

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's three in-orbit satellites, together with their corresponding telemetry, tracking and control systems, have been operating well. The external economic environment remained sluggish in the first half of 2003, leading to a weakened demand for transponders in the Asia Pacific region while competition grew increasingly intense. This situation was coupled with the current transitional phases of APSTAR I and APSTAR IA and the changes of some current customers with new customers, the utilization rates were subject to downward pressure. For the period ended 30 June 2003, the utilization rates of APSTAR I, APSTAR IA and APSTAR IIR were 47.1%, 56.3% and 100% respectively.

APSTAR V

Construction of APSTAR V commissioned by APT Satellite Company Limited ("APT") under the Group was completed. APSTAR V is equipped with 38 C-band and 16 Ku-band transponders. Pre-shipment review inspection was carried out at the beginning of August. Once the satellite is delivered, it will be launched by Sea Launch Limited Partnership in November 2003.

On 20 September 2002, APT entered into the Term-sheet with Loral Orion, Inc., ("Loral Orion"), a wholly-owned subsidiary of Loral Space and Communications Limited. Under the Term-sheet, Loral Orion agreed to participate in the development through taking up 50% of the investment of APSTAR V project at an amount of approximately US\$115,000,000 so as to reduce investment and market risks of the project. Details of the transaction had been set out in a circular dated 7 October 2002 to the shareholders.

To this date, the satellite supplier, Space System/Loral Inc. ("SS/L"), has yet to obtain the United States Government export licence for transferring the title of APSTAR V to APT. In order to minimize any further delay in the launch of APSTAR V, APT had entered into agreements on 26 August 2003 with SS/L and Loral Orion for leasing the satellite transponders to the effect that APT would be able to utilize the transponders through this irrevocable leasehold arrangement. Details of the transactions had been set out in a press announcement dated 28 August 2003 and in a circular to the shareholders. The Board of Directors is of the view that the launch of APSTAR V should not be delayed by the export licence. The leasing arrangement will ensure that the satellite will be launched as scheduled to replace APSTAR I and commence service to meet customers' demand and strengthen the market competitiveness of APT.

Loral Orion has committed that it would continue to pursue for the necessary export licence for title transfer of APSTAR V. Upon issue of the licence, title to APSTAR V will be transferred to APT automatically.

At the same time, SS/L had filed for a voluntary petition under Chapter 11 of the United States Bankruptcy Code on 15 July 2003 as a means to ensure its fulfillment of a transaction with its customers. According to information at present, the Board has no reason to believe that the delivery of APSTAR V would be affected as a result of this bankruptcy protection that the satellite would not be delivered as scheduled. The Group will monitor closely the development of the situation and will take appropriate action when required to protect the interest of APT.

APSTAR VI

Progress of the APSTAR VI project is smooth and on schedule. The Critical Design Review of the satellite, Telemetry, Tracking and Control System and Baseband System were completed in early July 2003. Construction of the satellite was also proceeding as planned.

The implementation of the launch service contract of APSTAR VI is on course, while the progress of the construction of Long March 3B launch vehicle was on schedule. The satellite supplier has conducted a number of discussions on the technology related to the interface between satellite and launch vehicle, as well as the joint operation arrangement relating to the satellite and the launch vehicle at the launch site. Preparation for the launch has been in active progress.

SATELLITE TV BROADCASTING PLATFORM

APT Satellite TV Development Limited ("APT TV") of the Company was in the course of establishing a satellite TV uplink and broadcasting service business. At present, APT TV's programme-transmission capacity had reached 18 channels, fully capable to accommodate future demand for satellite TV broadcasting. Furthermore, APT TV has established an associate company with Eurosport, Societe Anonyme, a European sports news channel. The associate company obtained approval for limited broadcasting in China and the broadcasting had been commenced.

TELECOMMUNICATIONS SERVICES

The telecommunications sector continued to be depressed while the supply of cable-based telecommunication services far exceeded demand. In the short term, any improvement in this business sector would seem unlikely. The telecommunications business of APT Satellite Telecommunications Limited ("APT Telecom"), a jointly controlled entity owned as to 55% by a wholly owned subsidiary of the Group and 45% by SingaSat Private Limited, was reorganised, pursuant to an agreement entered between APT Telecom and both shareholders on 10 September 2003.

Pursuant to the reorganisation, APT Telecom would transfer the cable network services business and related assets to the group of Singapore Telecommunications Limited (“SingTel Group”), while the non-cable-based business such as VSAT, wholesale voice services, as well as the related telecommunications licences, would be transferred to the Group. After the reorganisation, APT Telecom will only hold the property and assets located in the Telepark in the Science Park in Tai Po to continue operating the Group’s telecommunications services. Details of the reorganisation have been set out in a press announcement on 10 September 2003. An impairment loss of approximately HK\$89,018,000 was made in the financial report for the first half of this year for the fixed assets of APT Telecom, including cables, non-cable-based telecommunications equipment and property, out of which an amount of approximately HK\$48,960,000 was attributed to the Group.

