

Management Discussion and Analysis

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 7.

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.

Highlights:

HK\$ thousand	2006	2005	Change
Turnover	426,988	336,512	27%
Loss for the year	(80,616)	(136,574)	-41%
Loss attributable to equity shareholders of the Company	(79,480)	(135,564)	-41%
Total assets	3,407,562	3,614,289	-6%
Total liabilities	1,425,329	1,552,737	-8%
Basic Loss per share (<i>HK cents</i>)	(19.23 cents)	(32.80 cents)	-41%
Gearing ratio (%)	42%	43%	-1%

The Group recorded a loss for the year of HK\$80,616,000, a decrease of loss of HK\$55,958,000, as compared to last year, mainly as a result of increase of turnover. The Group's turnover in 2006 increased by 27% compared to last year mainly attributable to the followings:

Satellite Transponder Capacity Services and Related Services

Revenue from Satellite Transponder Capacity Services and Related Services for the year ended 31 December 2006 increased approximately 25% to HK\$363,074,000. The increase of revenue was mainly due to commencement of some new utilisation services contracts for APSTAR VI.

Satellite-based Broadcasting and Telecommunications Services

Revenue from Satellite-based Broadcasting and Telecommunications Services for the year ended 31 December 2006 increased approximately 40% to HK\$63,817,000. This primarily reflected the increase of new customers in VSAT.

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

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Other net income

Other net income increased from HK\$30,831,000 in 2005 to HK\$37,542,000 in 2006. The increase was mainly due to the inclusion of a gain of HK\$17,503,000, representing the amount of the agreed consideration of two transponders taken up by a vendor which was offset with the net book value of two transponders.

Operating expenses

The Group's cost of services increased by HK\$37,066,000, an increase of 12% in 2006, as compared to 2005. The increase was primarily due to inclusion of full year of in-orbit insurance and depreciation of APSTAR VI while only 7 months costs of service of APSTAR VI was recorded in 2005 upon the commencement of operation of APSTAR VI in June 2005. Administrative expenses increased by HK\$11,758,000, an increase of 15% in 2006 as compared to 2005, mainly because of the inclusion of an impairment loss for accounts and other receivables of HK\$8,347,000 and the increase of selling expenses in respect of increased turnover.

Finance costs

The Group's finance costs increased from HK\$36,942,000 in 2005 to HK\$64,140,000 in 2006 mainly due to no interest related to APSTAR VI was capitalized in 2006 while only 7 months interests was recorded in 2005 upon the commencement of operation of APSTAR VI in June 2005.

Share of results of jointly controlled entities

The Group maintained its interest in APT Satellite Telecommunications Limited ("APT Telecom") at 55% as at 31 December 2006. As at 31 December 2006, APT Telecom recorded a profit of HK\$3,966,000, mainly due to the revaluation gain of HK\$6,120,000 caused by the cost adjustment on investment property held by APT Telecom in 2006. The Group's share of results of APT Telecom was HK\$2,182,000.

Income Tax

Income tax increased from HK\$13,172,000 in 2005 to HK\$56,128,000 in 2006, mainly due to a net deferred tax liability recognized as a result of tax settlement of APSTAR IIR. The details of income tax of the Group are set out in note 6 to the financial statements.

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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 satellite equipments and office equipments which had been funded by internally generated cash. The capital expenditure incurred for the year ended 31 December 2006 amounted to HK\$6,234,000.

During the year, the Group repaid bank loan of HK\$191,226,000 (equivalent to US\$24,516,000), the funding for which came from the receipt from a vendor and internally generated cash. As at 31 December 2006, the Group complied with all the financial covenants over the past twelve-month period. As a result of the above repayment, total outstanding of bank loan reduced from HK\$1,127,295,000 to HK\$936,069,000. 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	159,413,000
Repayable after one year but within five years	776,656,000
	<u>936,069,000</u>

As at 31 December 2006, the Group's total liabilities were HK\$1,425,329,000, a decrease of HK\$127,408,000 as compared to 2005, which was mainly due to partly repayment of bank loan as described above. As a result, the gearing ratio (total liabilities/total assets) has slightly decreased to 42%, representing a 1% decrease as compared to 2005.

As at 31 December 2006, the Group has approximately HK\$341,325,000 (2005: HK\$326,440,000) free cash and HK\$89,190,000 (2005: HK\$68,699,000) pledged deposit. Together with cash flow generated from operations, the Group could meet with ease all the debt repayment schedules in the coming year.

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.

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CHARGES ON GROUP ASSETS

As at 31 December 2006, the assets of APSTAR V and APSTAR VI of HK\$2,506,454,000 (2005: HK\$2,752,162,000) and bank deposit of HK\$89,190,000 (2005: HK\$68,699,000) were pledged to secure a bank loan facility. The bank loan facility is also 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 provision of transponder utilization services.

In addition, certain of the Group's banking facilities were secured by the Group's properties with aggregate carrying value of approximately HK\$4,655,000 (2005: HK\$4,771,000).

CAPITAL COMMITMENTS

As at 31 December 2006, the Group has the outstanding capital commitments of HK\$4,852,000 (2005: HK\$2,290,000), which was contracted but not provided for in the Group's financial statements, mainly in respect of the purchases of equipment.

CONTINGENT LIABILITIES

The details of contingent liabilities of the Group are set out in note 30 to the financial statements.

HUMAN RESOURCES

As at 31 December 2006, the Group had 161 employees (2005: 161). 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.