

Operations Review

Market Review

Asian economies have strengthened in recent years but, unfortunately, that has not benefited our industry as the market remains fiercely competitive. The satellite sector typically lags behind others in responding to overall shifts in the economy, thus, it is unlikely that we will see significant improvements in most markets in the immediate future.

There are, however, emerging positive trends that give us reason to be optimistic. Triggered by economic growth across Asia, and despite excess capacity, demand is catching up in a few key markets and this is reducing downward pressure on pricing.

New capacity is scheduled to be launched in the near future, but most is either replacing existing satellites or is dedicated to specific government supported domestic initiatives. Emerging new applications, however, will drive further demand for satellite capacity, and positive trends in deregulation are another cause for optimism as some governments prepare to open up their domestic markets to new satellite delivery services.

NEW SATELLITE CAPACITY

In the year under review, seven new satellites that cover portions of Asia were launched, bringing the total number covering the region to 75. Of the newly-launched satellites, two are Russian, one covers the Pacific Ocean, one is a broadband satellite dedicated to internet services, and one is already filled to capacity with domestic telecom traffic. These five satellites are generally not seen as direct competitors to AsiaSat, but the other two do compete against AsiaSat in various markets with one of them focusing exclusively on China. These two satellites have added 16 additional C-band transponders and 24 additional Ku-band transponders to the current list of active competitors.

SHORT TERM DEMAND

As noted above, in the short term, the oversupply, sluggish demand and pricing pressures continue to hinder growth and there is only a limited number of new video channels entering this highly competitive environment. Many operators of existing TV channels are looking to expand but few have made any commitments. Demand in telecommunications, however, is growing steadily but the prevalent strong competition and aggressive pricing makes this a challenging business.

Market Review (continued)

SHORT TERM DEMAND (CONTINUED)

Certain domestic regulatory activities are also showing signs of improvement. The introduction of DTH services is planned for a number of key markets over the next year or two. However, existing regulations limiting foreign ownership and preventing new DTH services from using non-domestic satellites are creating problems for foreign operators and are hindering foreign investment. Nevertheless, these developments are positive for the future as the overall excess capacity in the region is reduced as a result of the domestic capacity being taken up.

MEDIUM TO LONG TERM DEMAND

The long term picture is much brighter. Once regulators open up their markets to DTH, it is likely that competition and market forces will gradually push markets into opening up to foreign operators and investors. Judging by the forecast for DTH systems in the region, it would appear that domestic satellite operators will not be able to meet the demand for DTH capacity. Demand for additional high quality programming content by competing television platforms, regardless of their delivery means, cable, DTH or Asymmetric Digital Subscriber Line (ADSL), will also fuel the need for greater satellite capacity for delivering the programming to these domestic platforms.

New technologies and applications such as HDTV, video to mobile technology, and service bundling will also drive demand for satellite capacity. There are already positive developments in these areas, driven by events such as the 2008 Beijing Olympics. Competition is also forcing television platform operators to look for new applications and technologies to differentiate themselves. The requirement for economic development in countries that have geographic areas devoid of traditional communications infrastructure is also forcing governments to examine the latest technologies that can provide the required communication links to these areas. These developments will benefit all satellite operators, including AsiaSat.

STRATEGIES

As difficult market conditions persisted throughout 2005, the Company continued to build its high quality customer base. We achieved this by competing for new strategic customers and renewing existing customer contracts. Although all new contracts were contested, the Company was able to maintain its premium pricing over its competitors because of AsiaSat's outstanding service quality.

In some exceptional cases, shorter and more competitive contracts were signed in order to secure or retain strategic relationships. This strategy, while not boosting our revenue or significantly increasing our backlog, was very successful in raising our overall utilisation.

During 2005, new initiatives were undertaken, such as Skywave DTH and Beijing Asia. These are long-term projects by nature and they position the Company well in two key areas for future growth and development.

QUALIVISION

Qualivision refers to the quality viewing experience that High Definition Television (HDTV) can achieve over analogue television. Through the delivery of digital surround sound and approximately double the number of vertical and horizontal lines compared to conventional television screens, HDTV significantly enhances picture and sound quality, thus increasing the sense of 'being there'.

