

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 following discussion and analysis of the Group's financial position and results of operations should be read in conjunction with the financial statements and the related notes.

TURNOVER

The Group's turnover increased by 21.4% from HK\$277,260,000 for the year 2004 to HK\$336,512,000 for the year 2005, representing an increase of HK\$59,252,000. The increase was mainly due to commencement of some new utilisation contracts for APSTAR V and APSTAR VI.

OTHER NET INCOME

Other net income increased by HK\$21,499,000 from HK\$9,332,000 in 2004 to HK\$30,831,000 in 2005. The increase was mainly due to the inclusion of a lump sum payment of HK\$15,600,000 in 2005 from a contractor for compensation income in respect of the late delivery of APSTAR VI, and also arising from the increase of interest income.

OPERATING EXPENSES

The Group's total cost of services increased by HK\$56,438,000 or 23.1% from HK\$244,755,000 in 2004 to HK\$301,193,000 in 2005. The increase was primarily due to an increase in in-orbit insurance and depreciation of the additional satellite of APSTAR VI which commenced service at the beginning of June 2005 and an increase in costs of running the satellite-based external telecommunications business. Administrative expenses slightly decreased by 2% to HK\$77,199,000 in 2005 as compared to 2004.

IMPAIRMENT LOSS

As at 31 December 2005, an impairment loss in respect of property, plant and equipment of HK\$7,512,000 was recognised in 2005 due to the excess of carrying amount over the recoverable amount of the assets in respect of the communication satellite equipment. Details are set out in note 12 to the financial statements. Furthermore, the impairment loss in respect of prepayment of HK\$59,904,000 for construction of a satellite was recognised in 2005. Details are set out in note 17 to the financial statements.

FINANCE COSTS

The Group's finance costs increased by HK\$32,825,000 from HK\$4,117,000 in 2004 to HK\$36,942,000 in 2005. The increase was primarily due to no interest was capitalised upon the commencement of operation of APSTAR VI. Furthermore, the increase was also attributable to the increase of new bank borrowings during the year.

SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES

As at 31 December 2005, the Group's share of loss of jointly controlled entities was HK\$7,995,000. The loss mainly represents the Group's share of loss on its interests in APT Satellite Telecommunications Limited ("APT Telecom"). As at 31 December 2005, APT Telecom incurred a loss. As compared with the same period last year, the increase of share of loss was mainly due to APT Telecom recognised a revaluation loss on investment property of HK\$13,000,000, of which the Group shared HK\$7,150,000.

LOSS FOR THE YEAR

As a result of the foregoing, the Group recorded a loss for the year of HK\$136,574,000 for the year ended 31 December 2005, an increase of loss of HK\$74,558,000, as compared to 2004.

CAPITAL EXPENDITURE, LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

During the year, the Group's principal use of capital was the capital expenditure related to the construction, launch service and launch insurance of APSTAR VI which had been funded by internally generated cash and bank loan. The capital expenditure incurred for the year ended 31 December 2005 amounted to HK\$524,464,000.

The aggregate amount drawn under the secured term loan facilities agreement dated 16 December 2002 ("Bank Loan") was HK\$1,205,100,000 (US\$154,500,000). During the year, the Group repaid Bank Loan of HK\$77,805,000 (US\$9,975,000). As a result of the above repayments, total indebtedness outstanding was HK\$1,127,295,000 (US\$144,525,000). As at 31 December 2005, the Group complied with all the financial covenants over the past twelve-month period.

As at 31 December 2005, the Bank Loan was primarily denominated in United States dollars and was on floating-rate basis. The debt maturity profile (excluding the borrowing transaction cost) of the Group was as follows:

Year of Maturity	HK\$
Repayable within 1 year or on demand	120,510,000
Repayable after one year but within five years	908,564,000
Repayable after five years	98,221,000
	<u>1,127,295,000</u>

As at 31 December 2005, the Group has approximately HK\$326,440,000 (2004: HK\$673,763,000) free cash and HK\$68,699,000 (2004: HK\$21,140,000) pledged deposit. Together with cash flow generated from operations, the Group could meet with ease all the debt repayment schedules in the coming year.

