

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group's three in-orbit satellites, APSTAR I, APSTAR IA and APSTAR IIR, together with their corresponding telemetry, tracking and control systems, have been operating under normal condition. Owing to the transitional stage of APSTAR I and APSTAR IA, and the fact that the satellite transponder services market in Asia Pacific Region has remained highly competitive, the utilization rates of the Group's satellites, APSTAR I, IA and IIR reported at 50.1%, 61.2%, and 100% respectively.

## APSTAR V

APSTAR V, which is a replacement satellite for APSTAR I, was launched on 29 June 2004 by Sea Launch Limited Partnership ("Sea Launch"). The satellite has been successfully maneuvered in the geostationary orbital slot 138 degree East (the "Orbit Slot") and the in-orbit test ("IOT") was completed with an estimated mission life of 15.3 years. APSTAR V has commenced commercial operation on 13 August 2004 and all existing customers of APSTAR I have been migrated to APSTAR V smoothly. APT Group has also started transponder services to new customers who utilize APSTAR V capacities such as Singapore Telecommunications Limited and Hong Kong Cable Television Limited ("HK Cable TV"). To support APSTAR V operation, the newly built 13 metre C-band satellite antenna and 9 metre Ku-band satellite antenna also started their operations.

APSTAR V is a high power satellite with 38 C-band and 16 Ku-band transponders supplied by Space Systems/Loral Inc. ("SS/L"). The satellite was commissioned by APT Satellite Company Limited ("APT HK"), a wholly-owned subsidiary of the Group in January 2001. On 26 August 2003, APT HK entered into a Satellite Procurement Amendment Agreement, a Satellite Transponder Agreement and a Satellite Agreement (collectively the "Definitive Agreements") with SS/L and Loral Orion such that APT HK would obtain an irrevocable leasehold interest ("leasehold interest") for the transponder capacities of the satellite without further delayed due to export license difficulty. Pursuant to the Settlement Agreement and the Amended Launch Agreement entered with Loral Orion, SS/L and Sea Launch on 16 November 2003, Loral Orion has taken up in aggregate 17 transponders upon the completion of IOT of APSTAR V. Further, Loral Orion will take up 4 transponders each on the fourth and fifth anniversaries from the in-services date of APSTAR V subject to payments of installments under the Settlement Agreement. The total number of transponders of APSTAR V to be taken by Loral Orion and APT HK would be 25 and 29 respectively.

APSTAR V is a more versatile and powerful satellite compared to APSTAR I by providing a wider choices and greater flexibility for regional coverage to our customers, which further strengthens our superior and reliable satellite services. The Directors are confident that the commencement of APSTAR V will enhance the competitiveness of APT Group for its provisions of highly competitive satellite communication and broadcasting services and global connectivity to our customers for years to come.

APSTAR I, which has been operated since its launch in 1994, has ended its operation and is retired from the Orbit Slot upon the commencement of APSTAR V.

## **APSTAR VI**

APSTAR VI, which is a high power satellite with 38 C-band and 12 Ku-band transponders constructed by Alcatel Space, is a replacement satellite for APSTAR IA that is due to expire around 2006/2007. The construction progress of the satellite has gone as planned to date. The AIT (Assembly, Integration and Test) Sequence is in progress in the first half of 2004. The satellite is scheduled to be delivered in the fourth quarter of 2004.

APSTAR VI will be launched on board Long March 3B launch vehicle around end of this year or early next year. So far, the implementation of the launch service has been smooth.

The construction and installation of the Telemetry, Tracking and Control System of APSTAR VI is also in progress as scheduled. APT Group has started to liaise the launch insurance for APSTAR VI to control the launch risk for the protection of the Group's investment.

## **SATELLITE TV BROADCASTING PLATFORM**

APT Satellite TV Development Limited ("APT TV"), a wholly-owned subsidiary of the Group successfully developed a satellite TV uplink and broadcasting services platform for the provision of broadcasting services under the satellite TV broadcasting licence of Hong Kong Special Administrative Region. APT TV has commenced TOM's TV Channel – CETV on 1 January 2004. Further APT TV successfully commenced its TV uplink and broadcasting services for Sun TV on 1 July 2004. APT TV starts to provide TV uplink and broadcasting services for the DTH (Direct-To-Home) services of HK Cable TV and a Taiwanese satellite TV broadcaster in September 2004.

## **SATELLITE-BASED TELECOMMUNICATIONS SERVICES**

APT Telecom Services Limited ("APTS"), a wholly-owned subsidiary of the Group has taken up the satellite-based external telecommunication services such as VSAT, wholesale voice services under the Fixed Carrier Licence since the completion of the reorganisation of APT Satellite Telecommunications Limited ("APT Telecom") in October 2003 (the "Reorganisation"). APTS continues to provide VSAT, wholesales voice services, facilities management services and teleport uplink services. In January 2004, APTS commissioned a network for an Asian carrier for the provision of voice and speedy data platform via APSTAR System and teleport and internet routing facilities. In August 2004, APTS has established a cooperation network with a business partner to provide data network services in Asia Pacific based on DVB-IP (Digital Video Broadcast-Internet Protocol) technology. APTS has achieved the growth of two-way internet based services and teleport uplink services. Upon the commencement of the operation of APSTAR V, APTS can provide a comprehensive telecommunication solution to customers and continues to enlarge its customer base with its first class telecommunication facilities capability.

