Management Discussion and Analysis

Financial Review

SALES

Sales for the period were HK$475 million (2005: HK$445 million), an increase of HK$30 million. The increase was due to the one-time receipt of HK$46 million for early termination of a contract. Excluding this receipt, recurring sales were down, by HK$16 million.

COST OF SERVICES

Cost of services was HK$204 million (2005: HK$210 million), a decrease of HK$6 million, or 3%. The decrease was due mainly to savings in the premium on self-insuring AsiaSat 2 following the imposition of unacceptable exclusions upon renewal of the in-orbit insurance.

OTHER GAINS

The gain of HK$41 million (2005: HK$17 million) was mainly generated on short-term deposits. The increase was due largely to the increase of surplus funds as well as improvement in deposit rates.

ADMINISTRATIVE EXPENSES

Administrative expenses increased to HK$43 million (2005: HK$38 million). The increase was due mainly to an increase in headcount and salary revisions, and provisions for performance bonus, leave compensation and long-term incentives.

SHARE OF LOSS OF ASSOCIATES

The share of loss from associates was HK$2 million (2005: HK$2 million).

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% (2005: 17.5%) of the estimated assessable profit for the period. The Group's effective tax rate for the period was approximately 11%.

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 9 to the condensed consolidated financial information.

PROFIT FOR THE PERIOD

Profit attributable to equity holders amounted to HK$239 million (2005: HK$185 million), an increase of HK$54 million. The increase in profit was due to the one-time receipt and higher interest income reported above.

FINANCIAL RESULTS ANALYSIS

The financial results are highlighted below:

		Six months ended 30 June		
		2006	2005	% Change
Sales	HK$M	**475**	445	7%
Profit attributable to equity holders	HK$M	**239**	185	29%
Dividend	HK$M	**31**	31	–
Capital and reserves	HK$M	**4,238**	3,954	7%
Earnings per share	HK cents	**61**	47	30%
Dividend per share	HK cents	**8**	8	–
Dividend cover	Times	**6**	6	–
Return on equity holders' funds	%	**6**	5	20%
Net assets per share - book value	HK cents	**1,086**	1,013	7%

Liquidity and Financial Resources

During the period under review, the Group generated a net cash inflow of HK$183 million (2005: HK$96 million) after paying capital expenditure of HK$118 million and dividend of HK$105 million. At 30 June 2006, the Group had a cash balance of HK$1,818 million (31 December 2005: HK$1,636 million). The Group has no debt.

Capital Structure

ORDER BOOK

As at 30 June 2006, the value of contracts on hand amounted to HK$2,785 million (31 December 2005: HK$2,771 million), of which approximately HK$381 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

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 under review, SpeedCast increased its turnover to HK$51 million (2005: HK$38 million), an increase of 34%. The company also improved its performance from a loss to a profit of HK$2 million (2005: loss of HK$1 million).

At 30 June 2006, the book value of the investment in SpeedCast, mainly goodwill, stood at HK$0.4 million (31 December 2005: HK$0.4 million).

BEIJING ASIA

Beijing Asia Sky Telecommunications Technology Company Limited ("Beijing Asia"), a Beijing joint venture company in which AsiaSat has a 49% interest, provides satellite-based telecommunication network consultancy and technical support services to customers in China. Beijing Asia participates to provide government institutions and major corporations with corporate data networks; data broadcasting service, and a trial telephony network connecting remotest sites in China using VSAT (Very Small Aperture Terminal) technology.

Beijing Asia commenced operation in October 2004. For the six months under review, Beijing Asia incurred a loss of approximately HK$4 million (2005: HK$4 million), of which, AsiaSat's share was approximately HK$2 million (2005: HK$2 million).

At 30 June 2006, the book value of the investment in Beijing Asia stood at approximately HK$14 million.

SKYWAVE

Skywave TV Limited ("Skywave"), in which the Company holds 80% interest operates a low cost Direct-to-Home ("DTH") platform to serve the markets of Hong Kong, Taiwan, Macau and Southern China.

Operating under a Hong Kong Non-domestic Television Programme Service Licence, Skywave offers a variety of some 36 TV channels to authorised subscribers in the AsiaSat 4 BSS coverage area. Skywave is a niche service offering quality content throughout the region to customers not readily served by cable. Working through its joint venture partners, the Skywave platform provides a comprehensive offering from hardware distribution and product promotion, to customer service and subscriber management.

For the six months under review, Skywave incurred a loss of approximately HK$2 million (2005: HK$3 million), of which the Company's share was about HK$2 million (2005: HK$2 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 4 to the condensed consolidated financial information.

Employees and Remuneration Policies

As at 30 June 2006, the Group had 98 (31 December 2005: 95) permanent staff, including 16 in its 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.

Pursuant to the Company's new share option scheme adopted on 25 January 2002 (the "Share Option Scheme") the Board of Directors may grant options to any employees (including officer 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 Stock Exchange of Hong Kong Limited's (the "Stock Exchange") daily quotation 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

The Group did not have any charges on assets as at 30 June 2006 and 31 December 2005.

Capital Commitments

Details of the capital commitments of the Group are set out in note 13 to the condensed consolidated financial information.

As at 30 June 2006, the Group had total capital commitments of HK$1,294 million (31 December 2005: HK$16 million), of which HK$983 million (31 December 2005: HK$6 million) was contracted for but not provided in the financial statements, and the remaining HK$310 million (31 December 2005: HK$10 million) was authorised by the Board but not yet contracted.

Gearing Ratio

At 30 June 2006, the Company remained debt free. Therefore, a 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 2006, almost all the Group's transponder utilisation agreements, transponder purchase agreements, and obligations to purchase equipment were denominated in U.S. Dollars. Thus, 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 12 to the condensed consolidated financial information.