

Operations Review

Market Review

The effects of the growing strength in some Asian economies have still not worked their way through to the satellite industry. This is caused, partly, by the fact that new demand is being absorbed by the existing oversupply that, concurrently, is being increased by new launches. This phenomenon, generally, continues to impact rates negatively and is keeping the market highly competitive.

A further factor is that the satellite sector typically lags behind others in responding to overall shifts in the economy, so it is again unlikely in the near future that AsiaSat will see significant improvements in demand for transponder capacity in most Asian markets.

As the Chairman has reported, however, there are emerging positive trends that give us good reason to remain optimistic for the longer term.

First, much of the new capacity that has been launched or is scheduled to be launched in the near future is replacing existing satellites or is dedicated to specific government supported domestic initiatives. And second, new applications will drive further demand for satellite capacity, as will deregulation, of which there are also positive signs as some governments have indicated that they are prepared to open up their domestic markets to new satellite delivery services.

NEW SATELLITE CAPACITY

In 2006, nine new satellites that cover portions of Asia were launched, but two suffered total loss at launch. After the retirement or relocation of five others, the seven successful new satellites brought the total number covering the region to 77 (2005: 75), a net increase of two. The effect was a decrease of 13 C-band transponders and an increase of 64 Ku-band transponders that are in competition with AsiaSat. At 31 December 2006, the number of C-band and Ku-band transponders available were 1,225 (2005: 1,238) and 1,250 (2005: 1,186) respectively. Of these newly launched satellites, two are Japanese, one is from Thailand and one from Malaysia. The other satellites are from Australia, Korea and Kazakhstan. The new Australian satellite's 24 Ku-band transponders also compete with our AsiaSat 4 Australasia Ku-band.

Operations Review

Market Review (continued)

SHORT-TERM DEMAND

In the short term, the persistent oversupply, slow demand and downward pressure on pricing continue to hold back growth on one hand while, on the other, only very few new video channels are entering this highly competitive market. Few operators of existing TV channels have made any commitment to expand, although they are looking to do so. Demand in telecommunications is certainly growing steadily but the strong competition and tough pricing present enormous challenges.

There are signs of domestic regulatory activities in certain markets, and these are also showing signs of improvement. New DTH services are also planned for a number of important markets over the next few years, but existing regulations that limit foreign ownership and prevent new DTH services from using non-domestic satellites are creating barriers for foreign operators and are discouraging foreign investment. Even so, these developments are positive as the overall surplus capacity in the region reduces as a result of domestic capacity being absorbed.

MEDIUM TO LONG-TERM DEMAND

Looking ahead, the long-term outlook is brighter. As markets open up to DTH, we believe that this will encourage competition and, in due course, the entry of foreign operators and investment. The forecast for DTH systems in the region indicates that domestic satellite operators will not be able to meet the demand for DTH capacity, and this too bodes well for AsiaSat.

The region's competing television platforms also have a growing appetite for high quality programming. This will drive the need for greater satellite capacity regardless of the delivery means, which may be cable, DTH or Asymmetric Digital Subscriber Line (ADSL).

The early positive signs of increased activity, including those in association with the 2008 Beijing Olympics, continue. There is some progress in areas of new technologies, including HDTV, video to mobile, and service bundling, all of which will drive demand for satellite capacity. However, the launch failure of Sinosat 2, which was designed exclusively for China's DTH market, may delay the lifting of the ban on private satellite dish ownership in China.

Competition is also forcing television platform operators to differentiate themselves through new applications and technologies. In addition, economic development in countries that lack traditional communications infrastructure, is forcing governments to examine the latest technologies, including satellites that can provide the much needed communications to and within these areas.

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Market Review (continued)

STRATEGIES

The extended period of little growth in the satellite industry in the Asia-Pacific region is presenting challenges and opportunities for the Group. The Chairman has addressed the indications of continued consolidation and, at AsiaSat, we have maintained close liaison with our customers and have continued to build our high quality customer base.

We achieved this both 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.

Exceptionally, however, we have entered into certain shorter and more competitive contracts that were signed in order to secure or retain strategic relationships. This strategy did not enhance our revenue or significantly increase our backlog, but it was successful in retaining customers and raising our overall utilisation in the current difficult market conditions.

