

Chairman's Statement

A CHALLENGING YEAR

The highlight of 2003 was the launch, in April, of AsiaSat 4 – our most powerful Pan-Asian satellite. Its launch was successful and its subsequent deployment faultless. We also completed and commissioned our new Tai Po Earth Station in Hong Kong, adding to our quality and service pledge.

The regional transponder market, however, remained sluggish, lagging behind early signs of economic improvement in some Asian markets. But AsiaSat maintained both its outstanding operating standards, and its premium client base in what was a very difficult year with low demand and highly competitive pricing pressure.

The outbreak of Severe Acute Respiratory Syndrome (or SARS) in the spring of 2003 in Hong Kong and neighbouring cities/areas also had an adverse impact on the business of the Company. Restrictions on travel resulting from the continued existence of SARS affected the Company's activity to market and serve new and existing customers throughout the Asian region. At the peak of SARS, almost all marketing activities came to a halt.

The results are disappointing, but they are in line with our earlier indications. However, we are in a long-term business and stand as the market leader with quality customers and, a debt free balance sheet, which leaves us well prepared for a recovery when it occurs.

FINANCIAL RESULTS

Turnover for the year ended 31st December, 2003 amounted to HK\$896 million (2002: HK\$951 million), a decline of 6%. This was a creditable performance, with the decline due largely to slow growth in new demand, business contraction of some customers, and continuing price pressure on new leases and renewals.

Profit attributable to shareholders for the year amounted to HK\$424 million (2002: HK\$555 million), a more significant reduction of 24% from the previous year. Earnings per share were HK\$1.09 (2002: HK\$1.42), a reduction of 23%. The steeper decline in profit was attributable mainly to the anticipated increase in depreciation on the new AsiaSat 4 and increased in-orbit insurance costs, combined with the decrease in turnover and an additional provision of deferred tax for both current and prior years. This arose as a result of the increase in the Hong Kong tax rate from 16% to 17.5% on 1st April, 2003. On the other hand, the Company was again able to lower other costs when compared with those of the prior year.

The Group continued to benefit from strong cash flow from its operations, and generated a net cash inflow of HK\$253 million (2002: HK\$270 million) after paying capital expenditure of HK\$162 million (2002: HK\$440 million) and dividends of HK\$203 million (2002: HK\$78 million). At the end of 2003, the Group had a cash balance of HK\$659 million (2002: HK\$406 million), and no debt.

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DIVIDEND

At the forthcoming Annual General Meeting, to be held on 14th May, 2004, your Directors will recommend a final dividend of HK\$0.24 per share (2002: HK\$0.19 per share). This, together with the interim dividend of HK\$0.08 per share (2002: HK\$0.06 per share), gives a total of HK\$0.32 per share (2002: HK\$0.25 per share), an increase of 28% compared with the prior year.

ASIASAT 4

The launch and commissioning of this new high-powered satellite is currently incurring additional costs for the Group at a time when markets have remained soft. The short-term impact is negative, but for the longer term, the addition of AsiaSat 4, which has a life expectancy of over 15 years, places the Group as a strong provider in the market with the significant growth potential.

OPERATIONS REVIEW

In-Orbit Satellites

AsiaSat's three in-orbit satellites, including AsiaSat 4, continued to operate well throughout 2003 with an exception of two related short duration service outages occurring on 24th December, and in the early morning of 26th December, 2003 on AsiaSat 2. This was the first break in service of an AsiaSat satellite in the history of the Company, and our technical staff was able to restore AsiaSat 2's service by noon on the same day. The outage caused no damage to the satellite and uninterrupted service has since been maintained.

At year-end, the number of transponders leased and sold remained unchanged, at 49. During the year, the Company leased out a total of ten transponders to existing and new customers but, at the same time, lost a similar number from non-renewals and early terminations as the weak economies impacted customers' businesses.

SPEEDCAST

SpeedCast increased its turnover to HK\$28 million (2002: HK\$12 million), a growth of 133%, largely attributable to the sales of equipment and provision of two-way broadband service, and lowered its loss to HK\$40 million (2002: HK\$49 million), a reduction of 18%. The Group's share of loss, including amortisation and impairment of goodwill, was HK\$18 million (2002: HK\$14 million). If the revenue generated from transponder capacity leased to SpeedCast was taken into account SpeedCast was able to make a small contribution to the Group after netting off the share of loss.

STRATEGY FOR GROWTH

Our strategy to achieve organic growth, and growth through acquisition and partnership, has been held back by the poor economic climate and the failure of identified targets to meet our investment criteria.

Nevertheless, we are well positioned to seize organic growth as well as acquisition opportunities, and to exploit the range of added value services we can offer as a result of the newly completed Tai Po Earth Station.

OUTLOOK

As we look ahead beyond this difficult period, it is worth reiterating that our business is long-term in nature, and that the positive factors that drive demand remain in place. They are television distribution (and increasingly in more developed markets, High Definition Television), and telecommunications networks that need connectivity over wide geographic coverage, at a fixed cost. This is where satellites succeed and terrestrial services cannot compete – particularly in large and physically scattered regions like the Asia Pacific.

This year, however, we do not see material signs of improvement among regional operators, nor new entrants to the market that would enable the Group to deliver stronger results in 2004 than in 2003.

Nevertheless, the longer-term future is positive and AsiaSat will remain focused on broadcast, rather than point-to-point communications. We will maintain our world-class reliability, operating standards and market leadership position, and stay vigilant for new opportunities for growth.

DIRECTORS AND STAFF

I would like to thank the Management and Staff for winning new customers and maintaining the support from our existing customers in a highly competitive and challenging year. This has been achieved through the provision of outstanding customer service levels. I would also like to thank the Board of Directors and every member of Staff for their contributions to the Company in a difficult year.

Mi Zengxin

Chairman

Hong Kong, 11th March, 2004