

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review:

Business Environment

The sluggish global economy continued to weaken the demand for satellite transponders by broadcasting and telecommunication sectors in the Asia Pacific region. Increasingly fierce market competition continued to exert a downward pressure on the lease rate of transponders.

APSTAR V

The supplier of APSTAR V (the replacement satellite of APSTAR I), Space System/Loral, Inc. ("SS/L"), received approval from the United States government in mid-November 2001 to carry out the full-fledge construction of APSTAR V. The Company will continue to monitor SS/L's progress in the construction of APSTAR V to ensure delivery as scheduled. To this date, the construction of APSTAR V has been progressing smoothly.

APSTAR VB

To ensure the timely replacement of APSTAR I as well as to serve as the replacement satellite of APSTAR IA in the second half of 2004, APT Satellite Company Limited ("APT"), a wholly-owned subsidiary of the Company, commissioned the APSTAR VB on 11 December 2001. As a high power satellite, APSTAR VB will comprise 38 C-band and 12 Ku-band transponders. In March 2002, Alcatel Space Industries, the vendor of APSTAR VB, informed APT that unconditional approval from the French government was received and agreed to ship the French-made satellite to China for launching on board the LM- 3B launch vehicle. To this date, the construction of APSTAR VB has been progressing smoothly and delivery is expected to take place in around the third quarter of 2004.

The procurement of APSTAR V and VB remains in line with the future development needs of the Group in the provision of satellite broadcast and telecommunications services.

Satellite TV Broadcasting Platform

APT Satellite TV Development Limited ("APT TV"), a wholly-owned subsidiary of the Company, is establishing a satellite television broadcasting platform with the satellite television broadcast license issued by the Hong Kong Special Administration Region. After much effort, the number of channels operated by the Group to broadcast satellite television programs has increased to five. In the first six months of 2002, the Group has increased investment in uplinks and downlinks, and satellite television program transmission and broadcast facilities. In so doing, the Group's transmission capacity for satellite television programs can increase to 20 channels. This will accommodate the future demand for satellite television program services and strengthen the capacity of the Group's satellite television service platform, with a view to develop the satellite television broadcast business.

Furthermore, in April 2002, APT TV established APT Eurosportnews Distribution Limited with EUROSPO, SOCIETE ANONYME based on the respective advantages of each shareholder, with a view to provide satellite television broadcast services to China. In July 2002, the application to establish the first sports news channel was submitted to the relevant Chinese authorities and trial broadcast was carried out. This project, fully compliant with the Group's overall strategy for the development of the satellite television broadcasting platform, will bring forth revenue to the Group.

Satellite Control Centre Phase II (the "Centre")

To accommodate the control and operation needs of APSTAR V and VB, while at the same time provide satellite television broadcast services and telecommunications services, the construction of the Centre was completed, put into service and immediately started commercial operation in February 2002. The 14,700 sq.ft. data center that is inside the Centre has also started business and is bringing in revenue. Furthermore, the Group has completed the installation of all satellite television broadcast facilities in the Centre to accommodate the development of the satellite television broadcasting platform.

External telecommunications Services

APT Satellite Telecommunications Limited ("APT Telecom"), a jointly controlled entity of the Company, is striving to develop external telecommunications business with the cable-based and satellite-based external telecommunications network services licenses. At present, APT Telecom is striving to construct an integrated telepark capable of providing general telecommunications services adjacent to the Group's Satellite Control Centre in mid 2003.

Corporate Strategy and Prospects

To maintain the dynamics of growth and effectively confront future challenges, the Group is re-formulating its future development strategies. The new development strategies include:

(1) to expand its scope of business and orient itself towards end users in an effort to increase corporate value; (2) to provide satellite television broadcasting services and establish the APSTAR satellite television broadcasting platform; (3) to develop the external telecommunications business with submarine cables and satellites capacities; (4) to expand the Group's service area; (5) to further research, analyse and promote the consolidation of the satellite industry in the Asia Pacific region with a view to raise its asset value and market competitiveness.

After making ample preparations during the last six months of 2002, the Group has initially completed the re-alignment of its corporate development strategies to accommodate future business development needs.

Business Prospects:

It is expected that global economy will not rebound significantly during the last six months of 2002. For this reason, the development of the broadcast and telecommunications industry in the Asia Pacific region is expected to remain slow. Together with fierce competition in the market, the usage and lease rate of satellites will continue to subject under considerable pressure.

Development of APSTAR V and VB

The Group will do its best to monitor the supplier in completing the construction and delivery of APSTAR V and VB to ensure the safe replacement of APSTAR I and IA. At the same time, the Group will actively maintain close contacts with satellite launchers and the insurance industry to prepare for the launching and insurance of the two aforesaid satellites.