During 2006, our newer initiatives made encouraging progress. These included Skywave DTH and Beijing Asia, which are long-term projects that position AsiaSat well for future growth in two key development areas.

Performance Review

The Chairman has reported in his statement that the comparison between the 2005 and 2006 figures have been enhanced by the inclusion of one-time receipts in 2006 for early termination of certain contracts. Revenues were up by HK\$50 million from the previous year, with the increase being generated through receipts from the early termination of contracts. Interest income increased substantially and, despite working in a difficult environment, we also achieved savings in operating expenses. These were contained at the 2005 level with increases in some areas being offset by savings in others. As a result, the Company achieved a 24% increase in profit.

Satellites

NEW SATELLITE

In May 2006, the Company signed the construction contract with Space Systems/Loral, Inc. for AsiaSat 5, a new satellite that will replace AsiaSat 2 at the orbital location of 100.5°E. We had also contracted with Sea Launch Company, L.L.C. for the launch of AsiaSat 5 aboard a Zenit-3SLB rocket on the Land Launch system. This was initially scheduled for the second half of 2008 from the Baikonur Cosmodrome in Kazakhstan. As reported earlier, however, the launch may have to be delayed to 2009 due to the lack of availability of the launch vehicle.

Operations Review

Satellites (continued)

NEW SATELLITE (CONTINUED)

AsiaSat 5 will be built on an SS/L 1300 series satellite platform and will carry 26 C-band and 14 Ku-band transponders, and has an estimated operational life of 15 years. AsiaSat 5's C-band footprint will offer more powerful pan-Asian coverage than AsiaSat 2. Its Ku-band coverage will consist of three high-power beams, two of which will cover East Asia and South Asia, and an in-orbit steerable beam that can be positioned to provide service anywhere within AsiaSat 5's geographic coverage.

IN-ORBIT SATELLITES

Our three in-orbit satellites - AsiaSat 2, AsiaSat 3S, and AsiaSat 4 - continued to perform well throughout 2006 without incident.

All three satellites are located in geostationary positions over the Asian landmass and this enables us to provide our customers with access to 70% of the world's population. We are also able to give customers comprehensive point to multi-point distribution and services throughout the geographically fragmented pan-Asian region, and it is the high power of our satellites and the range of services we provide that makes this possible.

AsiaSat 2, launched in 1995, carries 24 C-band and 9 Ku-band transponders and orbits at 100.5°E. At 31 December 2006, its overall utilisation rate had increased to 47% (2005: 40%) due to a number of new transponder utilisation agreements signed during the year.

AsiaSat 3S, was launched in 1999 and is located in the 105.5°E slot. It provides 28 C-band and 16 Ku-band transponders and its overall utilisation rate at 31 December 2006 also increased, to 74% (2005: 73%).

AsiaSat 4, launched in 2003, is positioned at 122.2°E. Its configuration offers 28 C-band and 20 Ku-band transponders including a BSS (Broadcast Satellite Service) payload. Its overall utilisation rate, at 31 December 2006, improved to 48% (2005: 47%).

Overall, at 31 December 2006, the total number of transponders leased and sold for all three satellites was 71 (2005: 67 transponders), an improvement of 6%, while the overall utilisation rate rose to 57% (2005: 54%). This utilisation rate did not include the transponder capacity used for occasional service on an ad hoc basis as it was difficult to quantify this usage and translate it into equivalent transponders. The revenue generated from occasional service amounted to HK\$37 million (2005: HK\$30 million), representing some 4% of the recurring revenue. It is of note that, despite the difficult market conditions, AsiaSat was able to increase both its number of new customers and overall utilisation.

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Earth Stations

TAI PO

AsiaSat's 5,711 square metre Earth Station at Tai Po in Hong Kong operated well throughout the year. It is from this Earth Station that our satellite fleet is controlled and monitored by its six full performance antennas: four 7.3 metre antennas, one 6.3 metre antenna, and one 11.3 metre antenna.

Identical circuits at the Stanley Tracking, Telemetry, and Control Station back up the Tai Po Earth Station and this twin system enables us to provide the unmatched level of service and reliability that we commit to our customers. We are also able to offer a range of value-added services including an MCPC (multi-channel per carrier) platform, uplink and back up.

