

PERFORMANCE REVIEW

As reported in the Chairman's Statement, the Company achieved a higher turnover and profit attributable to shareholders. The lower growth in profit than in turnover was due to the increase of HK\$88 million in expenses. This was largely attributable to the new satellite insurance costs (HK\$26 million), provision for, and recovery of, doubtful debts (HK\$24 million), staff costs (HK\$16 million) and additional costs in running the Tai Po Earth Station. In addition, there was also an increase of depreciation amounting to HK\$66 million arising mainly from AsiaSat 4.

The staff cost increases resulted mainly from the provision of discretionary performance bonuses and an annual leave accrued liability for employees required under the Statement of Standard Accounting Practice 34 - Employee Benefits. 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 was no performance bonus paid to senior management. However, for the other staff who had met their individual goals, they were rewarded proportionally based on the formula of the performance bonus scheme.

IN-ORBIT SATELLITES

The Group's three in-orbit satellites, AsiaSat 2, AsiaSat 3S and AsiaSat 4 all operated well through 2004 and we achieved an increase in overall utilisation.

On 20th November, 2004, a transponder on AsiaSat 3S beaming television signals to viewers in Mainland China was intentionally interfered with by a higher powered signal emitted from an unknown source in the satellite's Asian footprint. Appropriate action was taken and the interrupting signal was discontinued after a few minutes. However, the interference caused an interruption of services to our customers in China for a few hours.

All three of AsiaSat's satellites are located in geo-stationary positions over the Asian landmass and provide AsiaSat customers with access to 70% of the world's population. Our high-powered satellites enable comprehensive point to point, point to multi-point and distribution services throughout the geographically spread Pan-Asian region.

AsiaSat 2 was launched in 1995 and carries 24 C-band and 9 Ku-band transponders and orbits at 100.5°E. Its overall utilisation rate as at 31st December, 2004 had decreased to 36% (2003: 54%). The decrease was mainly attributable to some customers being reluctant to return to this satellite after they were temporarily moved to AsiaSat 3S and AsiaSat 4 under the back up agreement during a brief period of interruption in December 2003.

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 31st December, 2004 rose to 73% (2003: 59%), resulting from a mixture of new customers, expansion of existing customers and migration from AsiaSat 2.

IN-ORBIT SATELLITES (CONTINUED)

Our newest satellite, 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 (Broadcast Satellite Service) payload. Its overall utilisation rate at 31st December, 2004 also showed a very satisfactory increase to 27% (2003: 10%). The increase was also due to a combination of growth and migration.

At 31st December, 2004, the total number of transponders leased and sold for all the three satellites was 57 (2003: 49 transponders), an improvement of 16%, while the overall utilisation rate reached 46% (2003: 39%). It is pleasing that, despite the tough market conditions, we gained additional customers.

EARTH STATIONS

Tai Po

Our state of the art, 24/7, Satellite Control Centre in Tai Po, Hong Kong, has now been fully operational for a year and has performed without fault. A new satellite control and monitor software program has been installed in the Satellite Control Centre and is currently undergoing system testing. The 5,711 square metre Earth Station has five full performance antennas, four of 7.3 metres and one of 11.3 metres. Our satellite fleet is now controlled and monitored primarily from Tai Po.

This new facility is equipped with identical circuits as the Stanley Tracking, Telemetry and Control Station and thus, provides the unmatched level of service and reliability that we commit to our customers. We can also now offer them a range of value-added services, including an MCPC (multiple channels per carrier) platform, Ku-band uplink and back up.

Stanley

This station, formerly the primary control facility, comprises seven full performance antennas, one of 5 metres, three of 6 metres, one of 9 metres and two of 11 metres, and now provides comprehensive back up and uplinking capability.

MARKET REVIEW

New Satellite Capacity

In 2003, there were eight successful launches in the Asian region, whereas in 2004 the number declined to three. These brought the total satellites in orbit (between the orbital position 40°E and 183°E) to 71. Of the newly launched satellites, two are Russian, which do not generally compete with AsiaSat in the broadcast sector, while the remaining one will directly compete with us.

