

exploring  
the world  
from a  
new angle



**APT Satellite Holdings Limited**

(Incorporated in Bermuda with limited liability)



## COMPANY PROFILE

APT SATELLITE HOLDINGS LIMITED (together with its subsidiaries known as “APT Group”) is a listed company on both The Stock Exchange of Hong Kong Limited and New York Stock Exchange, Inc. Having started its operation in 1992, APT Group mainly provides high quality services in satellite communication and satellite TV broadcasting to the broadcasting and telecommunication sectors in Asia, Europe and the United States, and achieves remarkable results. APT Group currently operates three in-orbit geostationary satellites namely APSTAR I, APSTAR IA and APSTAR IIR, through its own satellite control centre in Tai Po, Hong Kong. Besides, APT Group has commissioned two high power satellites, APSTAR V and APSTAR VB. APSTAR V is scheduled to be launched in the third quarter of 2003 whereas APSTAR VB will be delivered in the third quarter of 2004.



## APSTAR SYSTEMS

| Satellites | Model              | Orbital Slots | TRANSPONDERS |  |         |   |
|------------|--------------------|---------------|--------------|--|---------|---|
|            |                    |               | C Band       |  | Ku Band |   |
|            |                    |               | Number       | Coverage   | Number  | Coverage  |
| APSTAR-VB  | Alcatel SB-4100 C1 | 134°E         | 38           | China, India, Southeast Asia, Australia, Hawaii, Guam, South Pacific Islands | 12      | China (including Hong Kong, Macau and Taiwan)           |
| APSTAR-V   | SS/L FS-1300       | 138°E         | 38           | China, India, Southeast Asia, Australia, Hawaii, Guam, South Pacific Islands | 8       | China (including Hong Kong, Macau and Taiwan)           |
|            |                    |               |              |  | 8       | Southeast Asia and Australia                            |
| APSTAR-IIR | SS/L FS-1300       | 76.5°E        | 28           | Europe, Asia, Africa, Australia, about 75% of World's population             | 16      | China (including Hong Kong, Macau and Taiwan) and Korea |
| APSTAR-IA  | Hughes HS-376      | 134°E         | 24           | China, Japan, Southeast Asia, and India                                      | –       | –   |
| APSTAR-I   | Hughes HS-376      | 138°E         | 24           | China, Japan, Southeast Asia   | –       | –   |

For further information, please contact:

Address: Room 3111-3112, 31/F., One Pacific Place, 88 Queensway, Hong Kong  
 Email: [aptir@apstar.com](mailto:aptir@apstar.com) (Investors Relation), [aptmk@apstar.com](mailto:aptmk@apstar.com) (Marketing)  
 Tel: (852) 2526 2281 Fax: (852) 2522 0419  
 Web-site: [www.apstar.com](http://www.apstar.com)

# CHAIRMAN'S STATEMENT

The Board of Directors (the "Board") of APT Satellite Holdings Limited (the "Company") are pleased to announce the unaudited interim results of the Company, its subsidiaries (the "Group") for the six months ended 30 June 2002.

The interim financial report has been reviewed by the Company's audit committee and the auditors.

## RESULTS

The Group's turnover and consolidated net profit attributable to shareholders amounted to HK\$176,644,000 (2001: HK\$187,831,000) and HK\$30,632,000 (2001: HK\$52,882,000) respectively. Basic earnings per share was HK7.42 cents (2001: HK12.81 cents).

## INTERIM DIVIDEND

In line with the need of the Group's future development, the Board has resolved not to declare an interim dividend for the six months ended 30 June 2002 (2001: Nil).