As at 31 December 2005, the Group's total liabilities were HK\$1,552,737,000, an increase of HK\$128,954,000 as compared to 2004, which was mainly due to the increase of new bank borrowings under the Bank Loan. As a result, the gearing ratio (total liabilities/total assets) has risen to 43%, representing a 4% increase as compared to 2004.

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.

SEGMENT INFORMATION

The turnover of the Group, which is analyzed by business segments, is disclosed in note 11 to the financial statements.

Satellite Transponder Capacity and Related Services

Revenue from Satellite Transponder Capacity and Related Services for the year ended 31 December 2005 increased approximately 21% to HK\$294,947,000. This primarily reflected the increase of revenue due to commencement of some new utilisation contracts for APSTAR V and APSTAR VI. Segmental loss of HK\$29,021,000 was primarily due to inclusion of an impairment loss of HK\$59,904,000 in respect of the prepayment for the construction of a satellite. Excluding the impairment loss, the segment result would be improved from loss to the profit of HK\$30,883,000.

Satellite-based Broadcasting and Telecommunications Services

Revenue from Satellite-based Broadcasting and Telecommunications Services for the year ended 31 December 2005 increased approximately 19.6% to HK\$46,272,000. This primarily reflected the increase of new customers in VSAT and increase of the traffic in wholesale voice services in the year 2005. Segmental loss of HK\$3,697,000 was mainly due to inclusion of an impairment loss of HK\$7,512,000 in respect of communication satellite equipment. Excluding the impairment loss, the segment result would be improved from loss to the profit of HK\$3,815,000.

CHARGES ON GROUP ASSETS

The Bank Loan is secured by the assignment of APSTAR V and APSTAR VI and their related insurance claims proceeds, and the assignment of all their present and future agreements of transponder capacity. 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. At 31 December 2005, the assets under fixed charge were APSTAR V and APSTAR VI of approximately HK\$2,752,162,000 (2004: HK\$2,398,169,000) and bank deposit of approximately HK\$68,699,000 (2004: HK\$20,750,000).

In addition, certain of the Group's banking facilities were secured by the Group's properties with aggregate carrying value of approximately HK\$4,771,000 (2004: HK\$4,887,000).

CAPITAL COMMITMENTS

As at 31 December 2005, the Group has the outstanding capital commitments of HK\$2,290,000 (2004: HK\$626,599,000), which was contracted but not provided for in the Group's financial statements, mainly in respect of the purchases of equipment.

CONTINGENT LIABILITIES

The Group is in dispute with Hong Kong's Inland Revenue Department (the "IRD") regarding a claim of the disposal gain of HK\$389,744,000 in 1999 in relation to the transfer of the entire business of APSTAR IIR and all of the satellite transponders of APSTAR IIR (except one transponder) as a non-taxable capital gain. On 23 January 2006, IRD raised a Profits Tax assessment for the year of assessment 2000/2001 to include that portion of the proceeds from sale of the satellite received during 2000/2001 as taxable income. The tax demanded for the year of assessment 2000/2001 is HK\$212,846,000. An objection has been lodged against the IRD assessment on 20 February 2006. The Group has obtained external legal and tax advice, and the Group believes that the grounds for claiming the gain derived from the transaction as non-taxable are reasonable and therefore no provision for additional taxation has been made.

Apart from the above, details of contingent liabilities of the Group are set out in note 30 to the financial statements.

HUMAN RESOURCES

As at 31 December 2005, the Group had 161 employees (2004: 158). With regard to the emolument 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 Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). To further motivate employees for better contribution to the Group, the Group has also established an incentive bonus scheme.

The Group provides on the job training to employees to update and upgrade their knowledge on related job fields.