

## Management Discussion and Analysis

### ■ BUSINESS REVIEW ■

The Group's three in-orbit satellites, together with other corresponding telemetry, tracking and control systems were well-rendered during the first six months of this year. The average leasing rate of the APSTAR I and the APSTAR IA was 62.65% and APSTAR IIR was 100% respectively.

#### *Business environment*

It was a worldwide slowing down of the economy during the first half of the year, which impacted adversely all broadcasting and telecommunications businesses in the Asia Pacific region. Demand for transponders in the Asia Pacific region was even weaker. Under such circumstance, competition became rife in the satellite transponders market as each satellite operator has to confront. However, with management and staff concerted efforts at the Company, the satellite leasing rate remained stable for the first half of the year. At the moment, the Company continues its best efforts to overcome unfavorable factors, strengthen its business expansion programs and keep searching for new business opportunities.

#### *APSTAR V satellite*

To implement a replacement satellite for the APSTAR I, the Group signed the Procurement and Launch Service Agreements for the APSTAR V in January 2001. Total project investment will be approximately US\$230 million. It is expected the APSTAR V will be launched during mid-2003. The satellite supplier is in the process of commissioning construction.

#### *APSTAR VB satellite*

At the same time, the Group has approached each satellite supplier in July this year, inviting them to tender for the APSTAR VB. The APSTAR VB will function as the backup to APSTAR V. It will also be the replacement satellite for the APSTAR IA, should the need arise.

#### *Satellite Control Center Phase II and the New Data Center*

Total investment cost for the Satellite Control Center Phase II, for which construction is now smoothly under way, amounts to approximately HK\$200 million. With a total site area of approximately 58,000 square feet, this new satellite center is specially designed for the telemetry, tracking and command center for the APSTAR V. The center will also accommodate three large satellite antennae and, in addition, houses a New Data Center with an area of 14,700 square feet. The Group has already secured a customer and it is expected that the New Data Center would bring forth income upon its inauguration at the end of this year.

#### *Satellite television broadcasting services*

With dedicated efforts during the first half of the year, the Group marked a significant improvement to its satellite television broadcasting services. It supplemented four additional channels and the number of satellite television broadcasting services channels has increased to five over the period, thus paving the way to the establishment of a satellite television broadcasting platform.



### **External telecommunications services**

After APT Satellite Telecommunications Ltd., a joint venture of the Group, was granted the satellite-based external fixed telecommunication network services license and a Letter of Intent for the submarine cable external fixed telecommunication network services, the joint venture is progressively becoming involved in external telecommunications services. It is projected that the C2C and APCN2 electronic cables for external Fixed Telecommunication Network Services will commence operation by December 2001 and the second quarter of 2002 respectively. The Group is now in full gear in its construction of a comprehensive Telepark, which is located next to the Group's Satellite Control Center. The Telepark is expected to be operational by the second half of 2002, further expanding the Group's telecommunications business.

### **亞訊通信技術開發（深圳）有限公司**

To cope with the needs for China Market development, the Group founded APT Communication Technology Development (Shenzhen) Co., Ltd. “亞訊通信技術開發（深圳）有限公司” in Shenzhen, a wholly-owned subsidiary of the Group and foreign enterprise, at a total investment cost of HK\$7.10 million. Its business scope is mainly to engage in the technological development of telecommunication facilities, telecommunication network systems and computer software. It has been given the go-ahead from the foreign enterprise approval authority to begin operation.

### **Business prospect**

It is expected that the worldwide economy will continue to be depressed during the second half of the year. In this respect, the overall atmosphere of any broadcasting and telecommunications business remains stagnant. Market conditions will therefore become even more competitive. Under such unfavourable conditions, the Group's stance for forthcoming challenges lies in caution not prudent. However, the Group is focused and will be prepared for future growth and development opportunities.

### **The development of the APSTAR V and APSTAR VB**

The Group is closely monitoring Space Systems/Loral Inc. in its construction and eventual shipment of the APSTAR V, keeping in mind its launching during 2003. The Group will also be actively engaging in any tendering activities for APSTAR VB. Close contact is being kept with the manufacturer and launcher and insurance companies for analyses and comparisons. In addition, the Group is dedicating its efforts in the study of various marketing campaigns, preparing promotional materials and actively participating in exhibitions and seminars in the industry for the soon to be launched ATSTAR V.

### **Corporate strategy and prospect**

To cope with present difficulties which the Group is facing and in looking for growth and expansion, in late June the management of the Company employed the services of a consulting firm. Its specific role involves reviewing and conducting analyses on the present status of the Group against the foreseeable worldwide economic backdrop. This consulting company has drawn up a proposal in respect of corporate strategy for the Group's future growth. This proposal is quite helpful for planning the Group's development strategy and prospect.

### **Market expansion**

The Group is reviewing its development strategy and direction on an on-going basis. A significant growth is expected for the second half of 2001. Continuous efforts made during the first half of the year paid off in a gradual increase in sales. Its satellite leasing rate also remained stable. During August, the average leasing rate for the APSTAR I and APSTAR IA increased by 2.0%. Continuing efforts are being made for the second half of the year for achieving the full quota for the year.

As corporate developmental strategies and market position become clear, the Group will be able to expand into satellite-related new projects, such as satellite television broadcasting services, Internet main-frame services and digital broadcasting. These will be pursued with focus and prudence. Further, the Group will also look into the feasibility of expanding its business scope through business and structural reorganization.

### **Liquidity and financial resources**

The Group generally financed its operation with its internally generated cash flow from revenue. As at 30 June 2001, the Group had cash and bank balances of a total amount of approximately HK\$1.59 billion and net current assets of approximately HK\$1.58 billion.

As at 30 June 2001, the Group's bank borrowings secured by time deposits amounted to approximately HK\$407 million bearing a fixed interest at 12% per annum. The Group has an unutilized credit facility for up to US\$10 million bearing an interest at LIBOR plus 0.95%. The group has also pledged certain properties of an aggregate total net book value approximately of HK\$8 million.

As of 30 June 2001, the Group's gearing ratio (total liabilities to total assets) decreased from 28% to 26% comparing with the ratio at the end of 2000.

As at 30 June 2001, the Group has not used any instruments for hedging purposes as most of its transactions are being settled in United States dollar.

### **Human resources**

The Group remunerates its employees chiefly in the light of their respective responsibilities and the current market practice in addition to the Share Option Scheme which was adopted on 22 May 2001 at the annual general meeting.

## **Substantial Shareholder**

As at 30 June 2001, according to the register required to be kept under Section 16(1) of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the only shareholder with an interest of 10% or more of the issued share capital of the Company was as follow:

| <b>Shareholder</b>                          | <b>Number of shares held</b> |
|---|------------------------------|
| APT Satellite International Company Limited | 214,200,000                  |

Except as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

