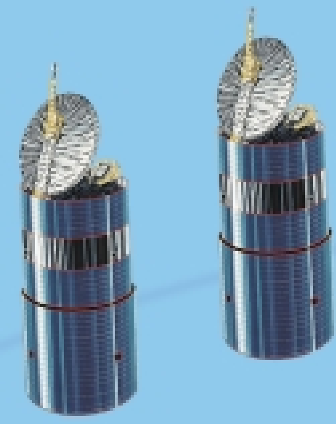


APT Satellite Holdings Limited

(Incorporated in Bermuda with limited liability)

ANNUAL REPORT 1998

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 hold a majority of the issued shares of APT Satellite Holdings Limited. 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 Tai Po, Hong Kong. The Group's third satellite, APSTAR-IIR, was successfully launched on 17 October 1997.

THE SUPERIOR APSTAR SYSTEM

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 by the year of 2001.

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 Limited.; (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.

Contents

DIRECTORS

Executive Directors

He Ke Rang *(Vice Chairman and President)*

Chen Ji Bin *(Vice President)*

Qin Shen *(Vice President)*

Non-executive Directors

Liu Ji Yuan *(Chairman)*
(Appointed on 8 June 1998)

Zhang Jia De *(Vice Chairman)*
(Appointed on 8 June 1998)

Zhou Ze He *(Vice Chairman)*
(Appointed on 8 June 1998)

Wong Hung Khim

Hsu Chih Chang

Zhu You Jun

Lim Toon

Lee Hsiang Wei

Wong Kit Ming

Ho Siaw Hong
(Alternate Director to Lim Toon and Wong Hung Khim)

Wu Zhen Mu *(Appointed on 23 June 1998)*

Liang Wen Hao *(Appointed on 23 June 1998)*

Chatchaval Jiaravanon
(Resigned on 28 February 1998)

Ngai Man *(Resigned on 20 April 1998)*

Xie Gao Jue *(Resigned on 1 June 1998)*

Li Bao Ming *(Resigned on 23 June 1998)*

Hou Zheng *(Resigned on 23 June 1998)*

Independent Non-executive Directors

Li Kwok Wing, Meocre

Yuen Pak Yiu, Philip

COMPANY SECRETARY

Lo Kin Hang, Brian

AUTHORISED REPRESENTATIVES

Qin Shen

Lo Kin Hang, Brian

PRINCIPAL BANKERS

Hua Chiao Commercial Bank Limited

Sin Hua Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

Bankers Trust Company

AUDITORS

Ernst & Young

LEGAL ADVISORS

Baker & McKenzie

Preston Gates & Ellis LLP

Richards Butler

S.H. Low & Co.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building
No. 6, Front Street
Hamilton, HM 11
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
1601 Hutchison House
10 Harcourt Road
Hong Kong

ADR DEPOSITARY

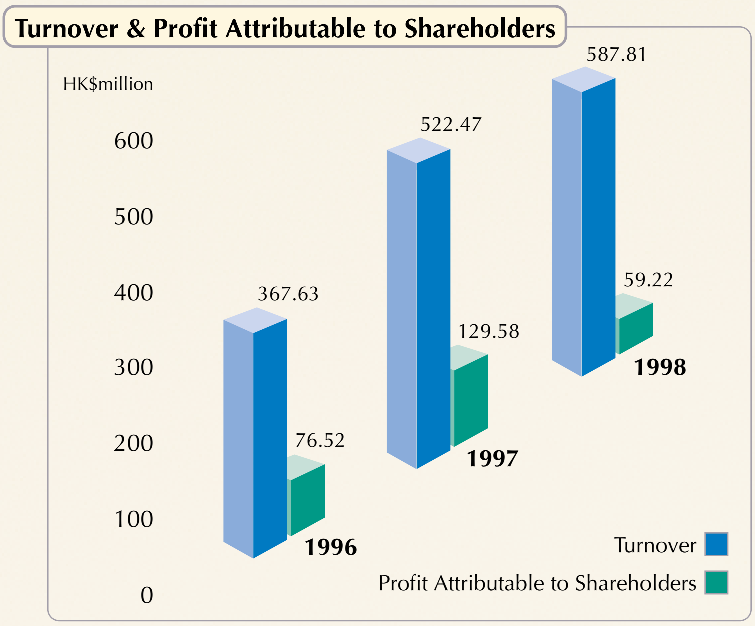
The Bank of New York
American Depositary Receipts
101 Barclay Street
22nd Floor West
New York, NY 10286
USA