AsiaSat is meeting the demands of customers in the region to further enhance the TV viewing experience as they adopt HDTV standards.



Performance Review

As reported in the Chairman's Statement, 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. Without that distortion sales were down by just HK\$18 million from the previous year. This was due largely to the lethargic market and the pressure on transponder lease rates. The reduction in revenue had a corresponding negative impact on profit. However, careful management of costs achieved a decrease in operating expenses to HK\$27 million, and this helped limit the decline in the final profit to 15% when compared to 2004.

Satellites

NEW SATELLITE

To ensure that we are strategically placed to provide the best in satellite services to our customers in the years ahead, we need to plan well into the future in spite of 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. Since we will retire AsiaSat 2 in 2010, we are scheduling the replacement satellite to be launched in 2008. In the event of a failure of AsiaSat 5 during launch, this schedule allows sufficient time for a replacement to be built and launched prior to AsiaSat 2's retirement.

IN-ORBIT SATELLITES

The three in-orbit satellites currently operated by the Group - AsiaSat 2, AsiaSat 3S, and AsiaSat 4 - continued to perform well through 2005, without any incidents.

Our three satellites are located in geostationary positions over the Asian landmass and provide AsiaSat customers with access to two-thirds of the world's population. The high power of our satellites and the range of services we provide give customers comprehensive point to multi-point distribution and services throughout the geographically fragmented Pan-Asian region.

AsiaSat 2 was launched in 1995 and is configured with 24 C-band and 9 Ku-band transponders and orbits at 100.5°E. Its overall utilisation rate, as of 31 December 2005, had increased to 40% (2004: 36%) and this was due to a number of new transponder utilisation agreements signed during the year.

AsiaSat 3S, launched in 1999, is located in the 105.5°E slot and carries 28 C-band and 16 Ku-band transponders. Its overall utilisation rate at 31 December 2005, remained at 73%, the same level as in 2004.

AsiaSat 4 was launched in 2003 and is positioned at 122.2°E. It carries 28 C-band and 20 Ku-band transponders including a BSS payload. Its overall utilisation rate, at 31 December 2005, showed a very satisfactory increase to 47% (2004: 27%). This was due to a combination of growth from new customers and some migration.

Satellites (continued)

IN-ORBIT SATELLITES (CONTINUED)

Overall, at 31 December 2005, the total number of transponders leased and sold for all the three satellites was 67 (2004: 57 transponders), an improvement of 18%, while the overall utilisation rate rose to 54% (2004: 46%). It is pleasing that, despite the tough market conditions, we gained new customers and increased overall utilisation.

Earth Stations

TAI PO

Our Satellite Control Centre in Hong Kong operated well throughout the year. The 5,711 square metre Earth Station has five full performance antennas, four 7.3 metre antennas, and one 11.3 metre antenna. The satellite fleet is controlled and monitored from Tai Po.

The Tai Po Centre is backed up by identical circuits at the Stanley Tracking, Telemetry, and Control Station and this enables us to provide the unmatched level of service and reliability that we commit to our customers. Additionally we can also now offer a range of value-added services including an MCPC (multi-channel per carrier) platform, uplink and back up.

STANLEY

The back-up station at Stanley contains seven full performance antennas, one of 5 metres, three of 6 metres, one of 9 metres, and two of 11 metres. In the unlikely event of an outage at our primary control centre in Tai Po, the duplicate facilities at Stanley allow our satellites to be fully controlled from the Stanley premises.

Contracts on Hand

At 31 December 2005, the Group maintained a contract backlog of HK\$2,611 million (2004: HK\$2,939 million), a decline of HK\$328 million. With the pressure on lease and renewal rates, the fall was mainly attributable to reduced contract values on renewals and new contracts signed during the year. The lower lease rates also resulted in shorter contract terms as neither AsiaSat nor its customers were willing to make long-term commitments in the current market conditions and in view of the uncertainty on price movement.

