FINANCIAL REVIEW

Overall Performance

The Group achieved a profit attributable to shareholders of HK$431 million (2003: HK$424 million), an increase of 2%. This increase was mainly attributable to the recognition of a one-time lump sum of HK$107 million received from a customer who prematurely terminated a long-term transponder utilisation agreement. Unfortunately, this unexpected receipt was largely offset by an increase in satellite insurance cost for AsiaSat 4 and its depreciation and running costs over a full year in service, coupled with a provision for doubtful debts.

Turnover

Turnover for the year rose by approximately 12% to HK$1,005 million (2003: HK$896 million). This increase was due to the recognition of a one-time receipt as reported above.

Cost of Services

Cost of services was HK$420 million (2003: HK$313 million), an increase of HK$107 million, or 34%. The increase arose largely from depreciation (HK$66 million), in-orbit insurance (HK$26 million) and cessation of expenses capitalised (HK$10 million) relating to AsiaSat 4. AsiaSat 4 began commercial service from July 2003, thus, the running costs in 2003 were only half of that of 2004. In addition, there was also some increase in staff cost (HK$3 million) for the same reasons as reported below, and the operating expenses (HK$3 million) on the operation of the Tai Po Earth Station.

Other Operating Income

In 2004, there was other operating income of HK$0.2 million (2003: HK$0.9 million) arising from disposal of fixed assets. The other operating income in 2003 arose from the provision of in-orbit service support.

Interest Income

Interest of HK$22 million (2003: HK$5 million) was generated on short-term deposits, mainly from structured deposits and from funds on hand.

Administrative Expenses

Administrative expenses rose to HK$102 million (2003: HK$56 million), an increase of HK$46 million or 82%. The increase was mainly attributable to the provision for, and recovery of, doubtful debts (HK$24 million), staff costs (HK$13 million) and office accommodation (HK$3 million). The staff cost increases resulted mainly from the provision of discretionary performance bonuses and annual leave accrued liabilities required under the new accounting standard. The bonuses were payable to senior management and staff throughout the Company based on the achievement of the Company's target and the individual's goals. As the Company's target for 2003 was not achieved there were no executive performance bonuses paid to senior management. However, other staff who had met their individual goals were rewarded proportionally, based on the formula of the performance bonus scheme.

FINANCIAL REVIEW (CONTINUED)

Finance Costs

In 2004, there were minimal finance costs incurred (2003: HK$3 million) after the commissioning of AsiaSat 4.

Share of Results of Associates

The share of loss from associates, including amortisation of goodwill, amounted to HK$12 million (2003: HK$16 million), mainly from SpeedCast.

Impairment Loss

For the year 2004, there was no impairment loss recognised (2003: HK$2 million). The loss in prior year arose from the writing off of the goodwill in an associate, SpeedCast.

Taxation

The rate for Hong Kong Profits Tax for corporations remained at 17.5%. In 2003, the Company had to make an additional provision of HK$17 million on deferred tax for prior years as a result of a change in the tax rate, from 16% to 17.5%, with effect from 1st April, 2003.

Financial Results Analysis

The financial results are highlighted below:

		2004	2003	% Change
Turnover	HK$M	**1,005**	896	+12
Profit attributable to shareholders	HK$M	**431**	424	+2
Earnings per share	HK cents	**110**	109	+1
Dividend	HK$M	**137**	125	+10
Dividend per share	HK cents	**35**	32	+9
Dividend cover	Times	**3**	3	—
Capital and reserves	HK$M	**3,875**	3,568	+9
Return on shareholders' funds	%	**11**	12	-8
Net assets per share - book value	HK cents	**993**	914	+9

LIQUIDITY AND FINANCIAL RESOURCES

Sources of Financing

The Group's principal use of capital during the year under review was the capital expenditure related to the construction of ground facilities at Tai Po Earth Station to support the operations of the satellite fleet. These payments were financed through cash flow generated from operating activities.

Cash flow generated from operating activities, was more than sufficient to meet the capital expenditure and investment. The Group generated a net cash inflow of HK$575 million and remained debt free.

CAPITAL STRUCTURE

Funding and Treasury Policy

The Group adopts conservative treasury policies and exercises tight control over its cash and risk management. Cash is generally placed in short-term deposits denominated in U.S. Dollars to meet its payments. Hong Kong Dollar is pegged to U.S. Dollar at the exchange rate of HK$7.80 to US$1.00. The exchange movement has been kept within a narrow band. Therefore, the Group does not have any significant currency exposure.

Financial Instruments for Hedging

Since almost all the revenue of the Group is in U.S. Dollars there is no need to hedge its liabilities, which are also substantially denominated in U.S. Dollars.

Foreign Currency Investment

The Group does not have any material investment in currencies other than in U.S. Dollars or Hong Kong Dollars.

ORDER BOOK

At 31st December, 2004, the value of contracts on hand amounted to HK$2,939 million (2003: HK$3,720 million), the majority of which will be realised over the next few years. Almost all the contracts are denominated in U.S. Dollars. The decline in backlog was mainly attributable to reduced values of contracts on renewals reflecting the acutely competitive pricing and new leases being for shorter durations. Neither AsiaSat nor our customers were willing to make long-term commitments in the current market conditions and in view of the uncertainty on price movement.

SIGNIFICANT INVESTMENTS, THEIR PERFORMANCE AND FUTURE PROSPECTS

The Group increased its interest in SpeedCast Holdings Limited ("SpeedCast") from 45% to 47% by subscribing the rights issue of SpeedCast to the extent of approximately HK$12 million. SpeedCast provides three major services: broadband, corporate broadcast and multimedia.

For the year 2004, SpeedCast increased its turnover to HK$49 million (2003: HK$28 million), an increase of 75%. The company further reduced its loss to HK$10 million (2003: HK$40 million), a reduction of 75%. SpeedCast anticipates achieving a breakeven in 2005.

At 31st December, 2004, the book value of the investment in SpeedCast, including goodwill and an interest bearing loan of HK$5 million, was approximately HK$6 million.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In addition to subscribing the rights issue in SpeedCast as reported above, the Group invested HK$12 million in cash in a joint venture, Beijing Asia Sky Telecommunications Technology Company Limited ("Beijing Asia"), on a 49:51 basis to provide corporate data networks and services in China using VSAT (very small aperture terminal) technology. The Group has a commitment to provide transponder capacity to Beijing Asia in the form of a loan up to HK$12 million over the next few years, which will be repaid by a balloon payment at the end of five years or earlier if cash is available. The Group's maximum exposure to Beijing Asia is approximately HK$25 million.

Following the grant of a Non-domestic Television Programme Service Licence, Skywave TV Company Limited ("Skywave"), a subsidiary of AsiaSat made a right issue to increase its paid up capital from HK$1,000 to HK$30 million. AsiaSat injected HK$24 million in cash and retained an interest of 80% in Skywave on an enlarged share capital. Two independent strategic partners each acquired a 10% stake by means of contribution in kind to the value of HK$3 million.

SEGMENT INFORMATION

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

EMPLOYEES AND REMUNERATION POLICIES

At 31st December, 2004, the Group had 89 (2003: 83) permanent staff.

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), performance bonuses, share options (applicable to certain grades of employees) and fringe benefits that are compatible with the market.