

# Chairman's Statement

## **A Solid Performance in Tough Conditions**

In line with our guidance, given at the time of interim results, 2005 proved to be a difficult year.

In what generally has been a period of economic strengthening in Asian markets, it is disappointing that the satellite sector remains static. This is because the satellite industry typically lags other sectors in responding to fluctuations in the economy. Additionally, in Asia, the industry is hindered by the fact that there is still significant over capacity and pricing pressure in the market.

Despite these conditions, we have reported a creditable result for the year under review and an increase of 18% in overall utilisation.

Looking ahead, we take comfort from the fact that demand continues to improve in many key markets, and much of the capacity scheduled for launch in the near future is either replacing existing satellites or dedicated to specific government supported domestic initiatives. Furthermore, while we are seeing the introduction of new applications that will enhance the use of satellite capacity, we are not seeing new challenges by another medium or new technology in the satellite application areas that we serve. On the contrary, our customers remain loyal to satellite communications and indicate a continuing demand to meet their future growth.

As we move forward, we believe that satellites will continue to provide a unique communication platform that is particularly valuable in the rapidly growing and fragmented Asian region. Despite the downturn over the past few years, we firmly believe that there is a long and bright future for our industry and, in anticipation of this growing future demand, I am pleased to report that we have initiated the process of ordering a replacement satellite for AsiaSat 2.

As a market leader in Asia, we remain totally committed to providing the best satellite services to our customers and continue to seek complementary growth opportunities. It is of note that the Company remains debt free and has sufficient capital to fund the new satellite without the need to borrow. I was also delighted to report at the time of the Interim Results that AsiaSat had been selected "Best Asian Satellite Carrier" in the 2005 Telecom Asia Awards by a panel of experts backed by financial analysis from the Yankee Group. I congratulate management and staff on this achievement.

# INFOMERCIAL

A television infomercial is a programme that combines information with an integrated offer to purchase products or services. Exercise equipment and correspondence courses are often sold through infomercials.

AsiaSat's fleet gives our customers unmatched access to audiences throughout the Asia Pacific and the ability to target specific sectors.



## Financial Results

The presentation of the financial results, specifically the comparison between the 2004 and 2005 figures, continues to be distorted by the inclusion of a one-time receipt in 2004 for early termination of a transponder utilisation agreement. This is the last report in which the comparative figures will be distorted by this one-time lump sum receipt.

### TURNOVER

Turnover for the year ended 31 December 2005 amounted to HK\$880 million (2004: HK\$1,005 million), some HK\$125 million below that of the prior year. Excluding the one-time contribution of HK\$107 million on the contract termination, turnover was down by HK\$18 million from the previous year.

### PROFIT

The profit attributable to shareholders for 2005 was HK\$366 million (2004: HK\$431 million), a decrease of 15%. The decrease was again distorted by the one-time receipt as reported above.

### CASH FLOW

In 2005, the Group generated a net cash in flow of HK\$401 million (2004: HK\$575 million) after paying capital expenditure of HK\$24 million (2004: HK\$48 million) and dividends of HK\$137 million (2004: HK\$125 million). At the end of 2005, the Group's cash balance increased to HK\$1,636 million (2004: HK\$1,234 million).

### OPERATING EXPENSES

Operating expenses were reduced to HK\$208 million (2004: HK\$235 million). The decrease was mainly attributable to a decrease in performance bonus, satellite insurance and provision for impairment of receivables.

### DEPRECIATION

Depreciation expense increased to HK\$295 million (2004: HK\$287 million), 2.8% above the prior year. This was mainly attributable to the increase in depreciation of the additional satellite tracking facilities and the Skywave TV Direct-to-Home (DTH) platform.

## Dividend

At the forthcoming Annual General Meeting, to be held on 19 May 2006, your Directors will recommend a final dividend of HK\$0.27 per share (2004: HK\$0.27 per share). This, together with the interim dividend of HK\$0.08 per share (2004: HK\$0.08 per share), gives a total of HK\$0.35 per share (2004: HK\$0.35 per share), the same as in the prior year.

## Business Review

### NEW SATELLITE

To ensure that we are well placed to continue to provide the very best in satellite services to our customers in the years ahead, we need to plan well into the future despite the current market conditions.

We have, therefore, initiated the process of procuring AsiaSat 5, a new satellite that will replace AsiaSat 2 at the orbital location of 100.5°E. The launch is scheduled for 2008, and more details are covered in the Operations Review.

### IN-ORBIT SATELLITES

Throughout 2005, the Group's three in-orbit satellites, AsiaSat 2, AsiaSat 3S and AsiaSat 4, continued to deliver excellent service to our customers. As reported above, at year end, we had increased the number of transponders leased and sold, including the 4 Broadcast Satellite Service ("BSS") transponders leased to Skywave TV for its DTH services, by more than 18%. Our new earth station in Tai Po, Hong Kong, combined with back up from our Stanley station, continued to provide the highest level of service for our customers.