Business Development

Confronting a fiercely competitive market, the Group will double its efforts in consolidating its core business in satellite transponders and vigorously expand new satellite-related business. With the construction of the satellite television broadcasting platform and newly-established telecommunications business, the Group will strengthen its customer base and expand service coverage to boost business earnings.

Stable Financial Position:

The Group will continue to adopt a prudent financial policy with a view to sustain a stable financial position and pay for commissioned satellite projects.

The Group's financial structure remains strong with rich internal resources. With just an appropriate amount of loan, the Group can easily handle future satellite and telecommunications investment projects. As at 30 June 2002, the Group maintained a net cash balance of approximately HK\$1.158 billion (31 December 2001: HK\$1.620 billion) and a gearing ratio (total liabilities/total assets) declined to 23.67% (31 December 2001: 24.87%), representing a 1.20% decrease as compared to 2001. As at 30 June 2002, the Group total liabilities were approximately HK\$771 million where approximately HK\$349 million bore interest at a fixed rate at 12% per annum and secured by a time deposit of an equivalent amount. The group has also pledged certain properties of an aggregate total net book value approximately of HK\$7.95 million. As at 30 June 2002, the Group did not use any instruments for hedging purposes as the majority of its business transactions were settled in United States dollars.

Human Resources:

The Group remunerates its employees in accordance with their respective responsibilities and the current market trends. On 19 June 2001, the Company first granted the share options under the share option scheme adopted at the annual general meeting of 22 May 2001 (the "Scheme 2001") to its employees including executive directors. In compliance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company adopted a new share option scheme (the "Scheme 2002") which was passed at the annual general meeting of 22 May 2002. The share options granted on 19 June 2001 in accordance with the Scheme 2001 remain valid.

SUBSTANTIAL SHAREHOLDER

As at 30 June 2002, 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:

Shareholder	Number of shares held
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.

INTERESTS OF DIRECTORS & CHIEF EXECUTIVES

Interests In Shares

As at 30 June 2002, the interests of the Directors and Chief Executives in the share capital of the Company as recorded in the register required to be kept under Section 29 of the SDI Ordinance were as follows:

Chief Executives	Nature of Interests	Number of shares held
Leng Yi Shun (Vice President)	Personal	500
Lo Kin Hang, Brian (Vice President & Company Secretary)	Personal	27,000

Except as disclosed above, none of the Directors, chief executives or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company, its subsidiaries or any of its associated corporations as defined in the SDI Ordinance as recorded in the register required to be kept under Section 29 of the SDI Ordinance as at 30 June 2002.

Rights to Acquire Shares

On 19 June 2001, share options were first granted to its employees including executive directors pursuant to the terms and conditions of the Scheme 2001 approved on 22 May 2001 at the annual general meeting of the Company. In compliance with the Listing Rules of the Stock Exchange, the Company adopted the Scheme 2002 at the annual general meeting held on 22 May 2002. Although the options granted on 19 June 2001 under the Scheme 2001 are still valid.

Particular of share options held by the directors and chief executives as of 30 June 2002 are as follows:

Name of Director and Chief executive	Options granted under Scheme 2001	Options Lapsed/ cancelled during the period	Options held at 30 June 2002
Chen Zhaobin <i>(Executive Director & President)</i>	2,200,000	–	2,200,000
Cui Xinzheng <i>(Executive Director & Vice President)</i>	1,200,000	–	1,200,000
Leng Yi Shun <i>(Vice President)</i>	1,500,000	–	1,500,000
Lo Kin Hang, Brian <i>(Vice President & Company Secretary)</i>	800,000	–	800,000

All the above options have an exercise price of HK\$2.765 per share and are exercisable within the period from 22 May 2003 to 21 May 2011.

Save as disclosed above, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange throughout the period covered by the interim report, except that the non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-Laws of the Company.

AUDIT COMMITTEE

On 27 August 2002, Mr. Li Kwok Wing, Meocre resigned as the independent non-executive director of the Company as well as the chairman of the Audit Committee (the "Committee") and on the same day, the Board of the Company appointed Mr. Guocang Huan as the independent non-executive director of the Company as well as the chairman of the Committee. The Committee comprised of two independent non-executive directors including Mr. Guocang Huan and Mr. Yuen Pak Yiu, Philip held a meeting on 30 August 2002 at which the Committee reviewed the unaudited Interim Financial Report of the Group for the six months ended 30 June 2002.

APPRECIATION

On behalf of the Board, I would like to offer my sincere thanks to all our staff for their hardworking and commitment contributed to the Group.

Liu Ji Yuan
Chairman

Beijing, PRC, 11 September 2002