Operating Licences

NON-DOMESTIC TELEVISION PROGRAMME SERVICE LICENCE

During the year, the Group applied for, and in September 2005 was awarded, another Non-domestic Television Programme Service licence by the Hong Kong Broadcasting Authority. We secured this licence, which is in addition to the Non-domestic Television Programme Service licence of Skywave, to allow the Company to operate our AsiaSat 2 MCPC platform from our Tai Po facility. It will also allow AsiaSat to offer value-added services to broadcast customers seeking to reduce cost by joining an existing MCPC platform.

Operating Licences (continued)

FIXED CARRIER LICENCE

AsiaSat maintains its fixed carrier licence obtained in May 2004 from the Office of the Telecommunications Authority of Hong Kong. This licence permits AsiaSat to provide television broadcast and telecommunications uplink services to our satellites and, in the event of an emergency at STAR's broadcast facilities, provide them a back-up service.

Business Development

As discussed above, during the year AsiaSat established a new MCPC distribution platform using a full 36 MHz C-band transponder on AsiaSat 2, providing customers with a comprehensive and lower-cost alternative to broadcasting video in a SCPC (single channel per carrier) configuration. We operate this service out of our Tai Po facilities. In addition to eliminating customers' needs to purchase their own MCPC platforms, the entire power of the transponder is used, thus enabling the deployment of smaller dishes, resulting in lower costs to the end user.

Associate and Subsidiary Companies

SPEEDCAST

As the Chairman reported in his statement, SpeedCast Holdings Limited ("SpeedCast") continued its improved performance and has moved into profit for the first time since its formation in 1999. In 2005, the company achieved a 66% increase in turnover to HK\$83 million (2004: HK\$50 million), led by increased activity in many developing countries in Asia as well as the Middle East.

With hub facilities in Hong Kong, Malaysia, and Indonesia, SpeedCast is well positioned to provide services to key markets throughout the region. The company's core business continues to be the provision of two-way and backbone broadband access. However, demand in the area of video to mobile services is also increasing and initiatives at SpeedCast are underway to take advantage of these emerging opportunities.

SpeedCast is a growing customer of AsiaSat and, during the year, AsiaSat generated HK\$32 million (2004: HK\$19 million) by leasing transponder capacity to SpeedCast.

SKYWAVE

Operating under a Hong Kong Non-domestic Television Programme Service licence, Skywave TV offers a variety of some 36 TV channels to authorised subscribers in the AsiaSat 4 BSS coverage area. Skywave is a niche service offering high quality content to customers in its designated service area, which is 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.

Associate and Subsidiary Companies (continued)

SKYWAVE (CONTINUED)

There is fierce competition in this market from a number of satellite TV carriers. Skywave TV's strategy is based on low cost, subscriber flexibility, high quality Chinese language programmes, and the creation of market discriminators. These include various programme packages addressing individual viewing preferences as well as discriminators that offer varying programmes in different markets within the satellite coverage area.

The initial creation and continued improvement of the Skywave Info Channel and Skywave website offers a platform for the company to promote its service, authorise new subscriptions, design and try new content, as well as inform customers of current and future developments with the service. Our investment in the company is long-term, and we do not anticipate that Skywave will be in position to contribute positively to AsiaSat's results in the near term.

As is the case with all pay TV services, signal piracy is an ever-present threat. Skywave is actively working with its conditional access technology provider to address the threat of piracy in its own and other markets throughout Asia.

BEIJING ASIA

Beijing Asia Sky Telecommunications Technology Company Limited ("Beijing Asia"), a joint venture in which the Company holds 49% interest, provides satellites based telecommunications network consultancy and technical support services to customers in China. Beijing Asia commenced operation in October 2004. It provides government institutions and major corporations with corporate data networks, data broadcasting services, and a trial telephony network connecting remote sites in China using VSAT (Very Small Aperture Terminal) technology.

AUSPICIOUS COLOUR

Auspicious Colour Limited ("Auspicious Colour"), a wholly-owned subsidiary of the Company, was established in March 2005, and was granted a Non-domestic Television Programme Service licence on 17 September 2005 from the Hong Kong Broadcasting Authority. Auspicious Colour was set up to provide a one stop service that combines the provision of satellite capacity and uplink service to broadcasters.

Peter JACKSON

Chief Executive Officer

Hong Kong, 16 March 2006