NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 25.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 11 April 2005.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (HKFRSs, which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

2. CHANGES IN ACCOUNTING POLICIES (continued)

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

(a) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price.

The new accounting policy has been applied retrospectively by decreasing the opening balance of retained earnings as of 1 January 2005 by $29,328,000 (1 January 2004: $29,328,000), with the corresponding amount credited to share premium and share option reserves. There is no effect on the Group's loss before taxation for the six months ended 30 June 2004 and 2005 as a result of this new accounting policy.

Details of the employee share option scheme can be found in the Company's annual report for the year ended 31 December 2004.

2. **CHANGES IN ACCOUNTING POLICIES (continued)**

(b) **Investment properties (HKAS 40, Investment property, and HK(SIC) Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets)**

Changes in accounting policies relating to investment properties are as follows.

(i) Timing of recognition of movements in fair value in the income statement

In prior years, movements in the fair value of the Group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

Upon adoption of HKAS 40 as from 1 January 2005, all changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40.

These changes in accounting policy have been adopted retrospectively by increasing the opening balance of retained earnings as of 1 January 2005 by $5,500,000 (1 January 2004: $7,700,000) to include all of the Group's previous investment properties revaluation reserve.

As a result of this new policy, the Group's loss before taxation for the six months ended 30 June 2005 has increased by $2,750,000 (30 June 2004: nil), being the Group's share of the net decrease in the fair value of the investment property held by the Group's jointly controlled entity. The decrease is reflected in the share of results of jointly controlled entities.

(ii) Measurement of deferred tax on movements in fair value

In prior years the Group was required to apply the tax rate that would be applicable to the sales of investment properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment properties. As there would have been no tax payable on the disposal of the group's investment properties, no deferred tax was provided in prior years.

As from 1 January 2005, in accordance with HK(SIC) Interpretation 21, the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model.

This new accounting policy has been adopted retrospectively, but there is no impact on the Group's net assets as at the period end/year end and on the Group's loss attributable to the equity shareholders for the periods presented.

2. CHANGES IN ACCOUNTING POLICIES (continued)

(c) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land held for own use which was presented as part of "Land and buildings" in "Property, plant and equipment" was stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation was calculated to write-off the cost of leasehold land on a straight-line basis over their lease term.

With effect from 1 January 2005, in order to comply with HKAS 17, leasehold land held for own use are accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. Any pre-paid land premiums for acquiring the leasehold land, or other lease payments, are stated at cost and are written off on a straight-line basis over the respective periods of the lease term.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The new accounting policy has been adopted retrospectively, but there is no impact on the Group's net assets as at the period end/year end and on the Group's loss attributable to equity shareholders for the periods presented. An additional line item "Interest in leasehold land held for own use under an operating lease", which was previously included in "Property, plant and equipment" has been included on the face of consolidated balance sheet. The comparative figure for "Property, plant and equipment" has been reclassified to conform with the current year's presentation.

(d) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

(e) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39 Financial instruments: Recognition and measurement)

In prior years, loan arrangement fee was included as part of the "Deposits, prepayments and deferred expenses" and was amortised over the terms of the relevant bank borrowings. With effect from 1 January 2005, in order to comply with HKAS 39, the unamortised balance of the loan arrangement fee is presented as a deduction from the secured bank borrowings in the consolidated balance sheet.

2. CHANGES IN ACCOUNTING POLICIES (continued)

(e) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39 Financial instruments: Recognition and measurement) (continued)

The adoption of the new accounting standard has no impact on the Group's net assets as at the period end/year end and on the Group's loss attributable to equity shareholders for the periods presented.

Comparative amounts have not been restated in accordance with the transitional arrangement in HKAS 39.

3. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business. Business information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Inter-segment pricing is based on similar terms as those available to other external parties.

Business segments

The Group comprises two main business segments, namely provision of satellite transponder capacity and related services and provision of satellite-based broadcasting and telecommunications services.

For the six months ended	Provision of satellite transponder capacity and related services		Provision of satellite-based broadcasting and telecommunications services		Inter-segment elimination		Consolidated	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000	**2005 $'000**	2004 $'000	**2005 $'000**	2004 $'000
Turnover from external customers	**126,816**	110,987	**17,302**	19,636	**–**	–	**144,118**	130,623
Inter-segment turnover	**1,287**	2,826	**311**	3	**(1,598)**	(2,829)	**–**	–
Total	**128,103**	113,813	**17,613**	19,639	**(1,598)**	(2,829)	**144,118**	130,623
Service income							**134**	–
							144,252	130,623
Segment result	**21,964**	(5,604)	**740**	(2,869)	**369**	(3)	**23,073**	(8,476)
Service income							**134**	–
Unallocated operating income and expenses							**(14,241)**	(31,608)
Profit/(loss) from operations							**8,966**	(40,084)

4. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2005	2004
	$'000	$'000
Interest on borrowings	**18,391**	6,901
Less: borrowing costs capitalised	**(9,762)**	(6,901)
	8,629	–
Depreciation and amortisation	**80,355**	103,942
(Gain)/loss on disposal of property, plant and equipment	**(46)**	18

5. INCOME TAX

	Six months ended 30 June	
	2005	2004
	$'000	$'000
Current tax – Provision for Hong Kong Profits Tax	**–**	–
Current tax – Overseas	**7,750**	8,207
Deferred tax	**541**	3,054
	8,291	11,261

Hong Kong Profits Tax has been provided at the rate of 17.5% on the estimated assessable profits for the period. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Overseas tax includes the withholding tax paid or payable in respect of Group's income from provision of satellite transponder capacity to the customers which are located outside Hong Kong.

6. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the parent of $10,390,000 (six months ended 30 June 2004: $50,992,000) and the weighted average of ordinary shares of 413,265,000 (30 June 2004: 413,265,000 shares).

(b) Diluted loss per share

Diluted loss per share is the same as the basic loss per share as there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2005 and 2004.

7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

(a) Acquisitions

During the current period, the Group has acquired property, plant and equipment amounting to $521,770,000 (30 June 2004: $342,575,000).

(b) Valuation

Investment property was revalued at 30 June 2005 at $2,340,000 (31 December 2004: $2,340,000) by Chesterton Petty Limited, an independent professional property valuer, on an open market value basis by reference to net rental income allowing for reversionary income potential.

8. TRADE RECEIVABLES

The Group allows an average credit period of 10 days to its trade customers. The following is an ageing analysis of trade receivables (net of specific provisions for bad and doubtful debts) at the balance sheet date:

	At 30 June 2005 $'000	At 31 December 2004 $'000
0 – 30 days	**16,884**	22,167
31 – 60 days	**8,550**	4,106
61 – 90 days	**9,138**	4,278
91 – 120 days	**2,484**	765
Over 121 days	**10,253**	14,437
	47,309	45,753

9. SECURED BANK BORROWINGS

During the current period, the Group further drewdown approximately $229,320,000 (30 June 2004: nil) and repaid bank loans of approximately $17,550,000 (30 June 2004: nil). At 30 June 2005, the assets pledged for securing bank borrowings are the satellites of approximately $2,848,972,000 (31 December 2004: $2,398,169,000) and bank deposits of approximately $33,724,000 (31 December 2004: $20,750,000).

	At 30 June 2005 $'000	At 31 December 2004 $'000
Proceeds from secured bank borrowings	**1,187,550**	975,780
Transaction costs	**(11,100)**	–
Net proceeds	**1,176,450**	975,780

10. SHARE CAPITAL

There were no movements in the share capital of the Company in either the current or the prior interim reporting period.

11. CONTINGENT LIABILITIES

(i) In the years before 1999, overseas withholding tax was not charged in respect of the Group's transponder utilisation income derived from the overseas customers. From 1999, overseas withholding tax has been charged on certain transponder utilisation income of the Group and full provision for such withholding tax for the years from 1999 onwards has been made in the financial statements. The Directors of the Company are of the opinion that the new tax rules should take effect from 1999 onwards and, accordingly, no provision for the withholding tax in respect of the years before 1999 is necessary. The Group's withholding tax in respect of 1998 and before, calculated at the applicable rates based on the relevant income earned in those years, not provided for in the financial statements amounted to approximately $75,864,000.

(ii) The Company has given guarantees to banks in respect of the secured term loan facility granted to its subsidiary. The extent of such facility utilised by the subsidiary at 30 June 2005 amounted to $1,187,550,000 (2004: $975,780,000).

(iii) The Hong Kong Profits Tax returns of a subsidiary of the Company for the years of assessment 1999/2000 and 2000/2001 are currently under dispute with the Hong Kong Inland Revenue Department ("IRD"). This subsidiary recognised a gain of $389,744,000 in 1999 in relation to the transfer of substantially all of the satellite transponder capacities of APSTAR IIR for the rest of its useful life. This subsidiary has claimed the gain as a non-taxable capital gain in its 1999/2000 Profits Tax return. The non-taxable claim is under review by the IRD which has proposed to treat the proceeds received as taxable income to this subsidiary with a corresponding entitlement to statutory depreciation allowance in respect of APSTAR IIR.

Having taken into consideration independent professional advice, the Company believes it has a reasonable likelihood of success in defending its position that the gain derived from the abovementioned transaction should be treated as non-taxable. Accordingly, no provision for additional taxation is required. In the event that the Company is unsuccessful in the capital gains claim, the estimated tax exposure is $56,000,000.

12. COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

(i) At 30 June 2005, the Group has the following outstanding capital commitments not provided for in the Group's financial statements:

	At 30 June 2005 $'000	At 31 December 2004 $'000
Contracted for	**1,340**	286,048
Authorised but not contracted for	**–**	340,551
	1,340	626,599

(ii) At 30 June 2005, 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 $59,904,000. If the option is exercised, the total consideration for the procurement and launch of APSTAR VIB is $936,780,000 and the option price will be applied towards the total consideration.

13. MATERIAL RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

	Six months ended 30 June	
	2005	2004
	$'000	$'000
Income from provision of satellite transponder capacity and provision of satellite-based broadcasting and telecommunication services to certain shareholders and a subsidiary of the Company *(note i)*	**12,204**	20,955
Income from provision of satellite transponder capacity and related services and provision of satellite-based broadcasting and telecommunication services to a holding company and the subsidiaries of a shareholder of the Company *(note i)*	**15,463**	10,070
Payment of service fees in connection with a satellite project to a fellow subsidiary of a shareholder of the Company *(note ii)*	**138,727**	87,603
Management fee expenses to a holding company of a shareholder of the Company *(note iii)*	**–**	1,135

In addition, at 30 June 2005, the Group had no outstanding commitment to pay launch service fees for APSTAR VI and option payment for the design, construction, delivery and launch of a satellite APSTAR VIB to a fellow subsidiary of a shareholder of the Company (31 December 2004: $116,805,000 and $21,450,000 respectively).

Notes:

(i) The terms and conditions of these transponder capacity utilisation agreements and satellite-based telecommunication services agreements are similar to those contracted with other customers of the Group.

(ii) The Directors consider that the service fee is charged according to prices and conditions similar to those offered to other customers by the launch service provider.

(iii) Management fee expenses arose from a reimbursement of cost of service provided from the holding company of a shareholder of the Company.