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

|   |   | For the six months<br>ended 30 June |             |
|---|---|-------------------------------------|-------------|
|   |   | 2002                                | 2001        |
|   |   | HK\$'000                            | HK\$'000    |
|   |   | (Unaudited)                         | (Unaudited) |
| Turnover  | 3 | 176,644                             | 187,831     |
| Cost of services                                |   | (132,255)                           | (129,068)   |
|   |   | 44,389                              | 58,763      |
| Write-back of provision on regulatory matters   | 4 | 23,400                              | –           |
| Other operating income                          |   | 15,586                              | 48,049      |
| Administrative expenses                         |   | (31,394)                            | (29,481)    |
| Profit from operations                          | 3 | 51,981                              | 77,331      |
| Finance costs                                   |   | –                                   | (5,644)     |
| Share of results of jointly controlled entities |   | (5,074)                             | (1,892)     |
| Profit before tax                               |   | 46,907                              | 69,795      |
| Taxation  | 6 | (16,969)                            | (16,913)    |
| Profit after tax                                |   | 29,938                              | 52,882      |
| Minority interests                              |   | 694                                 | –           |
| Net profit attributable to shareholders         |   | 30,632                              | 52,882      |
| Earnings per share                              | 8 |                                     |             |
| – Basic   |   | 7.42 cents                          | 12.81 cents |
| – Diluted                                       |   | 7.40 cents                          | 12.80 cents |

# CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2002

|   | Notes | 30 June<br>2002<br>HK\$'000<br>(Unaudited) | 31 December<br>2001<br>HK\$'000<br>(Audited) |
|---|-------|--|--|
| <b>Non-current assets</b>                   |       |  |  |
| Property, plant and equipment               | 9     | 1,584,430                                  | 1,150,027                                    |
| Investment property                         |       | 2,402                                      | 2,402  |
| Goodwill                                    |       | 1,914                                      | –  |
| Interest in jointly controlled entities     |       | 73,413                                     | 80,408                                       |
| Pledged bank deposits                       |       | 283,824                                    | 317,682                                      |
| Club memberships                            |       | 5,537                                      | 5,537  |
| Transponder lease deposit                   |       | 306  | 101  |
|   |       | <b>1,951,826</b>                           | <b>1,556,157</b>                             |
| <b>Current assets</b>                       |       |  |  |
| Trade receivables                           | 10    | 30,774                                     | 25,506                                       |
| Deposits, prepayments and other receivables |       | 50,175                                     | 17,343                                       |
| Amount due from immediate holding company   |       | 10   | 20   |
| Pledged bank deposits                       |       | 65,695                                     | 61,986                                       |
| Bank balances and cash                      |       | 1,158,080                                  | 1,619,686                                    |
|   |       | <b>1,304,734</b>                           | <b>1,724,541</b>                             |
| <b>Current liabilities</b>                  |       |  |  |
| Other payables and accrued charges          |       | 77,112                                     | 90,517                                       |
| Rentals received in advance                 |       | 40,683                                     | 57,679                                       |
| Tax payable                                 |       | 73,121                                     | 62,967                                       |
| Secured bank borrowings due within one year | 11    | 65,695                                     | 61,986                                       |
| Amount due to a related company             |       | 12   | –  |
|   |       | <b>256,623</b>                             | <b>273,149</b>                               |
| <b>Net current assets</b>                   |       | <b>1,048,111</b>                           | <b>1,451,392</b>                             |
|   |       | <b>2,999,937</b>                           | <b>3,007,549</b>                             |

# CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2002

|  |       | <b>30 June</b>     | 31 December |
|--|-------|--------------------|-------------|
|  |       | <b>2002</b>        | 2001        |
|  | Notes | <b>HK\$'000</b>    | HK\$'000    |
|  |       | <b>(Unaudited)</b> | (Audited)   |
| <b>Capital and reserves</b>                |       |                    |             |
| Share capital                              | 12    | 41,272             | 41,272      |
| Share premium                              |       | 1,283,809          | 1,283,809   |
| Contributed surplus                        |       | 511,000            | 511,000     |
| Translation reserves                       |       | 228                | –           |
| Other reserves                             |       | 64                 | 64          |
| Accumulated profits                        |       | 638,488            | 628,492     |
|  |       | <b>2,474,861</b>   | 2,464,637   |
| <b>Minority interests</b>                  |       |                    |             |
|  |       | <b>10,458</b>      | –           |
| <b>Non-current liabilities</b>             |       |                    |             |
| Secured bank borrowings due after one year | 11    | 283,824            | 317,682     |
| Loan from a minority shareholder           |       | 7,488              | –           |
| Deposits received                          |       | 43,667             | 43,651      |
| Deferred income                            |       | 54,139             | 57,904      |
| Deferred taxation                          |       | 125,500            | 123,675     |
|  |       | <b>514,618</b>     | 542,912     |
|  |       | <b>2,999,937</b>   | 3,007,549   |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2002

|  | Share<br>capital<br>HK\$'000 | Share<br>premium<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000 | Translation<br>reserves<br>HK\$'000 | Other<br>reserves<br>HK\$'000 | Accumulated<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------------------|------------------------------|------------------------------------|-------------------------------------|-------------------------------|------------------------------------|-------------------|
| Balance at 1 January 2001  | 41,280                       | 1,283,993                    | 511,000                            | -                                   | -                             | 612,467                            | 2,448,740         |
| Dividends paid   | -                            | -                            | -                                  | -                                   | -                             | (61,920)                           | (61,920)          |
| Net profit for the period  | -                            | -                            | -                                  | -                                   | -                             | 52,882                             | 52,882            |
| Balance at 30 June 2001  | 41,280                       | 1,283,993                    | 511,000                            | -                                   | -                             | 603,429                            | 2,439,702         |
| Balance at 1 January 2002  | 41,272                       | 1,283,809                    | 511,000                            | -                                   | 64                            | 628,492                            | 2,464,637         |
| Translation difference not recognised<br>in the income statement | -                            | -                            | -                                  | 228                                 | -                             | -                                  | 228               |
| Dividends paid   | -                            | -                            | -                                  | -                                   | -                             | (20,636)                           | (20,636)          |
| Net profit for the period  | -                            | -                            | -                                  | -                                   | -                             | 30,632                             | 30,632            |
| Balance at 30 June 2002  | 41,272                       | 1,283,809                    | 511,000                            | 228                                 | 64                            | 638,488                            | 2,474,861         |

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2002

|  | For the six months<br>ended 30 June |                                 |
|--|-------------------------------------|---------------------------------|
|  | 2002<br>HK\$'000<br>(Unaudited)     | 2001<br>HK\$'000<br>(Unaudited) |
| Net cash flow from operating activities  | <b>74,540</b>                       | 114,380                         |
| Investing activities   |                                     |                                 |
| Additions to property, plant and equipment   | <b>(523,982)</b>                    | (88,632)                        |
| Proceeds on disposal of property, plant and equipment                                      | <b>1</b>                            | 2                               |
| Proceeds on disposal of property, plant and equipment<br>to a jointly controlled entity    | –                                   | 13,657                          |
| Capital contribution to a jointly controlled entity  | –                                   | (35,768)                        |
| Loan repayment from a jointly controlled entity  | –                                   | 1,500                           |
| Acquisition of additional interest in a jointly<br>controlled entity, net of cash acquired | <b>(4,241)</b>                      | –                               |
| Interest received  | <b>12,550</b>                       | 58,047                          |
| Decrease in pledged bank deposits  | <b>30,149</b>                       | 37,321                          |
| Net cash outflow from investing activities   | <b>(485,523)</b>                    | (13,873)                        |
| Financing activities   |                                     |                                 |
| Repayment of bank borrowings   | <b>(30,149)</b>                     | (147,000)                       |
| Dividends paid   | <b>(20,636)</b>                     | (64,320)                        |
| Cash outflow from financing activities   | <b>(50,785)</b>                     | (211,320)                       |
| Net decrease in cash and cash equivalents  | <b>(461,768)</b>                    | (110,813)                       |
| Cash and cash equivalents at beginning of the period                                       | <b>1,619,686</b>                    | 1,704,606                       |
| Effect of foreign exchange rate changes  | <b>162</b>                          | –                               |
| Cash and cash equivalents at end of the period,<br>represented by bank balances and cash   | <b>1,158,080</b>                    | 1,593,793                       |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2002

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (the “HKSA”) and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2001, except as described below.

