

## 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.

### **EMPLOYEES AND REMUNERATION POLICIES (CONTINUED)**

Pursuant to the Company's new share option scheme adopted on 25th January, 2002 (the "Share Option Scheme"), the Board of Directors of the Company may grant options to any employees (including officers 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 quotations 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**

At 31st December, 2004, there were no charges on any of the Group's assets.

### **CAPITAL COMMITMENTS**

Details of the capital commitments of the Group are set out in note 26 to the financial statements.

At 31st December, 2004, the Group had total capital commitments of HK\$21 million (2003: HK\$49 million), of which HK\$16 million (2003: HK\$21 million) was contracted for but not provided in the financial statements and the remaining HK\$5 million (2003: HK\$28 million) was authorised by the Board, but not yet contracted.

### **GEARING RATIO**

At 31st December, 2004, the Company remained debt free. Hence, no gearing ratio was applicable.

### **EXCHANGE RATES AND ANY RELATED HEDGES**

During the year, 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. At 31st December, 2004, almost all the Group's transponder utilisation agreements, transponder purchase agreements, borrowings, obligations to purchase telemetry, tracking and control equipment were denominated in U.S. Dollars. Hence, the Group does not have any significant currency exposure and does not need to hedge.

### CONTINGENT LIABILITIES

Under Indian tax regulations, the Company may be subject to Indian income tax on revenues received by the Company in respect of income from the provision of satellite transponder capacity to the Company'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 Company 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
2002-03	38 million	210 million
<b>Total</b>	<b>146 million</b>	<b>848 million</b>

The Company has filed appeals for each of the assessment years 1997-98 to 2002-03.

No assessment has yet been made for the 2003-04 or 2004-05 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 Company is liable for Indian income tax under certain circumstances. The Company 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 and both the appeals have been admitted by the High Court.

In order to obtain a stay of recovery proceedings, the Company has made payments as follows and is recording these payments as an asset on the assumption that the amounts are recoverable:

Assessment year	Amount HK\$ (approximate)	Amount INR (approximate)
1997-98	13 million	78 million
1998-99	15 million	88 million
1999-00	10 million	62 million
2000-01	9 million	50 million
2001-02	20 million	119 million
<b>Total</b>	<b>67 million</b>	<b>397 million</b>

### **CONTINGENT LIABILITIES (CONTINUED)**

In addition, based on the general principles set forth by the Tribunal, the amount of income taxable in India depends on the payments made by the Company's customers to the Company for the purpose 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 Company's customers, the Company cannot reasonably estimate the taxable income and therefore also cannot estimate the amount of income tax to which the Company may be assessed. Furthermore, as stated above, the Company has filed an appeal against the Tribunal's decision. The appeal has been admitted by the High Court and is pending before the Court. Accordingly, no provision has been recognised for Indian income tax in the Company's financial statements.

### **CRITICAL ACCOUNTING POLICIES**

The Company's consolidated financial statements are prepared in accordance with Hong Kong GAAP. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. The Company continually evaluates these estimates and judgments, including those related to estimated useful lives of satellites, impairment losses on satellites, allowance for doubtful accounts, and contingent liabilities related to tax assessments from Indian tax authorities. The Company bases these estimates and judgments on its historical experience and other factors that it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company has identified below the accounting policies that are the most critical to its consolidated financial statements.

#### **Useful Lives of In-orbit Satellites**

The Company's operations are capital intensive and it has significant investments in satellites. The carrying value of the Company's in-orbit satellites (AsiaSat 2, AsiaSat 3S and AsiaSat 4) represented 59% of its total assets as of 31st December, 2004 (31st December, 2003: 72%). The Company estimates the useful lives of satellites in order to determine the amount of depreciation expense to be recorded during the reported period. The useful lives are estimated at the time satellites are put into orbit and are based on historical experience with other satellites as well as the anticipated technological evolution or other environmental changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these satellites may need to be shortened, resulting in the recognition of increased depreciation in a future period. Similarly, if the actual lives of satellites are longer than the Company has estimated, the Company would have a smaller depreciation expense. As a result, if the Company's estimations of the useful lives of its satellites are not accurate or are required to be changed in the future, the Company's net income in future periods would be affected.

### **CRITICAL ACCOUNTING POLICIES (CONTINUED)**

#### **Realisability of the Carrying Amounts of Long-lived Assets**

The Company is required to evaluate at each balance sheet date whether there is any indication that the carrying amounts of long-lived assets (primarily its satellites) may be impaired. If any such indication exists, the Company should estimate the recoverable amount of the long-lived assets. An impairment loss is recognised for the excess of the carrying amount of such long-lived assets over their recoverable amounts. The value in use is the discounted present value of the cash flows expected to arise from the continuing use of long-lived assets and cash arising from its disposal at the end of its useful life. The estimates of the cash flows are based on the terms and period of existing transponder utilisation agreements (“Existing Agreements”).

Modifications to the terms of the Existing Agreements that result in shorter utilisation periods than previously agreed and/or those that result in the reduction in agreed rates will result in a lower recoverable amount (if the discount rate used is not changed); which may, in turn, result in a situation wherein the recoverable amounts are less than the carrying amounts (therefore, an impairment loss would need to be recognised).

#### **Allowance for Doubtful Accounts**

The Company maintains allowance for doubtful accounts and for estimated losses that result from the inability of its customers to make the required payments. The Company bases its allowances on the likelihood of recoverability of account receivables based on past experience and current collection trends that are expected to continue. The Company’s evaluation also includes the length of time the receivables are past due and the general business environment.

If changes in these factors occur, or the historical data the Company uses to calculate the allowance for doubtful accounts as of 31st December, 2004 does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the Company’s future results of operations could be adversely affected.

#### **Contingency Related to Indian Tax Assessments**

The issue of Indian tax is covered under Contingent Liabilities above.