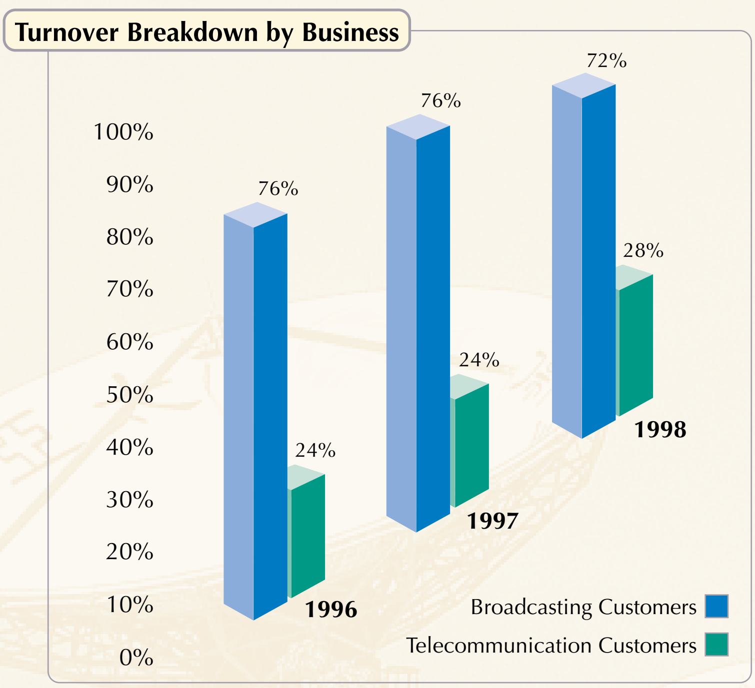
REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

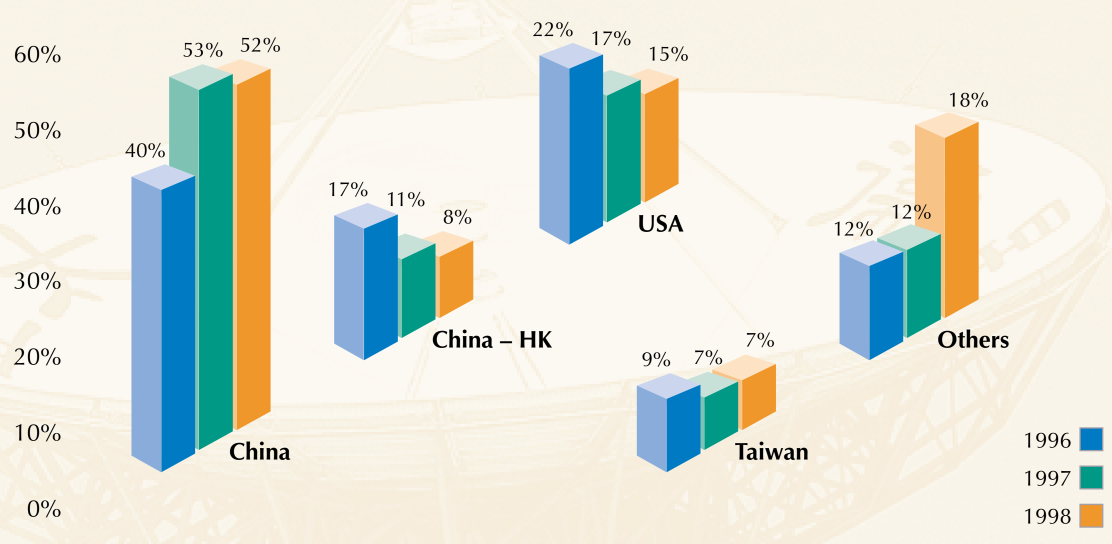
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 3111-3112, 31st Floor
One Pacific Place
88 Queensway
Hong Kong
Tel: (852) 2526 2281
Fax: (852) 2522 0419
Web-site: www.apstar.com
email: aptmk@apstar.com (Marketing)
aptir@apstar.com (Investors Relation)

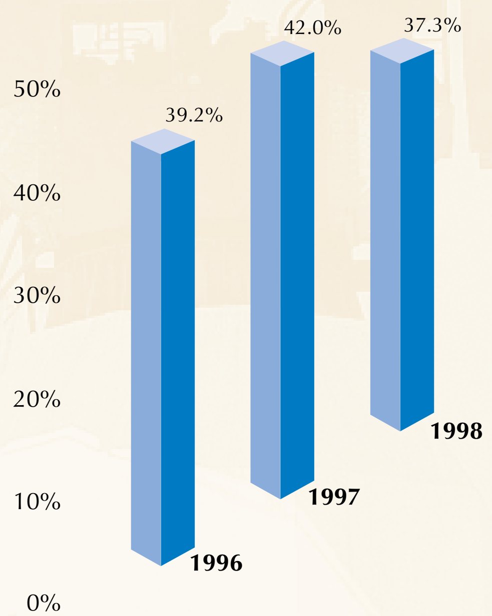

Turnover & Profit Attributable to Shareholders
HK$million
600
500
400
300
200
100
0
367.63
76.52
1996
522.47
129.58
1997
587.81
59.22
1998
Turnover
Profit Attributable to Shareholders