In the current period, the Group has adopted, for the first time, the new SSAP 34 “Employee Benefits” issued by HKSA. The adoption of this SSAP has had no significant impact on the Group’s financial statements.

### 3. SEGMENTAL INFORMATION

The Group only has one business segment, namely the maintenance and operation of satellite telecommunication systems.

The Group’s geographical segment analysis of turnover and contribution to profit from operations by location of customers, is as follows:

|  | For the six months ended 30 June |  |                      |  |
|--|----------------------------------|--|----------------------|--|
|  | 2002                             |  | 2001                 |  |
|  | Turnover<br>HK\$’000             | Contribution<br>to profit from<br>operations<br>HK\$’000 | Turnover<br>HK\$’000 | Contribution<br>to profit from<br>operations<br>HK\$’000 |
| Hong Kong  | 24,739                           | 6,217  | 18,016               | 5,636  |
| Other regions in the People’s<br>Republic of China | 125,174                          | 31,455   | 137,064              | 42,881   |
| Others   | 26,731                           | 6,717  | 32,751               | 10,246   |
|  | <b>176,644</b>                   | <b>44,389</b>  | <b>187,831</b>       | <b>58,763</b>  |
| Write-back of provision on<br>regulatory matters   |                                  | 23,400   |                      | –  |
| Other operating income                             |                                  | 15,586   |                      | 48,049   |
| Unallocated corporate expenses                     |                                  | (31,394)   |                      | (29,481)   |
| Profit from operations                             |                                  | <b>51,981</b>  |                      | <b>77,331</b>  |



#### 4. WRITE-BACK OF PROVISION ON REGULATORY MATTERS

Under the terms of an agreement made with an independent third party dated 18 August 1999 in relation to the leasing of substantially all of the transponder capacities of APSTAR IIR, the Group agreed to bear the cost of retrofitting the dishes of affected customers of APSTAR IIR as a result of increase in dish size. Provision was therefore made for the best estimate of the potential cash outflow under the agreement based on the estimated replacement cost of retrofitting the dishes. During the period, the Group reassessed the circumstances of affected customers and found that less dishes are likely to be required for retrofitting than the previous estimate. The directors of the Group are of the opinion that the potential cost of retrofitting the dishes, if any, will be reduced. Based on the revised estimate for the replacement cost of retrofitting the dishes, an amount of HK\$23,400,000 is written back.

#### 5. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK\$110,652,000 (2001: HK\$108,460,000) was charged in respect of the Group's property, plant and equipment and amortisation of HK\$110,000 (2001: Nil) was charged in respect of Group's goodwill on acquisition of additional interest in a jointly controlled entity.

#### 6. TAXATION

The charge comprises:

Hong Kong Profits Tax calculated at 16%  
of the estimated assessable profit for the period  
Overseas tax calculated at rates prevailing  
in respective jurisdictions  
Deferred taxation

| For the six months<br>ended 30 June |                  |
|-------------------------------------|------------------|
| 2002<br>HK\$'000                    | 2001<br>HK\$'000 |
|                                     |                  |
| 3,719                               | 2,934            |
| 11,425                              | 12,833           |
| 1,825                               | 1,146            |
| <b>16,969</b>                       | <b>16,913</b>    |

#### 7. DIVIDENDS

On 26 June, 2002, a dividend of HK5 cents per share was paid to shareholders as the final dividend for 2001.

In line with the need of Group's future development, the Board has resolved not to declare an interim dividend for the six months ended 30 June 2002 (2001: Nil).

