERFORMANCE

Turnover for the period increased by 21% to HK$551 million (2003: HK$456 million). The turnover included a one-off contribution of HK$103 million from an early termination of a transponder utilisation agreement.

Profit attributable to shareholders amounted to HK$254 million (2003: HK$240 million), an increase of 6%. The smaller increase in profit was largely due to the anticipated additional depreciation of HK$56 million and in-orbit insurance of HK$24 million on the new AsiaSat 4 satellite and provision for doubtful debts of HK$8 million.

COST OF SERVICES

Cost of services was HK$208 million (2003: HK$123 million), an increase of HK$85 million, or 69%. The increase was mainly attributable to the depreciation of HK$56 million and in-orbit insurance of HK$24 million on the new AsiaSat 4 satellite.

ADMINISTRATIVE EXPENSES

Administrative expenses increased to HK$47 million (2003: HK$29 million), largely due to provision of HK$8 million (2003: HK$1 million) for bad and doubtful debts and no recovery (2003: HK$5 million).

OTHER OPERATING INCOME

There was little other operating income in both periods.

INTEREST INCOME

Interest of HK$3 million (2003: HK$3 million) was generated on short-term deposits.

SHARE OF RESULTS OF ASSOCIATES

The share of loss, including amortisation of goodwill, from an associate was HK$11 million (2003: HK$12 million), out of which, HK$9 million related to the unaccounted for share of loss incurred in 2003 after the investment in SpeedCast was written down to zero. However, if the rental on the transponder capacity leased to the associate were to be taken into account, the net effect to the Group was a loss of HK$3 million.

TAXATION

A significant portion of the Group's profit is treated as earned outside Hong Kong and is not subject to Hong Kong Profits Tax. Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period. The Group's effective tax rate was 12%.

Overseas tax is calculated at approximately 5% to 20% of the gross revenue earned in certain of the overseas jurisdictions. The Group currently has a tax case with the Indian tax authority. Further details are set out in note 5 to the condensed financial statements.

FINANCIAL RESULTS ANALYSIS

The financial results are highlighted below:

		Six months ended 30th June		
		2004	2003	% Change
Turnover	HK$M	**551**	456	+21
Profit attributable to shareholders	HK$M	**254**	240	+6
Dividend	HK$M	**31**	31	—
Capital and reserves	HK$M	**3,728**	3,415	+9
Earnings per share	HK cents	**65**	62	+5
Dividend per share	HK cents	**8**	8	—
Dividend cover	Times	**8**	8	—
Return on shareholders' funds	%	**7**	7	—
Net assets per share - book value	HK cents	**955**	875	+9

Liquidity and Financial Resources

During the period under review, 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 an associate. At 30th June, 2004, the Group had a cash balance of HK$867 million. The Group remains debt free.

Capital Structure

ORDER BOOK

As at 30th June, 2004, the value of contracts on hand amounted to HK$3,219 million (31st December, 2003: HK$3,720 million), of which, approximately HK$400 million will be recognised in the second half of this year. Almost all the contracts are denominated in U.S. Dollars.

Significant Investments, Their Performance and Future Prospects

During the period, the Group increased its holding from 45% to 47% in SpeedCast Holdings Limited ("SpeedCast") after subscribing US$1.5 million for a rights issue.

SpeedCast provides three major services: broadband, multimedia and corporate broadcast services.

For the first six months, SpeedCast increased its turnover to HK$21 million (2003: HK$13 million), an increase of 62%. The company also improved its loss by 67% to HK$7 million (2003: HK$21 million).

At 30th June, 2004, the book value of the investment in SpeedCast, including goodwill, stood at HK$0.6 million (31st December, 2003: Nil).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

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

Segment Information

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

Employees and Remuneration Policies

As at 30th June, 2004, the Group had 87 permanent staff, including 11 in Beijing Representative Office (31st December, 2003: 83).

The Group considers its human resources as one of its most valuable assets. The talent pool that the Group draws from overlaps with the telecommunications, information technology and some high-tech equipment vendor industries.

The Group has established a performance based appraisal system. The present remuneration package consists of salaries, housing benefits (applicable to certain grades of employees), discretionary bonuses, share options (applicable to certain grades of employees) and fringe benefits that are compatible with the market.

The Group does not operate an in-house regular training programme. However, the Group does provide ad hoc training on new developments/facilities and sponsors employees to attend external vocational training that is relevant to their jobs and their career progression.

Charges on Group Assets

AsiaSat entered into the Loan Facility to finance the construction of AsiaSat 4 and AsiaSat 5 in 2000. The Loan Facility was secured by an assignment of all rights, title, benefits and interest in the insurance and transponder receipts of AsiaSat's satellites, and a fixed and floating charge over the assets of AsiaSat, including its existing and future satellites.

The Loan Facility was undrawn and lapsed in November 2003. All the assets that were charged have been released.

Capital Commitments

Details of the capital commitments of the Group are set out in note 14 to the condensed financial statements.

As at 30th June, 2004, the Group had total capital commitments of HK$67 million (31st December, 2003: HK$49 million), of which HK$24 million (31st December, 2003: HK$21 million) was contracted for but not provided in the financial statements, and the remaining HK$43 million (31st December, 2003: HK$28 million) was authorised by the Board but not contracted for.

Gearing Ratio

At 30th June, 2004, the Company remained debt free. Therefore, gearing ratio was not applicable.

Exchange Rates and Any Related Hedges

During the period, almost all of the Group's revenues, premiums for satellite insurance coverage, and substantially all capital expenditure were denominated in U.S. Dollars. The Group's remaining expenses were primarily denominated in Hong Kong Dollars. As at 30th June, 2004, almost all the Group's transponder utilisation agreements, transponder purchase agreements, obligations to purchase equipment were denominated in U.S. Dollars. Hence, the Group does not have any significant currency exposure and does not need to hedge against currency fluctuation.

Contingent Liabilities

Particulars of the Group's contingent liabilities are set out in note 15 to the condensed financial statements.