Management Discussion and Analysis

Financial Review

SALES

Sales for the period was HK$445 million (2004: HK$551 million), a decrease of HK$106 million. The decrease was due to a one-time contribution of HK$107 million in 2004 for the early termination of a transponder utilisation agreement.

COST OF SERVICES

Cost of services was HK$210 million (2004: HK$208 million), an increase of HK$2 million, or 1%. The increase was mainly due to depreciation.

OTHER GAINS

The gain of HK$17 million (2004: HK$4 million) was mainly generated on short-term deposits. The increase was largely due to the increase of surplus funds as well as improvement of deposit rates.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased to HK$38 million (2004: HK$47 million), mainly due to no provision for impairment of trade receivables was required (2004: HK$8 million).

SHARE OF LOSS OF ASSOCIATES

The share of loss from associates was HK$2 million (2004: HK$11 million). The decrease was that no further amortisation on investment was required.

INCOME TAX EXPENSE

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% (2004: 17.5%) of the estimated assessable profit for the period. The Group's effective tax rate was 13%.

INCOME TAX EXPENSE (CONTINUED)

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 14 to the condensed consolidated financial information.

PROFIT FOR THE PERIOD

Profit attributable to equity holders amounted to HK$185 million (2004: HK$254 million), a decrease of HK$69 million. The decrease in profit was again due to the one-time contribution reported above.

FINANCIAL RESULTS ANALYSIS

The financial results are highlighted below:

		Six months ended 30 June		
		2005	2004	% Change
Sales	HK$M	**445**	551	-19
Profit attributable to equity holders	HK$M	**185**	254	-27
Dividend	HK$M	**31**	31	—
Capital and reserves	HK$M	**3,954**	3,728	+6
Earnings per share	HK cents	**47**	65	-27
Dividend per share	HK cents	**8**	8	—
Dividend cover	Times	**6**	8	-25
Return on equity holders' funds	%	**5**	7	-28
Net assets per share - book value	HK cents	**1,013**	955	+6

Liquidity and Financial Resources

During the period under review, the Group generated a net cash inflow of HK$96 million after paying capital expenditure of HK$21 million and dividend of HK$105 million. At 30 June 2005, the Group had a cash balance of HK$1,331 million. The Group has no debt.

Capital Structure

ORDER BOOK

As at 30 June 2005, the value of contracts on hand amounted to HK$3,124 million (31 December 2004: HK$3,114 million), of which, approximately HK$399 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

SpeedCast Holdings Limited ("SpeedCast"), in which the Company holds 47%, provides three major services: broadband, multimedia and corporate broadcast services.

For the first six months, SpeedCast increased its turnover to HK$38 million (2004: HK$21 million), an increase of 81%. The company also improved its loss by 86% to HK$1 million (2004: HK$7 million).

At 30 June 2005, the book value of the investment in SpeedCast, mainly goodwill, stood at HK$0.4 million (31 December 2004: HK$0.4 million).

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the period, 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 5 to the condensed consolidated financial information.

Employees and Remuneration Policies

As at 30 June 2005, the Group had 96 (31 December 2004: 89) permanent staff, including 16 in Beijing Representative Office.

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

The Group did not have any charges on assets as at 30 June 2005 and 31 December 2004.

Capital Commitments

Details of the capital commitments of the Group are set out in note 16 to the condensed consolidated financial information.

As at 30 June 2005, the Group had total capital commitments of HK$29 million (31 December 2004: HK$21 million), of which HK$8 million (31 December 2004: HK$16 million) was contracted for but not provided in the financial statements, and the remaining HK$21 million (31 December 2004: HK$5 million) was authorised by the Board but not yet contracted.

Gearing Ratio

At 30 June 2005, 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 30 June 2005, 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 14 to the condensed consolidated financial information.