## 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

|   | For the six months<br>ended 30 June |                  |
|---|-------------------------------------|------------------|
|   | 2002<br>HK\$'000                    | 2001<br>HK\$'000 |
| Earnings  |                                     |                  |
| Earnings for the purposes of calculating<br>basic and diluted earnings per share<br>(net profit for the period) | <b>30,632</b>                       | 52,882           |

  

|   | For the six months<br>ended 30 June |              |
|---|-------------------------------------|--------------|
|   | 2002<br>'000                        | 2001<br>'000 |
| Number of shares  |                                     |              |
| Weighted average number of<br>ordinary shares for the purposes of calculating<br>basic earnings per share   | <b>412,720</b>                      | 412,800      |
| Effect of dilutive share options  | <b>1,372</b>                        | 282          |
| Weighted average number of<br>ordinary shares for the purposes of calculating<br>diluted earnings per share | <b>414,092</b>                      | 413,082      |

## 9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group has acquired property, plant and equipment amounting to HK\$534,467,000 (2001: HK\$88,632,000).

## 10. TRADE RECEIVABLES

The Group allows an average credit period of 0–10 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

|                            | 30 June<br>2002<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 |
|----------------------------|-----------------------------|---------------------------------|
| Overdue 0 – 30 days        | <b>5,292</b>                | 15,887                          |
| Overdue 31 – 60 days       | <b>7,586</b>                | 3,348                           |
| Overdue 61 – 90 days       | <b>11,590</b>               | 1,719                           |
| Overdue 91 – 120 days      | <b>827</b>                  | 147                             |
| Overdue more than 120 days | <b>5,479</b>                | 4,405                           |
|                            | <b>30,774</b>               | 25,506                          |

## 11. BANK BORROWINGS

During the current period, the Group repaid bank loans of approximately HK\$30,149,000 (2001: HK\$147,000,000).

## 12. SHARE CAPITAL

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

## 13. ACQUISITION OF ADDITIONAL INTEREST IN A JOINTLY CONTROLLED ENTITY

During the period, the Group has acquired an additional 20% interest in CTIA VSAT Network Limited ("CTIA"), previously was a 40% owned jointly controlled entity, with a consideration of HK\$7,180,000. CTIA became a subsidiary and its assets and liabilities have been consolidated after the acquisition.

## 14. CONTINGENT LIABILITIES

In the years before 1999, overseas withholding tax was not charged in respect of the Group's transponder lease income derived from the overseas lessees. From 1999, overseas withholding tax has been charged on certain transponder lease income of the Group and full provision for such withholding tax for the years from 1999 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 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 transponder lease income earned in those years, not provided for in the financial statements amounted to approximately HK\$75,864,000.

## 15. CAPITAL COMMITMENTS

At 30 June 2002, the Group had authorised but not contracted capital commitments of HK\$283,574,000 and contracted but not provided for capital commitments of HK\$1,721,073,000 mainly in respect of the procurement and launch of new satellites APSTAR V and APSTAR VB.

Also, the Group's share of the capital commitments of the jointly controlled entities not included in the above are as follows:

|  | 30 June<br>2002<br>HK\$'000 | 31 December<br>2001<br>HK\$'000 |
|--|-----------------------------|---------------------------------|
| Authorised but not contracted                                  | –                           | 138,075                         |
| Contracted but not provided for in<br>the financial statements | 112,356                     | 40,789                          |
| Total commitments  | 112,356                     | 178,864                         |

## 16. RELATED PARTY TRANSACTIONS

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

|   | For the six months<br>ended 30 June |                  |
|---|-------------------------------------|------------------|
|   | 2002<br>HK\$'000                    | 2001<br>HK\$'000 |
| Income from leasing of transponders to a shareholder of the Company ( <i>note i</i> )   | 17,699                              | 4,048            |
| Income from leasing of transponders to a holding company of a shareholder of the Company ( <i>note i</i> )                    | 9,750                               | 9,750            |
| Income from leasing of transponders to a jointly controlled entity ( <i>note i</i> )  | 4,268                               | 2,730            |
| Service fee in connection with the APSTAR V project to a fellow subsidiary of a shareholder of the Company ( <i>note ii</i> ) | 3,120                               | 46,722           |

In addition, at 30 June 2002, the Group had outstanding commitment to pay service fee to a fellow subsidiary of a shareholder of the Company amounting to HK\$327,054,000 (at 31 December 2001: HK\$330,174,000).