After the Reorganisation, APT Telecom, which is a jointly controlled entity owned as to 55% by a wholly-owned subsidiary of the Group and 45% by SingaSat Private Limited, will only hold the property and assets located in the Telepark in Tai Po Industrial Estate to continue to support the Group's telecommunications services and related facilities management services.

## **BUSINESS PROSPECTS**

We saw the slow but steady growth of transponder services market in the Greater China region in the first half of 2004. We are of the view that the same trend will continue in the second half of this year and next year. We must therefore fully prepare ourselves for the forthcoming new business opportunities.

Though the transponder services market will still be highly competitive due to supply over demand situation, however, the commencement of commercial operation of APSTAR V will strongly boost the Group's competitive edge in the market. The Group will fully explore its advantages to strive for business growth.

## ***DEVELOPMENT OF APSTAR V AND APSTAR VI***

The Group will continue to closely monitor the initial operation of APSTAR V following the completion of IOT and completion of transferring of all the existing customers of APSTAR I to APSTAR V so as to ensure the quality and reliability of our services.

The Group will also continue to closely monitor the construction, delivery and launch of APSTAR VI for the smooth replacement of APSTAR IA. Similar to APSTAR V, launch insurance will be arranged for APSTAR VI so as to control the risks for the protection of the Group's investment. The successful launch of APSTAR VI will symbolise the completion of the satellite replacement program of the Group.

## **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\$50,992,000 for the period ended 30 June 2004. 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 transponder capacity utilization, leading to a further decrease in revenues. Turnover for the period ended 30 June 2004 was HK\$130,623,000, a decrease of HK\$20,638,000, as compared to the period ended 30 June 2003. APSTAR V has commenced commercial operation on 13 August 2004. The cost of construction in progress relating to APSTAR V would be transferred to assets.

During the period, 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\$359,000,000 (30 June 2003: HK\$506,000,000) that was paid by internally generated cash flow from operation. As at 30 June 2004, 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 APSTAR V and APSTAR VI and their related insurance claims proceeds, all their present and future transponder capacity utilization agreements and certain bank accounts were pledged to secure Bank Loan by the Group.

As at 30 June 2004, the Group has approximately HK\$241,000,000 (31 December 2003: HK\$547,000,000) free cash and HK\$112,000,000 (31 December 2003: HK\$112,000,000) pledged deposit. The pledged deposit has been released after APSTAR V was launched. 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 30 June 2004, the Group's total liabilities were HK\$1,036,000,000, a decrease of HK\$11,000,000 as compared to 31 December 2003. During the period, as there was no drawdown from the Bank Loan, the Gearing ratio (total liabilities/total assets) remains unchanged and stood at 32% (31 December 2003: 32%). Certain of the Group's banking facilities were secured by the Group's properties with aggregate carrying value of approximately HK\$4,945,000 (31 December 2003: HK\$5,004,000).

As at 30 June 2004, the Group's total assets was HK\$3,244,000,000 (31 December 2003: HK\$3,305,000,000).

For the period ended 30 June 2004, 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.

As at 30 June 2004, the Group's share of loss of jointly controlled entities was HK\$160,000 (30 June 2003: HK\$54,345,000). The decrease was due to no impairment loss on fixed assets recognised in this period. APT Telecom has recognised an impairment loss of HK\$89,018,000 for the period ended 30 June 2003.

## **CONTINGENT LIABILITIES**

Details of contingent liabilities of the Group are set out in note 12 to the financial statements.

## **HUMAN RESOURCES**

As at 30 June 2004, the Group had 156 employees. The Group remunerates its employees in accordance with their respective responsibilities and the current market trends. On 19 June 2001, the Company first granted the share options under the share option scheme adopted at the annual general meeting of 22 May 2001 (the "Scheme 2001") to its employees including executive directors. In compliance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange Hong Kong Limited (the "Stock Exchange"), the Company adopted a new share option scheme (the "Scheme 2002") which was passed at the annual general meeting of 22 May 2002. The share options granted on 19 June 2001 in accordance with the Scheme 2001 remain valid.

## **CORPORATE GOVERNANCE**

The Group has established Disclosure Committee so as to strengthen the disclosure of the Group. The Group will also take appropriate measures to further improve the internal control of the Group.

The Group has also appointed one additional Independent Non-executive Director, who is a Certified Public Accountant. The Audit Committee of the Group has a total of three members, all of them are Independent Non-executive Directors and its Terms of Reference has been revised to comply with the latest requirements in the stock exchanges of Hong Kong and New York.

## **CONCLUSION**

The economic environment is yet to be improved in the coming year owing to uncertainties in the Asia Pacific region. The second half of this year will still be challenging due to sluggish external economic environment and supply over demand situation in transponder capacities in the region. The Company believes that competition in the satellite transponder services market will become increasingly intense. The Group's revenue will remain subject to price pressure.

The commencement of APSTAR V and the coming launch of APSTAR VI will help reinforce the Group's competitive advantages in the satellite transponder services market. The Group will endeavor for business growth by leveraging its additional transponder capacities and developing new satellite broadcasting and telecommunications businesses.

The Group will continue to maintain a prudent treasury policy and will endeavor to enhance internal control and disclosure in an effort to further strengthen the corporate governance.