

Notes to the Condensed Financial Statements

FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

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, 2003.

3. Turnover

The Group’s primary reporting format for segment reporting purposes under SSAP 26 “*Segment Reporting*” is the geographical basis. For the purpose of classification, the country where the customer is incorporated is deemed to be the source of turnover. 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.

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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, 2004

	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	18,817	157,302	94,112	147,171	20,064	11,263	24,993	77,390	551,112
Result									
Segment result	10,101	84,439	50,519	79,001	10,770	6,046	13,416	41,544	295,836
Other operating income									183
Interest income									3,373
Profit from operations									299,392
Share of results of an associate									(11,093)
Profit before taxation									288,299
Taxation									(34,679)
Profit before minority interest									253,620
Minority interest									(1)
Profit for the period									253,619

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3. Turnover (continued)

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	12,497	110,995	69,065	23,658	13,349	5,084	7,986	60,420	303,054
Other operating income									80
Interest income									2,687
Profit from operations									305,821
Share of results of an associate									(12,375)
Profit before taxation									293,446
Taxation									(53,297)
Profit for the period									240,149

4. Profit from Operations

Six months ended 30th June

	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation charges in respect of property, plant and equipment	143,179	83,139

Included in profit from operations is a one-off amount of HK\$103 million from an early termination of a transponder utilisation agreement, which has been recognised as part of the turnover for the period.

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5. Taxation

	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	29,687	18,475
Overseas tax	9,066	11,445
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	38,753	29,920
Deferred taxation (credit) charge		
Current year	(4,074)	5,944
Attributable to increase in tax rate for prior years	—	17,433
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	34,679	53,297
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5. Taxation (continued)

A significant portion of the Group's profit is treated as revenue earned outside of 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.

Overseas tax, including the Foreign Enterprises Income Tax in the People's Republic of China, 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 authorities, details of which are set out in note 15.

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	
	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	288,299	293,446
Tax at the domestic income tax rate of 17.5% (2003: 17.5%)	50,452	51,353
Tax effect of expenses that are not deductible in determining taxable profit	21,914	10,761
Tax effect of income that is not taxable in determining taxable profit	(48,694)	(39,861)
Tax effect of share of results of an associate	1,941	2,166
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	—	17,433
Overseas tax	9,066	11,445
Tax expense for the period	34,679	53,297

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6. Dividend

On 18th May, 2004, a dividend of HK\$0.24 per share (2003: HK\$0.19) was paid to shareholders as the final dividend for 2003. For the period ended 30th June, 2003, a dividend of HK\$0.25 per share was paid to shareholders as the special dividend for 2002.

The directors have determined that an interim dividend for 2004 of HK\$0.08 per share (2003: HK\$0.08) shall be paid on 16th November, 2004 to the shareholders on the register of members on 14th October, 2004.

7. Earnings Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$253,619,000 (2003: HK\$240,149,000) and on 390,266,000 (2003: 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, 2004 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\$Nil (2003: HK\$78,000,000) and HK\$20,023,000 (2003: HK\$58,000,000) on the construction and acquisition of a new satellite, AsiaSat 4, and a satellite earth station, respectively.

9. Loan Receivable from An Associate

The amount is secured, bearing interest at 6% per annum and is repayable as follows:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Within one year	4,680	3,510
More than one year but not exceeding two years	2,730	3,769
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	7,410	7,279
Less: amount shown under current assets	(4,680)	(3,510)
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	2,730	3,769
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10. Trade and Other Receivables

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Trade receivables	100,540	68,118
Receivable from CITIC Technology Company Limited	28,803	11,826
Other receivables	1,071	535
Deposits and prepayments	72,514	38,538
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	202,928	119,017
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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:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
0 to 30 days	37,031	32,130
31 to 60 days	13,311	9,438
61 to 90 days	10,429	7,443
91 to 180 days	23,379	11,652
181 days or above	16,390	7,455
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	100,540	68,118
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The receivable from CITIC Technology Company Limited ("CitiTech") represents the proceeds collected from the China customers by CitiTech on behalf of the Group, which had not been remitted to the Group as at the interim balance sheet date. CitiTech is a subsidiary of CITIC Group ("CITIC"), which is a major shareholder of the Company throughout the period.

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11. Other Loan Receivable

The loan is receivable from an independent third party. It is unsecured, bearing interest at 8% per annum and is wholly repayable within one year.

12. Share Capital

	Authorised HK\$'000	Issued and fully paid HK\$'000
Ordinary shares of HK\$0.10 each		
Balance at 31st December, 2003 and 30th June, 2004	55,000	39,027
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13. Operating Lease Commitments

The Group as lessee

Minimum lease payments paid under operating leases during the period:

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Premises	2,751	3,019
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At 30th June, 2004, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Within one year	3,896	5,339
In the second to fifth year inclusive	2,120	1,847
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	6,016	7,186
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Operating lease payments represent rentals payable by the Group for certain of its office and residential premises. Leases are negotiated for a term of two to four years.

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13. Operating Lease Commitments (continued)

The Group as lessor

Income from the provision of satellite transponder capacity and leasing of office premises during the period was HK\$542,339,000 (2003: HK\$447,863,000) and HK\$92,000 (2003: Nil), respectively. 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 and the office premises held have committed tenants for the next four years.

At 30th June, 2004, the Group had contracted with customers and tenants for the following future minimum lease payments:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Within one year	720,839	
	1,549,346	1,811,332
After five years	948,741	1,093,010
	3,218,926	3,719,983

14. Capital Commitments

At 30th June, 2004, the capital commitments in respect of a satellite earth station and other assets were as follows:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
A satellite earth station		
Contracted for but not provided in the financial statements	20,407	21,130
Authorised but not contracted for	9,995	28,114
Other investment projects		
Contracted for but not provided in the financial statements	3,194	—
Authorised but not contracted for	33,036	—
Other assets		
Contracted for but not provided in the financial statements	4	168
	66,636	49,412

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15. Contingent Liabilities

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 have assessed the Group for income tax as follows:

Assessment year	Amount HK\$ (approximate)	Amount INR (approximate)
1997-98	20 million	115 million
1998-99	23 million	141 million
1999-00	22 million	127 million
2000-01	14 million	84 million
2001-02	29 million	171 million

The Group has filed appeals for each of the assessment years 1997-98 to 2001-02.

No assessment has yet been made for the 2002-03 or 2003-04 assessment years.

The Income Tax Appellate Tribunal (the "Tribunal") in an earlier appeal filed against the original assessment for the assessment year 1997-98 held that the Group is liable for Indian income tax under certain circumstances. 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.

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15. Contingent Liabilities (continued)

In order to obtain a stay of recovery proceedings, the Group has made payments as follows:

Assessment year	Amount HK\$ (approximate)	Amount INR (approximate)
1997-98	13 million	78 million
1998-99	13 million	80 million
1999-00	5 million	30 million
2000-01	5 million	30 million
2001-02	10 million	60 million

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, the Group believes it has a reasonable likelihood of success with respect to its appeal. Accordingly, no provision has been recognised for Indian income tax in the Group's condensed financial statements.