### SPEEDCAST

SpeedCast Holdings Limited ("SpeedCast"), an associate in which the Company holds 47%, again improved its performance and moved into profit for the first time since its formation in 1999. I am delighted to report that during the year the company achieved a 66% increase in turnover to HK\$83 million (2004: HK\$50 million) and moved from its HK\$11 million loss in 2004 to a small profit in 2005. The company's core business is the provision of two-way and backbone broadband access. At 31 December 2005, SpeedCast had cash on hand of HK\$5 million after repaying the balance of the loan of HK\$5 million to AsiaSat and the Group's carrying investment in the company, including goodwill, was approximately HK\$0.4 million.

During the year, AsiaSat generated HK\$32 million (2004: HK\$19 million) by leasing transponder capacity to SpeedCast.

# INFOCASTING

Infocasting describes the use of closed networks to transmit business and financial data in real time.

AsiaSat provides secure connections for its customers' information networks. These include stock exchanges, multinational corporations, banks and private user groups.



# NEWSETAINMENT

Newsetainment is the fusion of hard news and viewer entertainment.

AsiaSat's satellites are used to deliver live or delayed, audio and video transmissions from 'outside' broadcasts and non-studio locations to viewers across the Asia Pacific region.



### Business Review (continued)

#### SKYWAVE

Skywave TV Company Limited ("Skywave"), an 80%-owned subsidiary of AsiaSat, made good progress with the setting up of a low cost regional DTH service for Hong Kong, Macau, Taiwan and Southern China.

Having launched its operations at the beginning of 2005, by year end the company was offering 36 programmes branded under Family Favourites, Premium Movies and Premium Sports.

For the year 2005, Skywave incurred a loss of approximately HK\$4 million, of which the Group's share was about HK\$3 million.

#### BEIJING ASIA

Our joint venture in Mainland China, Beijing Asia Sky Telecommunications Technology Company Limited ("Beijing Asia"), in which AsiaSat holds a 49% interest, provides VSAT (very small aperture terminal) services in China. The company commenced business in October 2004 and in the year under review incurred a loss of approximately HK\$8 million, of which the Group's share was HK\$4 million. At the end of the year, AsiaSat's investment in Beijing Asia amounted to HK\$14 million.

The Group has a commitment to continue providing transponder capacity to Beijing Asia in the form of a loan of up to HK\$12 million over the next few years, of which half has been utilised. The Group's maximum exposure to Beijing Asia will be approximately HK\$25 million of which HK\$13 million is in the form of a cash contribution.

### Outlook

Signs of economic improvement in Asia continue, but there is an oversupply of transponder capacity in certain markets in the region and this is restricting significant positive growth for our industry. Without immediate changes in some countries' regulatory environments or the rapid introduction of some of the pending new applications in Asia, we believe that the situation is unlikely to change significantly in the short term.

Certain lease rates are beginning to firm up, however, and there are some promising developments in the areas of High Definition Television (HDTV), Video to Mobile, and DTH services that are, to some degree, being stimulated by the opportunities surrounding the 2008 Beijing Olympics. We are also seeing the gradual liberalisation of the regulatory environment in some markets and the expansion of communications in others, including India and Pakistan. These early indicators are encouraging and bode well for the future.

## Chairman's Statement

### Outlook (continued)

Looking ahead, we continue to believe that AsiaSat's future will be built on the unique advantages that satellites offer over terrestrial services especially to television distribution services and private telecommunications networks. This is particularly relevant in the widely fragmented and developing regions of Asia. We also have a strong, high calibre client base, world-class facilities, including an operational back-up facility and quality customer services. The Company is financially stable and well positioned for the future.

### Directors and Staff

As announced in November 2005, Ms. Cynthia DICKINS was appointed as a Non-executive Director of the Company. I wish to welcome her to the Board.

Finally, I want to convey my thanks to Management and Staff for their dedication and loyalty, and for upholding AsiaSat's world-class operating standards and reputation during these less than optimal times. It is for this professionalism that our Company is respected the world over and why, when the market does turn positive, we shall benefit from our position as a market leader in the Asia-Pacific region.

**Romain BAUSCH**

*Chairman*

Hong Kong, 16 March 2006



# MOBITAINMENT

Mobitainment is where entertainment and mobility converge.

AsiaSat distributes content for its mobile operator customers to meet the demands of the 'mobicentric' generation.

Transmissions include mobile radio, music and movie downloads, TV, and 3D multimedia games access through Wi-Fi and 3G services.



# NETUCATION

Netucation is a term that expresses the distribution via private networks of educational material.

AsiaSat's customers are able to establish private VSAT networks via satellite to broadcast high quality distance learning programmes.