Turnover Breakdown by Business
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
76%
24%
1996
76%
24%
1997
72%
28%
1998
Broadcasting Customers
Telecommunication Customers

Turnover Breakdown by Region



Total Liabilities to Total Assets Ratio



"The Group will continue to dedicate itself to becoming the best provider of transponder services in the international and the Asia-Pacific telecommunication and broadcasting sectors."

Mr. Liu Ji Yuan
Chairman

Mr. He Ke Rang
Vice Chairman and President

The Board of Directors (the "Board") of APT Satellite Holdings Limited (the "Company") herein announces the audited results of the Company and its subsidiaries (the "Group") in respect of the financial year ended 31 December 1998 prepared in accordance with accounting principles generally accepted in Hong Kong.

Results

Similar to most other companies in the region, our Group's performance during the year under review had been much affected by the Asian economic turmoil. For the year ended 31 December 1998, Group turnover was HK$587,805,000 (1997: HK$522,467,000) while profit attributable to shareholders was HK$59,217,000 (1997: HK$129,581,000). Earnings per share was 14.10 HK cents (1997: 30.85 HK cents).

Final Dividend

In line with the need of the Group's future development, the Board of Directors does not recommend the payment of any dividend in respect of the financial year 1998 (1997: Nil).

Business Review

Market Review

1998 was perhaps one of the most difficult years for Asian businesses in the region's recent history. Our major business sectors have been adversely affected. Given the region's sluggish economic environment, demand for satellite transponder services has fallen short of our original expectation. Meanwhile, a number of new satellite launches during 1998 had significantly pushed up transponder supply in the region. The take up of transponders had especially slowed down. On the other hand, the cancellation or postponement of a number of satellite launches caused by the region's economic downturn had helped ease slightly the oversupply situation.

As a result of oversupply, leasing prices of satellite transponders were subject to downward pressure in the market. However, we have adopted the strategy of improving its services and have merely adjusted our prices a little to a more competitive level. Therefore, our operating margins have not been adversely affected to a significant degree.

Mr. He Ke Rang, the President, warmly welcome BG Lee Hsien Yang, President & Chief Executive Officer of Singapore Telecommunications Group, being an honourable guest of APT's cocktail reception in Singapore

APSTAR-I and APSTAR-IA

Since some individual customers had experienced business difficulties due to the economic turmoil and therefore could no longer use the service of our satellite transponders, and with some other customers having shifted to APSTAR-IIR from the original satellite leased, APSTAR-I and APSTAR-IA recorded a slight decrease in their utilisation rates. As at 31 December 1998, approximately 70% of the capacities of the two satellites were leased out, and the weighted average utilization rates in 1998 were 85% for APSTAR I and 75% for APSTAR IA.

APSTAR-IIR

Our Group's third satellite, APSTAR-IIR, commenced commercial operation in January 1998 and was approximately 26% leased as at 31 December 1998. Owing to the Asian financial crisis, APSTAR-IIR's utilisation rate had not picked up as much as we had expected. Nonetheless, with its high-quality Ku-band transponders and the broad footprint of its C-band transponders (covering nearly 75% of the world's population), APSTAR-IIR will enable our Group to hold a strong market position in the long run.

Prospects

Market Outlook

While it is believed that the region's economies have bottomed out and recovery is in sight, sluggish economic conditions are still expected to continue for some time. As a result, the general demand for satellite transponder service in the forthcoming year will grow only marginally. We will still face some difficulties during 1999 in terms of signing up more customers and our transponder leasing business will experience a challenging year.

However, the supply of transponders will slow down as a number of satellite service providers have delayed or set aside their satellite launch programmes. Further, our Group is in a high-technology and capital-intensive industry where market entry is strenuous for newcomers. Therefore. the pressure caused by excessive supply of satellite transponders will be abating.

Mr. He Ke Rang, the President, warmly welcome Mr. Wong Mang Hung, the Assistant Director of Office of the Telecommunications Authority of the HKSAR in APT's cocktail reception

Most of our businesses come from the PRC and particularly in the telecommunication and broadcasting sectors, both of which are expected to experience steady growth benefiting from the PRC's sound economic development in general. Therefore, we remain optimistic about the Group's long-term prospects.

