

BUSINESS REVIEW

Details of the business review are contained in the chairman's statement on page 6.

BUSINESS PROSPECTS

Details of the business prospects are contained in the chairman's statement on page 10.

FINANCIAL REVIEW

The Group continues to maintaining a prudent treasury policy with an aim of ensuring a sound financial position for accommodating the needs of committed satellite projects.

The Group recorded a loss attributable to shareholders of HK\$224,718,000 for the year ended 31 December 2003. Loss before impairment loss and the Group's share of impairment loss of a jointly controlled entity was HK\$46,660,000. The loss was due primarily to the weakening of demand for transponders in the Asia Pacific region and intense market competition continued to exert downward pressure on the utilization rates of transponders, leading to a further decrease in revenues. Turnover for the year ended 31 December 2003 was HK\$302,241,000, a decrease of HK\$49,184,000, as compared to the year ended 31 December 2002.

During the year, the Group's capital expenditure incurred for the construction, launching, launch insurance of APSTAR V and APSTAR VI together with other fixed assets amounted to HK\$763,000,000 (2002: HK\$1,091,000,000) that was paid by internally generated cash flow and bank loans. The Group obtained a confirmation letter from the lenders with regard to the launch delay of APSTAR V. In accordance with the secured term loan facilities agreement ("Bank Loan") entered in December 2002, the availability period for the facility with respect to APSTAR V expired at year-end 2003, and the aggregate loan facility was reduced accordingly to HK\$1,287,000,000 (US\$165,000,000). Pursuant to the confirmation letter, the loan repayment date of the first installment for the facility with respect to APSTAR V was extended. In addition, certain financial covenants were amended. As at 31 December 2003, the aggregate amount drawn under the Bank Loan was HK\$702,000,000 (US\$90,000,000), and the remaining available balance of the Bank Loan amounted to HK\$585,000,000 (US\$75,000,000). Interest was computed at the London Inter-Bank Offering Rate plus a margin. The construction, launching and related equipment contracts relating to satellites under construction and their related insurance claims proceeds, all present and future transponder lease agreements relating to the satellites under construction and certain bank accounts were pledged to secure Bank Loan by the Group.

As at 31 December 2003, the Group has approximately HK\$547,000,000 (2002: HK\$826,000,000) free cash. Together with cash flow generated from operations and the remaining available balance of the Bank Loan, the Group could cope with the needs to invest in future satellite and telecommunications projects for further business development.

As at 31 December 2003, the Group's total liabilities were HK\$1,047,000,000, an increase of HK\$183,000,000 as compared to 2002, which was mainly due to the Group has drawn down HK\$538,200,000 (2002: HK\$163,800,000) from the Bank Loan. This resulted in a rise of the gearing ratio (total liabilities/total assets) to 32% (2002: 26%), representing a 6% increase as compared to 2002. Certain of the Group's banking facilities were secured by the Group's properties with aggregate carrying value of approximately HK\$5,004,000 (2002: HK\$5,120,000).

As at 31 December 2003, the Group's total assets was HK\$3,305,000,000 (2002: HK\$3,339,000,000). To streamline the Group's asset and on the principle of prudent financial management, the Group has reviewed the recoverable amount of the assets at the year end of 2003 in accordance with the accepted accounting principles. Since APSTAR I and APSTAR IA would be replaced prior to its operational life, a provision of impairment on certain fixed assets of approximately HK\$129,098,000 (2002: HK\$5,218,000) was made. Such structural adjustment will strengthen the Group's future development in the long run.

For the year ended 31 December 2003, the Group made no hedging arrangement in respect of exchange rate fluctuation as majority of its business transactions was settled in United States dollars. The Group would consider the fluctuation risk of the floating interest rate of loans and would take appropriate measure in due course to hedge against interest rate fluctuation.

During the year, APT Telecom, a jointly controlled entity under the Group, completed its reorganisation, whereby the non-cable based assets and telecommunications service business, as well as the related telecommunications licence were transferred to the Group. As at 31 December 2003, the Group's share of loss of jointly controlled entities was HK\$64,833,000 (share of loss in 2002: HK\$10,624,000), out of which an impairment loss of HK\$48,960,000 (2002: HK\$nil) of APT Telecom was attributed to the Group.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group are set out in note 29 to the financial statements.

HUMAN RESOURCES

As at 31 December 2003, the Group had 157 employees. With regard to the human resources policy, the Group remunerates its employees in accordance with their respective responsibilities and current market trends. On 19 June 2001, the Company first granted share options under the share option scheme adopted at the annual general meeting on 22 May 2001 ("Scheme 2001") to its employees including executive directors. On 22 May 2002, the Group adopted a new share option scheme ("Scheme 2002") at the annual general meeting to comply with the requirements of the Listing Rules. Share options granted in accordance with Scheme 2001 shall however remain valid until its expiry. To date, there are no share options granted under Scheme 2002.