STANLEY

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

Contracts on Hand

At 31 December 2006, the Group recorded a contract backlog of HK\$2,644 million (2005: HK\$2,771 million), a decline of HK\$127 million. Pressure on new lease rates and renewals were mainly responsible. The weak market also resulted in shorter contract terms as neither AsiaSat nor its customers were willing to make long-term commitments in the existing conditions, and in view of uncertain prices.

Operating Licences

NON-DOMESTIC TELEVISION LICENCE

During the year, the Group held two Non-domestic Television Programme Service licences issued by the Hong Kong Broadcasting Authority, one of which was that of Skywave. An additional licence, awarded in September 2005, allows the Company to operate its AsiaSat 2 MCPC platform from our Tai Po facility. It will also allow AsiaSat to offer value-added services and reduce cost for broadcast customers by offering an existing MCPC platform.

FIXED CARRIER LICENCE

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

Operations Review

Associate and Subsidiary Companies

SPEEDCAST

As the Chairman reported in his statement, SpeedCast, which was founded in 1999, continued its improved performance and has maintained its profit growth trend since reporting its increase in turnover to HK\$112 million (2005: HK\$83 million) in 2006. This was led by increased activity in a number of developing countries in Asia and the Middle East. For 2006, the company reported a net profit of HK\$5 million (2005: HK\$0.4 million).

SpeedCast has hub facilities in Hong Kong, Malaysia, and Indonesia, and these facilities place the company well to offer services to key regional markets. The company's core business continues to be the provision of two-way and backbone broadband access. 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 seen as a leader in the industry in Asia.

SpeedCast continues to be a growing customer of AsiaSat and, in 2006, AsiaSat generated HK\$46 million (2005: HK\$32 million) by leasing transponder capacity to SpeedCast.

SKYWAVE

Skywave operates under a Hong Kong Non-domestic Television Programme Service licence, and offers a variety of 37 TV channels to authorised subscribers in the AsiaSat 4 BSS coverage area. Skywave's niche service, which cannot be satisfied by cable, offers high quality content to customers in its designated service area. Skywave and its joint venture partners provide a comprehensive platform offering hardware distribution, product promotion, and customer service and subscriber management.

The market is extremely competitive. Skywave TV's strategy is based on low cost, subscriber flexibility, high quality Chinese language programmes, and the creation of unique offers. Its packages address individual viewing preferences and discriminators that provide programmes in different markets within the satellite coverage area.

The company's Skywave Info Channel and Skywave website offer platforms to promote its service, authorise new subscriptions, design and test new content, and keep customers abreast of current and future developments. 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. Thus, until changes in regulations governing the reception of DTH services are known, management predicts only moderate growth in subscriber numbers and revenue.

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Associate and Subsidiary Companies (continued)

SKYWAVE (CONTINUED)

Developments in DTH within China have been delayed due to a related satellite launch failure in late 2006. We are confident in the long-term future of DTH in China and the region, and we expect that Skywave will be recognised as an excellent platform from which to participate in the development of this market in China and the region. The Beijing Olympics in 2008 will also drive new services and DTH is one area that should benefit.

Signal piracy is a threat to all pay TV services, and Skywave is actively working with its conditional access technology provider to address this.

BEIJING ASIA

Beijing Asia was formed in October 2004 and is a joint venture in which the Company holds a 49% interest. It offers satellite-based telecommunications network consultancy and technical support services to customers in China. The company 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 technology.

There has been a surge in demand for transportable VSAT solutions for ships and police vehicles in China, and satellite applications provide an advantage that other transmission means would be difficult to challenge. Recently, an offshore oilfield service company contracted the joint venture to provide dedicated VSAT network solutions for its central data processing function in China. And during the year, the company expanded its business to new applications for disaster relief and mobile rescue vehicles.

Costs are under control but the company is still faced with the problems of overstocking brought about at the time of the JV formation.

AUSPICIOUS COLOUR

Auspicious Colour Limited ("Auspicious Colour") is a wholly-owned subsidiary of the Company and holds a Non-domestic Television Programme Service licence granted by the Television and Entertainment Licensing Authority of Hong Kong. Auspicious Colour provides a one-stop service that combines the provision of satellite capacity and uplink service to broadcasters.

Peter JACKSON

Chief Executive Officer

Hong Kong, 5 March 2007