IMPAIRMENT ON FIXED ASSETS

To streamline the Group’s asset holdings and on the principle of prudent financial management, an impairment loss on fixed assets of approximately HK\$92,438,000 was made for APSTAR I and APSTAR IA in the financial report for the first half of this year. Pursuant to the necessary provision in respect of assets impairment, the Group has strengthened its financial position and is fully prepared for any future development opportunities.

FINANCIAL REVIEW

The Group continues to maintain a prudent treasury policy with an aim to ensure a sound financial position for accommodating the needs of committed satellite projects.

As at 30 June 2003, the Group has approximately HK\$344,199,000 (31 December 2002: HK\$826,257,000) free cash. Together with the secured term loan facilities (the “Loan Facilities”) committed in December 2002 by the Group with two banks that amounted to HK\$1,872,000,000 (US\$240,000,000), the Group could cope with the needs to invest in future satellite and new telecommunications projects for further business development.

Within the period, the Group’s capital expenditure incurred by APSTAR V and APSTAR VI amounted to HK\$510,240,000 (30 June 2002: HK\$533,767,000) that was paid by internally generated cash flow and bank loans.

As at 30 June 2003, the Group's total liabilities was approximately HK\$823,017,000 (31 December 2002: HK\$864,220,000), among which a bank loan of HK\$283,824,000 (31 December 2002: HK\$317,682,000) was secured by a time deposit of an equivalent sum and deposit interest rate at a fixed rate of 12% per annum. The Group has used part of the Loan Facilities that amounted to HK\$163,800,000 (31 December 2002: HK\$163,800,000). Interest was computed on the London inter-bank offering rate. The Loan Facilities were secured by the assignment of the construction, launching and related equipment contracts relating to satellites under construction and their related insurance claims proceeds, assignment of all present and future lease agreements of their transponders of satellites under construction, first fixed charge over certain bank accounts which will hold receipts of the transponder income and the termination payments under construction, launching and related equipment contracts. The Group has also pledged certain properties with aggregate net book value of approximately HK\$5,062,000 (31 December 2002: HK\$5,120,000) for certain banking facilities. During the period, the Group had no additional drawdown of Loan Facilities, the Group's gearing ratio (total liabilities/total assets) maintained at 26% (31 December 2002: 26%).

For the period ended 30 June 2003, the Group made no hedging arrangement in respect of exchange rate fluctuation as majority of its business transactions was settled in United States dollars. However, as the Loan Facilities presently available to the Group was subject to floating interest rate, the Group would take appropriate measure in due course to hedge against interest rate fluctuation.

As at 30 June 2003, the Group's share of loss of jointly controlled entities was HK\$54,345,000 (30 June 2002: HK\$5,074,000). The cable-based telecommunications business of APT Telecom has been affected by continuous downturn in the telecommunication market. The directors of APT Telecom decided to reorganise the business. Details of the reorganisation please refer to note 17 of this report.

Details of contingent liabilities please refer to note 14 of this report.

BUSINESS PROSPECTS

Looking ahead to the second half of 2003, it is anticipated that the broadcasting and telecommunications businesses in the Asia-Pacific region will remain sluggish and competition will remain strong. However, upon the successful launch of APSTAR V to replace APSTAR I, the Group is set to enhance its competitive edge in the market.

DEVELOPMENT OF APSTAR V AND APSTAR VI

Launch of APSTAR V is scheduled to take place in November 2003 to replace APSTAR I. The Group will closely monitor the process to ensure that the launch and replacement of the satellites would be conducted safely. Risks related to the launch will be strictly controlled to the minimum to safeguard the Group's investment and business. Upon the successful launch of APSTAR V, the Group will ensure a smooth transfer for existing customers of APSTAR I to the new satellite. The construction of APSTAR VI will also be closely monitored to ensure that the planned replacement of APSTAR IA will be on course.

As APSTAR V will be in service in the near future, the Group will leverage on the capacity of its transponders to expand the scope of satellite-related businesses to boost enterprise value.

Following to the significant provision made by the Group in respect of the asset impairment, the capital structure of the Group has been streamlined and rationalized. This will help improve the room for future expansion and a better rate of return laying a solid foundation for future overall strategic development of the Group.

Notwithstanding that there are signs of recovery in the economy in the Asia Pacific region, there are still many uncertainties and the coming six months to one year will be full of challenges. Confronting a harsh operating environment, the Group will endeavour to consolidate its core business and further develop new satellite-related businesses prudently as a means to enhance the Group's growth and value.

HUMAN RESOURCES

As at 30 June 2003, the Group had 139 employees. 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 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.