

BUSINESS REVIEW

Details of the business review are contained in the chairman's statement on page 5.

BUSINESS PROSPECTS

Details of the business prospects are contained in the chairman's statement on page 9.

FINANCIAL REVIEW

The Group recorded a loss attributable to shareholders of HK\$57,757,000 for the year ended 31 December 2004, a decrease of HK\$166,961,000 as compared to the loss for the year ended 31 December 2003, mainly as a result of decrease of the impairment losses recognised in respect of property, plant and equipment.

Turnover for 2004 was HK\$277,260,000, a decrease of HK\$24,981,000, as compared to 2003. The decrease of turnover in 2004 was due to intense market competition forcing the transponder pricing down, eroding the Group's profit margins and leading to a further drop in revenues. The commencement of operations of APSTAR V and APSTAR VI will enhance the competitive position of the Group.

Capital Expenditure, Liquidity, Financial Resources and Gearing Ratio

The Group's principal use of capital during the year was the capital expenditure related to the construction, launch service and launch insurance of APSTAR V and APSTAR VI which had been funded by internally generated cash and bank loan. The capital expenditure incurred in 2004 amounted to HK\$430,740,000.

On 16 December 2002, the Group entered into an agreement with banks for a secured term loan facility of US\$240 million which was amended by a Deed of Amendment and Restatement on 27 October 2004 (the "Bank Loan"). Accordingly, the unutilised portion for the facilities with respect to APSTAR V and the backup satellite were cancelled due to the availability period of drawing under the facility with respect to APSTAR V having expired at the end of 2003. The aggregate Bank Loan facility was reduced to US\$165 million, the repayment date of the first installment under facility with respect of APSTAR V was extended to six months after the successful launch and in orbit testing of APSTAR V, and certain financial covenants were amended. The aggregate amount drawn under the Bank Loan as at 31 December 2004 was HK\$975,780,000 (US\$125,100,000). In addition, the Group has undrawn committed bank facilities of HK\$311,220,000 (US\$39,900,000). As at 31 December 2004, the Group complied with all the financial covenants over the past twelve-month period. Due to the delay in the launch of APSTAR VI, the Group obtained a confirmation letter from the banks in March 2005. Pursuant to the confirmation letter, the availability period of drawing under the facility with respect to APSTAR VI was extended to 30 June 2005. The Group is currently negotiating with the banks to amend the related terms of Bank Loan for the purpose of reflecting the agreed terms in the confirmation letter.

As at 31 December 2004, the Group has approximately HK\$673,763,000 (2003: HK\$546,864,000) free cash and HK\$21,140,000 (2003: HK\$111,863,000) pledged deposit. 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 2004, the Group's total liabilities were HK\$1,430,023,000, an increase of HK\$383,399,000 as compared to 31 December 2003, which was mainly due to the borrowing of HK\$273,780,000 (US\$35,100,000) from the Bank Loan and an increase of deferred income of HK\$233,499,000. As a result, the gearing ratio (total liabilities/total assets) has risen to 39%, representing a 7% increase as compared to 2003.

Capital Structure

The Group continues to maintain a prudent treasury policy and manage currency and interest risks on a conservative basis. During the year, the Group made no hedging arrangement in respect of exchange rate fluctuation as majority of its business transactions was settled in United States dollars. Interest under Bank Loan was computed at the London Inter-Bank Offering Rate plus a margin. The Group would consider the fluctuation risk of the floating interest rate and would take appropriate measure in due course to hedge against interest rate fluctuation.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Associated Companies

The Group maintained its interest in APT Satellite Telecommunications Limited ("APT Telecom") at 55% as at 31 December 2004. For the year 2003, APT Telecom 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. For the year 2004, APT Telecom is engaged in property leasing and related facilities management services. As at 31 December 2004, APT Telecom still incurred a loss and the Group's share of loss of jointly controlled entities was HK\$509,000, a decrease of share of loss of HK\$64,324,000 as compared to 2003. The decrease was due to APT Telecom has recognised an impairment loss in respect of property, plant and equipment of HK\$89,018,000 for the year 2003 while no impairment loss was recognised for the year 2004.

Segment Information

The turnover of the Group, which is analysed by business segments and geographical location of customers, is disclosed in note 10 to the financial statements.

Charges on Group Assets

The Bank Loan is secured by the assignment of the construction, launch service and related equipment contracts relating to APSTAR V and APSTAR VI and their related insurance claims proceeds, and the assignment of all their present and future agreements of transponder capacity and termination payments under construction, launch service and related equipment contracts. Any insurance claim proceeds must be deposited in a designated account and withdrawal of any amount from this designated account shall follow the terms of Bank Loan.

In addition, certain of the Group's banking facilities were secured by the Group's properties with aggregate carrying value of approximately HK\$4,887,000 (2003: HK\$5,004,000) and bank deposits of approximately HK\$390,000 (2003: HK\$390,000).

Capital Commitments

On 10 November 2004, the Group had entered an agreement with a contractor pursuant to which the Group is granted a right to require the contractor to provide for the design, construction, delivery and launch of a new satellite, APSTAR VIB and the total option price is HK\$59,904,000. If the option is exercised, the total consideration for the procurement and launch of APSTAR VIB is HK\$936,780,000 and the option price will be applied towards the total consideration. At the balance sheet date, the option paid of HK\$38,454,000 is included as prepayment for construction of a satellite in the balance sheet, and the remaining balance of HK\$21,450,000 is included in the outstanding capital commitment. APSTAR VIB is served as a part of the contingent plan for the launch of APSTAR VI.

As at 31 December 2004, the Group has the outstanding capital commitments of HK\$626,599,000 (2003: HK\$1,095,763,000), of which HK\$286,048,000 was contracted but not provided for in the Group's financial statements and the balance of HK\$340,551,000 was authorised by the Board but not yet contracted, mainly in respect of the procurement and launch of APSTAR VI and an option fee for the design, construction, delivery and launch of a new satellite APSTAR VIB.

Contingent Liabilities

Details of contingent liabilities of the Group are set out in note 24 to the financial statements.

HUMAN RESOURCES

As at 31 December 2004, the Group had 158 employees (2003: 157). 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. No share options were granted under Scheme 2002.

The Group emphasises the training of its technical personnel. During 2004, to prepare for the control and operation of APSTAR V and APSTAR VI, and at the same time to provide satellite broadcasting and telecommunications service, the Group organised a series of course and on job training programs for new employees and existing staff. The Company is also sending relevant staff members to receive training in digital TV broadcasting services at various vendors' facilities in the United States and France.