*Note:*

- (i) The terms and conditions of these transponder lease agreements are similar to those contracted with other customers of the Group.
- (ii) The directors consider that the service fee was charged according to prices and conditions similar to those offered to other customers by the launch service provider.

# 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 EUROSPT, 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<br>(Vice President)                           | Personal            | 500                   |
| Lo Kin Hang, Brian<br>(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:

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

## 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:

|       |  | For the six months ended 30 June |                |               |               |
|-------|--|----------------------------------|----------------|---------------|---------------|
|       |  | 2002                             | 2002           | 2001          |               |
| Notes |  | US\$'000                         | HK\$'000       | HK\$'000      |               |
|       | Net income as reported under HK GAAP             | 3,927                            | 30,632         | 52,882        |               |
|       | Adjustments:                                     |                                  |                |               |               |
|       | Recognition of revenue                           | (474)                            | (3,697)        | (2,193)       |               |
|       | Depreciation of investment property              | (5)                              | (42)           | (24)          |               |
|       | Stock option compensation                        | (481)                            | (3,751)        | (184)         |               |
|       | Tax effect of reconciling items                  | 76                               | 591            | 351           |               |
|       | Amortisation of goodwill                         | 14                               | 110            | –             |               |
|       | Approximate net income as reported under US GAAP | 3,057                            | 23,843         | 50,832        |               |
|       | Earnings per share under US GAAP                 |                                  |                |               |               |
|       | – Basic  | 1                                | US\$0.74 cents | HK5.78 cents  | HK12.31 cents |
|       | – Diluted  | 2                                | US\$0.74 cents | HK5.76 cents  | HK12.31 cents |
|       | Earnings per ADS under US GAAP                   |                                  |                |               |               |
|       | – Basic  | 3                                | US\$5.93 cents | HK46.22 cents | HK98.51 cents |
|       | – Diluted  |                                  | US\$5.91 cents | HK46.06 cents | HK98.44 cents |

## SUPPLEMENTARY INFORMATION ON US GAAP RECONCILIATION (continued)

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

|  | At 30 June       |                  |                  |
|--|------------------|------------------|------------------|
|  | 2002<br>US\$'000 | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| Shareholders' equity as reported under HK GAAP | 317,290          | 2,474,861        | 2,439,702        |
| Adjustments:                                   |                  |                  |                  |
| Recognition of revenue                         | –                | –                | 2,980            |
| Investment property                            | 43               | 339              | 423              |
| Tax effect of reconciling items                | –                | –                | (476)            |
| Amortisation of goodwill                       | 14               | 110              | –                |
| Shareholders' equity as reported under US GAAP | 317,347          | 2,475,310        | 2,442,629        |

### Notes:

- (1) The calculation of basic earnings per share is based on weighted average of 412,720,000 (2001: 412,800,000) shares in issue during the period.
- (2) The calculation of diluted earnings per share is based on weighted average of 414,092,000 (2001: 413,082,000) shares issued and issuable during the six months ended 30 June 2002 after adjusting the effect on the outstanding options granted.
- (3) 1 American depositary share ("ADS") is equivalent to 8 ordinary shares of the Company.
- (4) For the convenience of the reader, amounts in HK\$ have been translated into US\$ at the rate of US\$1=HK\$7.80. No representation is made that the HK\$ amount could have been, or could be, converted into US\$ at that rate.