Management Discussion and Analysis

Financial Review

OVERALL PERFORMANCE

The Group achieved a profit attributable to equity holders of HK$454 million (2005: HK$366 million), an increase of HK$88 million or 24% over the prior year. This improvement was mainly attributable to the recognition of one-time receipts for early termination of contracts and increase in interest income.

SALES

Sales for the year increased by approximately 6% to HK$930 million (2005: HK$880 million). This was also due to the one-time receipts of HK$50 million for early termination of contracts. Excluding the receipts, recurring sales were almost the same as in 2005.

COST OF SERVICES

Cost of services of HK$411 million (2005: HK$419 million) represented a decrease of HK$8 million or 2%. The reduction was due mainly to savings in the premium on self-insuring AsiaSat 2 following the imposition of unacceptable exclusions upon renewal of the in-orbit insurance.

OTHER GAINS

Other gains of HK$93 million (2005: HK$44 million) were mainly arising from interest income on short-term deposits.

ADMINISTRATIVE EXPENSES

Administrative expenses were HK$94 million (2005: HK$84 million), an increase of HK$10 million or 12%. The increase was due mainly to an increase of headcount and salary revisions, and provisions for performance bonus, leave compensation and long-term incentives.

FINANCE COSTS

In 2006, there were minimal finance costs incurred (2005: minimal) after the commissioning of AsiaSat 4.

SHARE OF LOSS OF ASSOCIATES

The share of loss from associates, amounting to HK$8 million (2005: HK$4 million), was mainly from the joint venture, Beijing Asia, in which the Company holds 49%.

Management Discussion and Analysis

Financial Review (continued)

TAXATION

The rate for Hong Kong Profits Tax for corporations remained at 17.5% (2005: 17.5%). The effective tax rate of the Company in 2006 was 10.9% (2005: 12.3%).

FINANCIAL RESULTS ANALYSIS

The financial results are highlighted below:

		2006	2005	% Change
Sales	HK$M	**930**	880	**6**
Profit attributable to equity holders	HK$M	**454**	366	**24**
Dividend	HK$M	**137**	137	**—**
Capital and reserves	HK$M	**4,427**	4,110	**8**
Earnings per share	HK cents	**116**	94	**23**
Dividend per share	HK cents	**35**	35	**—**
Dividend cover	Times	**3**	3	**—**
Return on equity	%	**10**	9	**11**
Net assets per share - book value	HK cents	**1,133**	1,053	**8**

Liquidity and Financial Resources

SOURCES OF FINANCING

The Group's principal use of capital during the year under review was the payment of dividends, profits tax and capital expenditure related to the construction of AsiaSat 5. These payments were financed through cash flow generated from operating activities.

Cash flow generated from operating activities was more than sufficient to meet these payments. The Group generated a net cash inflow of HK$344 million (2005: HK$401 million) and remained debt free in 2006.

Capital Structure

FUNDING AND TREASURY POLICY

The Group adopts conservative treasury policies and exercises tight control over its cash and risk management. Cash is generally placed on short-term deposits denominated in U.S. Dollars to meet its payments. The Hong Kong Dollar is pegged to the U.S. Dollar at the exchange rate of HK$7.80 to US$1.00. The exchange movement has been kept within a narrow band. Therefore, the Group does not have any significant currency exposure.

Management Discussion and Analysis

Capital Structure (continued)

FINANCIAL INSTRUMENTS FOR HEDGING

Since almost all the revenue of the Group is in U.S. Dollars there is no need to hedge its liabilities, which are also substantially denominated in U.S. Dollars.

FOREIGN CURRENCY INVESTMENT

The Group does not have any material investment in currencies other than in U.S. Dollars or Hong Kong Dollars.

Order Book

At 31 December 2006, the value of contracts on hand amounted to HK$2,644 million (2005: HK$2,771 million), the majority of which will be realised over the next few years. Almost all the contracts are denominated in U.S. Dollars. The decline in backlog was mainly attributable to reduced values of contracts on renewals reflecting the acutely competitive pricing and new leases being for shorter durations. Neither the Company nor its customers were willing to make long-term commitments in the current market conditions and in view of the uncertainty on price movement.

Significant Investments, Their Performance and Future Prospects

SPEEDCAST

SpeedCast Holdings Limited ("SpeedCast"), in which the Company holds 47%, provides three major services: broadband, multimedia and corporate broadcast services.