MARKET REVIEW (CONTINUED)

Short-term Demand

The market continues to be held back by two main factors: continuing weak demand on one hand and the oversupply of transponders that has been addressed above. On the demand front, operators of existing TV channels have not yet indicated any intention to significantly expand, despite some economic improvement in certain markets and we have seen few new television operators entering the market. Telecommunication operators, meanwhile, are expecting very low lease rates.

We are also seeing some domestic regulatory barriers preventing new domestic TV and telecoms applications from using non-domestic satellites and this does not encourage new application growth. In addition, the outflow of foreign exchange can be subject to government control and/or is highly discouraged and this also inhibits the competitiveness of non-domestic operators.

Medium to Long-term Demand

Despite the sluggishness of the market, reports from national and regional television broadcasters indicate that their revenues are, in fact, increasing. We are following this early trend closely and are in discussions with regional television channels that are now planning for future expansion and with new entrants that are starting to re-look at the Asian market. Current excess capacity will obviously delay the effect of this potential growth and the process will be slow in the near term. However, as the Chairman has reported, it would indicate that the market will expand in due course.

Strategies

In the face of static demand, we focused our energy in 2004 on building our market share and client base through winning new regional TV customers, renewing existing customers and expanding our revenue stream both with existing and new customers. This included establishing the additional MCPC platform, as reported above. This initiative has been successful, as evidenced by the increased overall utilisation and turnover. Even though, it should be emphasised that our pricing is under constant pressure as some competitors are willing to offer deep discounts and, in some cases, to provide capacity virtually free of charge.

CONTRACTS ON HAND

At 31st December, 2004, the Group had contracts on hand worth HK\$2,939 million (2003: HK\$3,720 million), a reduction of HK\$781 million. The decline 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.

OPERATING LICENCES

Non-domestic Television Licence

Following the granting of a Non-domestic Television Programme Service licence for 12 years by the Broadcasting Authority of Hong Kong, Skywave TV Limited ("Skywave") may provide selected programming to the markets of Macau, Hong Kong, Taiwan and subscribers in Southern China licenced to receive foreign television services.

Fixed Carrier Licence

In May 2004, AsiaSat obtained a Fixed Carrier Licence from the Office of the Telecommunications Authority of Hong Kong. This licence permits AsiaSat to provide television uplinking and other telecommunications services via satellite including allowing us to provide back up services to STAR in the event of emergency.

ASSOCIATE AND SUBSIDIARY COMPANIES

SpeedCast

In the year under review, the business of SpeedCast Holdings Limited ("SpeedCast") continued to improve. This company provides three major services: broadband, corporate broadcast and multimedia.

The result was accomplished through growth in turnover both in service revenue and equipment sales. The demand for backbone services was particularly strong with new activations and upgrades in countries including Afghanistan, Bangladesh, Malaysia, Pakistan, Sri Lanka, Saudi Arabia and Thailand. Higher turnover on broadband was mostly attributable to the strong demand of backbone service from countries in which satellites offer a market advantage.

ASSOCIATE AND SUBSIDIARY COMPANIES (CONTINUED)

Skywave

As mentioned, following the granting of a Non-domestic Television Programme Service Licence, Skywave and its partners have worked to establish a low cost Direct-to-Home (DTH) platform to serve the markets of Hong Kong, Taiwan, Macau and Southern China.

Utilising the BSS transponders of AsiaSat 4, Skywave now offers a variety of some 36 entertainment programmes for direct reception to authorised viewers who have installed antennas as small as 35cm in diameter. Positioned as an alternative to cable television, Skywave provides coverage to areas not readily serviced by cable or other terrestrial television services. Skywave has incorporated the latest in conditional access technology in order to eliminate the harmful effects of piracy. Programmes are encrypted and customers are authorised using a sophisticated payment voucher and subscriber management system. With its studios and uplink located in Macau, Skywave commenced trial service on 31st December, 2004. While it is still early, the start has been encouraging and we look forward to seeing continued positive growth in subscriber numbers.

As the Chairman has reported in his statement, this company is now operating and the initial response has been encouraging.

Peter JACKSON

Chief Executive Officer

Hong Kong, 17th March, 2005