

## FINANCIAL REVIEW

The Group recorded a loss after taxation of HK\$10,863,000 for the period ended 30 June 2005, a decrease of loss of HK\$40,642,000, as compared to the period ended 30 June 2004, mainly as a result of increase of income and decrease of the cost of services. The increase of income for the period ended 30 June 2005 was mainly due to commencement of some new utilization contracts for APSTAR V and the increase of other operating income arising from the increase of interest income and other income. The decrease of cost of services was mainly due to decrease of depreciation in respect to satellite which was offset by an increase in satellite insurance cost incurred in running the APSTAR V, which began service in August 2004.

The Group believes that the commencement of operation of APSTAR VI from June 2005 will further enhance the competitive position of the Group.

### CAPITAL EXPENDITURE, LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

During the period, 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 period ended 30 June 2005 amounted to HK\$521,770,000.

On 18 May 2005, the Group entered into a Second Deed of Amendment and Restatement to the US\$240 million secured term loan facilities agreement dated as of 16 December 2002 (the "Bank Loan") with banks. The first amendment cancelled the unutilized portion for the facilities with respect to APSTAR V and the backup satellite. The aggregate Bank Loan facility was reduced to US\$165 million. The repayment date of the first installment under the facility with respect to APSTAR V and certain financial covenants were amended. The second amendment extended the availability period of drawing under the facility with respect to APSTAR VI to 30 June 2005 and amended the financial covenants. As at 30 June 2005, the Group complied with all the financial covenants over the past six-month period. The aggregate amount drawn under the Bank Loan as at 30 June 2005 was HK\$1,205,100,000 (US\$154,500,000). The unutilized portion for the facility with respect to APSTAR VI was cancelled due to the availability period of drawing having expired at 30 June 2005. During the period, the Group repaid Bank Loan of HK\$17,550,000 (US\$2,250,000). As a result of the above repayments, total outstanding with respect to Bank Loan was HK\$1,187,550,000 (US\$152,250,000).

As at 30 June 2005, the Bank Loan was primarily denominated in US\$ and was on floating-rate basis. The debt maturity profile 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	830,232,000
Repayable after five years	236,808,000

As at 30 June 2005, the Group has approximately HK\$438,060,000 (31 December 2004: HK\$673,763,000) free cash and HK\$33,724,000 (31 December 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 30 June 2005, the Group's total liabilities were HK\$1,714,652,000, an increase of HK\$284,629,000 as compared to 31 December 2004, which was mainly due to the net borrowing of HK\$211,770,000 (US\$27,150,000) from the Bank Loan and an increase of accrued charges. As a result, the gearing ratio (total liabilities/total assets) has risen to 44%, representing a 5% increase as compared to 31 December 2004.

## **CAPITAL STRUCTURE**

The Group continues to maintain a prudent treasury policy and manage currency and interest risks on a conservative basis. During the period, 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 30 June 2005. APT Telecom is engaged in property leasing and related facilities management services. As at 30 June 2005, APT Telecom still incurred a loss and the Group's share of loss of jointly controlled entities was HK\$2,909,000. As compared with the same period last year, the increase of share of loss of jointly controlled entities was mainly due to APT Telecom recognised a loss on investment property revaluation of HK\$5,000,000, of which the Group shared HK\$2,750,000.

## **SEGMENT INFORMATION**

The turnover of the Group, which is analyzed by business segments, is disclosed in note 3 to the interim financial report.

### ***SATELLITE TRANSPONDER CAPACITY SERVICES***

Revenue from Satellite Transponder Capacity Services for the period ended 30 June 2005 increased approximately 13% to HK\$128,103,000. This primarily reflected the increase of revenue due to commencement of some new utilization contracts for APSTAR V which leading to increase of segment profit.

### ***SATELLITE-BASED BROADCASTING AND TELECOMMUNICATIONS***

Revenue from Satellite-based broadcasting and telecommunications for the period ended 30 June 2005 decreased approximately 10% to HK\$17,613,000. Segment result improved from loss for the period ended 30 June 2004 to the profit of HK\$740,000 for the period ended 30 June 2005. The decline in revenue was mainly due to loss of customers in VSAT and wholesale voice services but part of the decrease was offset by an increase in revenue derived from TV uplink services. Segment result has improved because provision for doubtful debts in respect of wholesale voice services were provided for the period ended 30 June 2004, but no such provision was considered necessary for the period ended 30 June 2005.

## 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. At 30 June 2005, the assets under fixed charge were APSTAR V and APSTAR VI approximately HK\$2,848,972,000 (31 December 2004: HK\$2,398,169,000) and bank deposit of approximately HK\$33,724,000 (31 December 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\$4,829,000 (31 December 2004: HK\$4,887,000).

## CAPITAL COMMITMENTS

On 10 November 2004, the Group had entered into 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. As at 30 June 2005, the option paid of HK\$59,904,000 was included as prepayment for construction of a satellite in the balance sheet.

As at 30 June 2005, the Group has the outstanding capital commitments of HK\$1,340,000 (31 December 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

Details of contingent liabilities of the Group are set out in note 11 to the interim financial report.

## HUMAN RESOURCES

As at 30 June 2005, the Group had 166 employees (2004: 156). The Group remunerates its employees in accordance with their respective responsibilities and current market trends. The Group has established an incentive bonus scheme designed to motivate employees to provide better contribution to the Group. The Company has also set up share option schemes pursuant to which employees of the Company may be granted options to subscribe for the Company's shares.

The Group does provide vocational training to employees to update and upgrade their knowledge on related job fields.