For the year 2006, SpeedCast increased its sales to HK$112 million (2005: HK$83 million), an increase of 35%. The company also increased its profit, from HK$0.4 million in 2005 to HK$5 million.

At 31 December 2006, the book value of the investment in SpeedCast, mainly goodwill, stood at HK$0.4 million (2005: HK$0.4 million).

BEIJING ASIA

Beijing Asia Sky Telecommunications Technology Company Limited ("Beijing Asia"), a Beijing joint venture company in which AsiaSat has a 49% interest, provides satellite-based telecommunication network consultancy and technical support services to customers in China. Beijing Asia participates to provide government institutions and major corporations with corporate data networks; data broadcasting service, and a trial telephony network connecting remote sites in China using VSAT technology.

Management Discussion and Analysis

Significant Investments, Their Performance and Future Prospects (continued)

BEIJING ASIA (CONTINUED)

Beijing Asia commenced operation in October 2004. For the year under review, Beijing Asia incurred a loss of approximately HK$17 million (2005: HK$8 million) of which AsiaSat's share was approximately HK$8 million.

At 31 December 2006, the book value of the investment in Beijing Asia stood at approximately HK$10 million (2005: HK$14 million).

SKYWAVE

Skywave TV Company Limited ("Skywave"), in which the Company holds 80% interest, operates a low cost DTH platform to serve the markets of Hong Kong, Taiwan, Macau and Southern China.

Operating under a Hong Kong Non-domestic Television Programme Service licence, Skywave offers a variety of some 37 TV channels to authorised subscribers in the AsiaSat 4 BSS coverage area. Skywave is a niche service offering quality content throughout the region to customers 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.

For the year 2006, Skywave incurred a loss of approximately HK$4 million (2005: HK$4 million), of which the Company's share was about HK$3 million.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the year, there were neither material acquisitions nor disposals of subsidiaries or associated companies.

Segment Information

The sales of the Group, analysed by location of customers, is disclosed in note 5 to the financial statements.

Employees and Remuneration Policies

At 31 December 2006, the Group had 102 (2005: 95) permanent staff, including 17 in the Beijing Representative Office.

The Group considers its human resources as one of its most valuable assets. The talent pool that the Group draws from overlaps with the telecommunications, information technology and some high-tech equipment vendor industries.

Management Discussion and Analysis

Employees and Remuneration Policies (continued)

The Group has established a performance-based appraisal system. The present remuneration package consists of salaries, housing benefits (applicable to certain grades of employees), performance bonuses, share options (applicable to certain grades of employees) and fringe benefits that are compatible with the market.

Pursuant to the Company's share option scheme adopted on 25 January 2002 (the "Share Option Scheme"), the Board of Directors of the Company may grant options to any employees (including officers and directors) of the Company or any of its subsidiaries to subscribe for shares in the Company. The subscription price shall be such a price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant but the subscription price shall not be less than whichever is the higher of (i) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited's (the "Stock Exchange") daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant; or (iii) the nominal value of a share.

The Group does not operate an in-house regular training programme. However, the Group does provide ad hoc training on new developments/facilities and sponsors employees to attend external vocational training that is relevant to their jobs and their career progression.

Charges on Group Assets

At 31 December 2006, there were no charges on any of the Group's assets.

Capital Commitments

Details of the capital commitments of the Group are set out in note 30 to the consolidated financial statements.

At 31 December 2006, the Group had total capital commitments of HK$1,107 million (2005: HK$16 million), of which HK$810 million (2005: HK$6 million) was contracted for but not provided in the financial statements, and the remaining HK$297 million (2005: HK$10 million) was authorised by the Board, but not yet contracted.

Gearing Ratio

At 31 December 2006, the Company remained debt free. Therefore, gearing ratio was not applicable.

Management Discussion and Analysis

Exchange Rates and Any Related Hedges

During the year, almost all of the Group's revenues, premiums for satellite insurance coverage and substantially all capital expenditure were denominated in U.S. Dollars. The Group's remaining expenses were primarily denominated in Hong Kong Dollars. At 31 December 2006, almost all the Group's transponder utilisation agreements, transponder purchase agreements, and obligations to purchase equipment were denominated in U.S. Dollars. Hence, the Group does not have any significant currency exposure and does not need to hedge against currency fluctuation.

Contingent Liabilities

Particulars of the Group's contingent liabilities are set out in note 28 to the consolidated financial statements.