



Interim Report

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APT Satellite Holdings Limited

(Incorporated in Bermuda with limited liability)

Interim Report 1999

The Board of Directors (the "Board") of APT Satellite Holdings Limited (the "Company") herein announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 1999 prepared in accordance with accounting principles generally accepted in Hong Kong.

Results

While the market environment remained difficult during the first six months of 1999, the Group's turnover and consolidated net profit attributable to shareholders amounted to HK\$265,244,000 and HK\$23,353,000 respectively, representing decreases of 10% and 33% respectively over the corresponding period in 1998. Earnings per share is HK5.6 cents.

Financial Summary

		For the six months ended 30th June,	
	Notes	1999 (Unaudited) HK\$'000	1998 (Unaudited) HK\$'000
Turnover		265,244	295,376
Profit before taxation		25,103	36,137
Taxation	1	(1,750)	(1,268)
Net profit attributable to shareholders		23,353	34,869
Earnings per share – Basic	2	5.6 cents	8.3 cents

Notes:

	For the six months ended 30th June,	
	1999 HK\$'000	1998 HK\$'000
Provision for taxation in respect of profits for the period:		
Hong Kong	1,200	-
Elsewhere	50	68
Deferred taxation	500	1,200
Taxation charge for the period	1,750	1,268

Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong taxation had been made in the prior period as no assessable profits were earned in or derived from Hong Kong during the prior period. Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries in which the Group operates based on existing legislation, practices and interpretations in respect thereof.

2. The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$23,353,000 (1998: HK\$34,869,000) and 420,000,000 shares in issue during the period.

Diluted earnings per share for the periods has not been calculated as no diluting events existed during these periods.

Interim Dividend

In line with the Group's future business development plan, the Board has decided not to declare an interim dividend for the six months ended 30th June, 1999 (1998: Nil).

Business Review and Prospects

During the first half of the current year, the general economic situation in the Asia-Pacific region remained difficult and growth in the demand for satellite transponders was still slow despite shrinking regional supply.

With a sound financial position, the Group has successfully expanded its scope of business to other satellite-related businesses over the past nine months. Following the establishment of a joint venture in the VSAT (Very Small Aperture Terminals) business in late 1998, the Group also obtained the Satellite Television Uplink and Downlink Licence (the "Licence") from the Government of the Hong Kong Special Administrative Region ("HKSAR") on 6th July, 1999.

Satellite Television Uplink and Downlink Licence

Under the Licence, the Group will invest and install one Ku-band uplink platform and a downlink system, together with certain encryption and compression technology equipment, to provide uplink and downlink services via our APSTAR-11R satellite to those permitted end-users in the footprints of the satellite other than Hong Kong.

The Licence marks a major breakthrough in the Group's business scope and has demonstrated its commitment to diversifying business from conventional transponder services. The Licence is also the first of its kind ever granted to business entities other than television broadcasters in Hong Kong.

With a term of 12 years, the Group believes that the Licence will match with the growing demand for the uplink and downlink services in the region and contribute positively to the Group's earnings. Looking ahead, the Group believes the Licence will enhance its competitiveness by making it as the only Hong Kong-based satellite company offering integrated services on the transmission of television programs.

While the official launch is expected to take place in the last quarter of 1999, a number of customers have already expressed their interests in getting the satellite television uplink and downlink services via both Ku-band and C-band transponders of the APSTAR Systems.

Satellite Transponder Leasing

Though the utilization rates of the Group's first two satellites, APSTAR-I and APSTAR-IA, remain at approximately 65%, the take-up rate of APSTAR-IIR will be boosted by the launch of the satellite television uplink and downlink services.

The Group has been actively discussing the new services with a number of customers in either C-band or Ku-band transponders of the APSTAR Systems, the Group's satellite network. In addition, the Group is delighted that it has maintained a stable customer base over the past two years, in spite of the repercussions arising from the regional financial turmoil.

On 18th August, 1999, APT Satellite Company Limited ("APT (HK)"), a wholly-owned subsidiary of the Group, entered into a lease agreement (the "Lease Agreement") with Loral Asia Pacific Satellite (HK) Limited ("Loral Asia"), a wholly-owned subsidiary of Loral Space & Communications Limited, a listed company in New York Stock Exchange Inc.

Upon the completion of the Lease Agreement, APT (HK) will lease substantially all of the transponders of APSTAR-IIR to Loral Asia for the remaining life of the satellite. The lease price, a total of approximately US\$298 million, is payable within a period of four years.

According to the Lease Agreement, APT (HK) remains the title owner of APSTAR-IIR and exercises full control of the satellite through the Group's satellite control centre in Tai Po, Hong Kong, under its two existing operational licences in respect of APSTAR-IIR granted by the Office of Telecommunications Authority of the Government of HKSAR.

With the lease price to be received over the next four years, the Group's financial position will be further strengthened and the Group will be able to re-allocate its efforts and capital resources in developing, as planned, additional high-power satellites. The lease income will also help to finance the Group's expansion into other satellite-related businesses, such as VSAT services in the People's Republic of China (the "PRC"), Internet service network and the satellite television uplink and downlink services.

Nevertheless, sluggish economic conditions in Asia, as stated in the Group's 1998 Annual Report, are expected to continue for some time. Although there have been signs that Asian economies have bottomed out and the recovery is in sight to bring about steady demand growth for satellite services, the Group is likely to continue facing challenges and having difficulties in expanding its customer base during the remaining period of 1999.

Fortunately, market pressure from excessive transponder supply in the Asia-Pacific region has been relieved, as a number of satellite services providers, such as those in Indonesia, Thailand and the Philippines, have delayed or suspended their satellite launch programmes. Together with the gradual recovery of some Asian economies and the steady economic situation in the PRC, it is envisaged that supply and demand of transponders in the region will soon attain a more balanced environment, which will, in turn, lead to more stable lease prices of transponders.

VSAT Business and Internet Applications

To strive for a better earnings mix, the Group has expanded operations to areas that maximize synergies with its transponder leasing business and are capable of broadening the source of revenues at the same time. The Group has set up a joint venture with China Telecom (HK) International Access Limited to explore the VSAT business in the PRC. The growth of the VSAT business is expected to generate the demand for APSTAR Systems' transponders by the development of more VSAT satellite networks.

The Group is also actively discussing with certain potential customers for satellite applications in Internet network services, a new application with great business potential in the region. Moving towards the next century, the number of Internet users are expected to increase dramatically. Internet Service Providers are now looking for a more cost-effective solution for Internet network services based on satellite network.

Conclusion

With the funding from the lease of APSTAR-IIR, the Group will continue to develop the above businesses as well as other planned satellite projects at the same time. The Group has scheduled to develop APSTAR-III and APSTAR-IV (the Direct Broadcasting Satellites), as well as APSTAR-V, the high-power satellite which will replace APSTAR-I that is set to expire in 2004.

The re-formulation of the Group's business strategies is aimed at providing better quality and more comprehensive services to the customers. Ultimately, the new operations and projects will form part of the Group's long-term strategy to provide a "one-stop" telecommunication solution to the customers.

After operating for nearly a decade, the Group remains committed to the satellite business and believes that the industry will grow in a competitive and healthy environment in the long run. Having ridden out the regional financial turmoil with its solid foundation, the Group is confident that it will capture the many market opportunities arising from the new information age.

Substantial Shareholders

As at 30th June, 1999, 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 follows:

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.

Directors' Interests in Shares

As at 30th June, 1999, the interests of the Directors 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:

Director	Nature of Interest	Number of shares held
Wong Kit Ming	Personal	1,440,000

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 30th June, 1999.

Directors' Rights to Acquire Shares

Except for the share option scheme of the Company, 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.

No share options were granted pursuant to the existing share option scheme during the period and no share options were outstanding as at 30th June, 1999.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting 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 Company's bye-laws.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30th June, 1999.

The Year 2000 Problem ("Y2K Problem")

The Group has adopted the Y2K conformity requirements with reference to PD2000-1:1998 of the British Standards Institution.

As at the end of June 1999, the Group has completed about 80% of its work in resolving the Y2K Problem.

In-orbit satellites

The satellites themselves are inherently immune from any Y2K Problem because they do not require any on-board date-dependent intelligent processes. The Y2K Problem will also not affect the satellites' transponders. Therefore, the satellites do not need any specific action with regard to the Y2K Problem.

Satellite Control Centre

The Telemetry, Tracking & Command Systems ("TT&C System") of the Satellite Control Centre of the Group conform to the Y2K requirements as defined above, except for certain minor software systems. They have to be upgraded or mended for Y2K conformity. They are being tested by vendors and will be installed and tested in their respective systems once they have been verified. It is anticipated that the TT&C System will fully conform with the Y2K requirements by the end of September 1999.

Other Systems

The Group's office automation systems will also fully conform with the Y2K requirements by the end of September 1999. Other important systems, such as antennae systems, UPS power supply systems, PABX systems and air-conditioning systems, have been confirmed to be fully conformed with the Y2K requirements.

Contingency Plan

Although the Directors believe they have taken all reasonable measures to ensure the Y2K Problem will not cause any threats to the Group's normal operations, insofar as the Group's own operating systems and software are concerned, the Group will still maintain a formal contingency plan which will involve certain specific measures to be taken by the Group during the period from 30th December, 1999 to 2nd January, 2000. The Group has also set up a control centre which is responsible to liaise with the Control Centres of the Office of Telecommunications Authority and Television and Entertainment Licensing Authority during the high risk periods as identified by the concerned governmental entities.

Audit Committee

The Group has established an audit committee (the "Committee") on 31st July, 1999 in compliance with the Listing Rules. It is composed of two independent non-executive directors. The Board of Directors also adopted a Terms of Reference of the Committee based on the recommended draft version issued by the Hong Kong Society of Accountants. The first meeting of the Committee was held on 19th August, 1999 to review the financial report of the Company for the six months ended 30th June, 1999.

Appreciation

On behalf of the Board, I would like to express our sincere appreciation to our staff for their contribution.

Liu Ji Yuan
Chairman

Kunming, China, 2nd September, 1999

Supplementary Information on US GAAP Reconciliation

The effect on net income of significant differences between Hong Kong Generally Accepted Accounting Principles ("HK GAAP") and United States Generally Accepted Accounting Principles ("US GAAP") is as follows:

	Notes	For the six months ended 30th June,		
		1999 US\$'000	1999 HK\$'000	1998 HK\$'000
Net income as reported under HK GAAP		3,013	23,353	34,869
Adjustments:				
Recognition of revenue		389	3,018	(2,754)
Investment properties		(4)	(35)	(42)
Tax effect of reconciling items		(62)	(483)	441
Approximate net income as reported under US GAAP		<u>3,336</u>	<u>25,853</u>	<u>32,514</u>
Earnings per share under US GAAP	1	<u>US\$0.008</u>	<u>HK\$0.062</u>	<u>HK\$0.077</u>
Earnings per ADS under US GAAP	2	<u>US\$0.064</u>	<u>HK\$0.492</u>	<u>HK\$0.619</u>

The effect on shareholders' equity of significant differences between HK GAAP and US GAAP is as follows:

	As at 30th June,		
	1999 US\$'000	1999 HK\$'000	1998 HK\$'000
Shareholders' equity as reported under HK GAAP	278,014	2,154,612	2,106,911
Adjustments:			
Recognition of revenue	3,737	28,964	25,077
Investment properties	60	461	149
Tax effect of reconciling items	(616)	(4,773)	(4,151)
Shareholders' equity as reported under US GAAP	<u>281,195</u>	<u>2,179,264</u>	<u>2,127,986</u>

Notes:

1. The calculation of earnings per share is based on 420,000,000 shares in issue during the period.
2. 1 American depositary share ("ADS") is equivalent to 8 ordinary shares of the Company.
3. For the convenience of the reader, amounts in HK\$ have been translated into US\$ at the rate of US\$1=HK\$7.75. No representation is made that the HK\$ amount could have been, or could be, converted into US\$ at that rate.

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APT Satellite Holdings Limited (together with its subsidiaries known as the “Group”), is a listed company on both The Stock Exchange of Hong Kong Limited and New York Stock Exchange, Inc. Its wholly-owned subsidiary, APT Satellite Company Limited, was established since 1992. It primarily provides high quality satellite transponder services for international and Asia-Pacific broadcasting and telecommunication sectors and has achieved remarkable performance.

The Principal Shareholders of the Group are renowned China and South East Asia corporations. They directly and indirectly hold an aggregate of 75% of the issued shares of APT Satellite Holdings Limited subsequent to the listing of the shares of the Company in December 1996. The relations between the Group and its Principal Shareholders enable the Group to establish strong competitive advantages in both international and Asia-Pacific markets including China.

The Group is managed by a team of experts in the satellite-related industries. Many of whom have about 20 to 30 years’ experience in the development, launch, telemetry and control, and telecommunication of satellites. The Group currently operates three in-orbit satellites, APSTAR-I, APSTAR-IA and APSTAR-IIR, through its own satellite control centre located in the Tai Po Industrial Estates, New Territories. The Group’s third satellite, APSTAR-IIR, was successfully launched on 17 October 1997.

The Superior APSTAR Systems

Satellites	Model	Orbital Slots	Transponders		Footprint Coverage
			C-Band	Ku-Band	
APSTAR-I	Hughes HS-376	138 degree East	24	–	China, Japan, South-East Asia
APSTAR-IA	Hughes HS-376	134 degree East	24	–	China, Japan, South-East Asia & India
APSTAR-IIR	SS/Loral FS-1300	76.5 degree East	28	16	Europe, Asia, Africa Australia, about 75% of World’s population

Future Satellites Plans

The Group intends to participate in the direct broadcasting satellite service in the region and is also planning to launch a high-powered satellite to satisfy the transponders demand in early next century.

Note: The Principal Shareholders of the Group are: (a) China Telecommunications Broadcast Satellite Corporation; (b) China Satellite Launch & Tracking Control General; (c) China Aerospace Corporation; (d) CASIL Satellite Holdings Ltd.; (e) China Travel Fok Tai (Macau) Ltd., a corporation with 50% equity owned by China Travel Service (Holdings) Hong Kong Ltd.; (f) SingaSat Pte. Ltd., a wholly-owned subsidiary of Singapore Telecommunication Limited; and (g) Kwang Hua Development and Investment Limited, a Hong Kong corporation jointly owned by the Ruentex Group and China Development Corporation.