Business Strategies

In view of the competitive situation, we aim to improve our service to customers rather than using a price-cutting strategy. For example, in leasing transponders, we will also engage in systems design to help our customers set up their satellite communication network. Therefore, the Group increases its competitiveness by adding more value to our customers.

Meanwhile, we will actively explore other business opportunities. For example, other satellite related businesses such as internet communications, VSAT and uplink station

A lease agreement signing ceremony on 29 October 1998 for the lease of one of the APSTAR-IA transponders to China Broadcast Film Television Satellite Company Limited, a subsidiary of The State General Administration of Radio Film and TV of China

communications service present strong development potentials. In particular, our Group has commenced its platform on VSAT business in the PRC and we expect our clientele to grow further in this sector.

Conclusion

While the current economic condition is not encouraging and the coming financial year is expected to be difficult, the Group will endeavour to strengthen our competitiveness by improving our service. By offering more added value services to our customers, the Group will put itself in the stronger market position in terms of attracting new customers as well as retaining existing ones. As the economies in Asia Pacific is recovering gradually, the Group remains confident in the long-term future of the satellite communication business in the region. Besides, the solid financial strength of the Group should also enable us to overcome the present adverse conditions.

A note of Appreciation

On behalf of all shareholders and the Board of Directors, I would like to thank all of our customers for their support of the Group, and to express our sincere appreciation to the management and staff for their contribution to the Group during the year and for their commitment for the future.

Liu Ji Yuan
Chairman

Hong Kong, 7 April 1999

EXECUTIVE DIRECTORS

Mr. HE Ke Rang, aged 63, was appointed as the Vice Chairman and President of the Company in October 1996 and has been the Vice Chairman and President of APT Satellite Company Limited ("APT"), a wholly-owned subsidiary of the Company, since June 1992. Mr. He is responsible for the overall daily management and operation of the Group. He graduated with a Master's Degree in Engineering from Kharkov Polytechnical Institute of the then USSR. From 1959 to 1961 he served in the Changchun Research Institute of Optics and Mechanics of the China Academy of Science. In 1961, he joined the PRC Ministry of Aerospace Industry (presently known as China Aerospace Corporation ("China Aerospace")). He later headed the Ministry's Research Institute of Mechanics and Environment which was responsible for the development of launch vehicle technology. From 1984 to 1992, he was the Deputy Director of China Academy of Launch Vehicle Technology of China Aerospace. During this period, he participated in the development and management of the Long March series of launch vehicles and other launch vehicles. The PRC government commended him in 1990 as a specialist who has contributed to the PRC. Mr. He currently serves as a Visiting Professor at the Harbin Institute of Technology.

Mr. CHEN Ji Bin, aged 64, was appointed as a Director and Vice President of the Company in October 1996 and has been a Director and Vice President of APT since June 1992. Mr. Chen is responsible for the management of the APSTAR System. He graduated from the Radar Department of the PRC Institute of Military Telecommunication Engineering. From 1953 to 1970, he conducted radar research as the Deputy Chief Designer and Chief Designer in the Ministry of Communications and Ministry of Weapons. From 1970 to 1985, he was the Head of Design and Director of the Office of Satellite Communication System Engineering in the PRC Ministry of Electronics Industry. From 1985 to 1992, he was the Chief Engineer and Vice President of China Telecommunications Broadcast Satellite Corporation ("ChinaSat"). Mr. Chen has over 30 years' experience in telecommunications and satellite applications and control. He was accredited as a Senior Engineer and Research Fellow in 1980 and 1986 respectively, and was awarded the National Science and Technology Advancement Award (First Grade) in 1985. Mr. Chen has co-edited several technological publications on topics such as radar, microwave, satellite television receiving systems and satellite telecommunications.

Mr. QIN Shen, aged 56, was appointed as a Director and Vice President of the Company in October 1996 and has been a Director of APT since August 1996 and Vice President since June 1992. He graduated from Department of Electrical Instrumentation Measurement Technology of the Harbin Institute of Technology in 1965. Prior to joining the Group, he was the Co-Chief Designer of China Xichang Satellite Launch Mission Command Control Centre, the Leader of the PRC Ministerial Level Professional Planning Group of the Seventh Five-Year Economic Plan of the PRC and the Deputy General Manager of the Development Department of China Satellite Launch & Tracking Control General ("CLTC"). He has been granted several State and Ministerial Level Research Awards. He has over 25 years' experience in satellite telemetry, control and telecommunication system design. Mr. Qin is a Senior Engineer and currently a Visiting Professor at the Harbin Institute of Technology.

NON-EXECUTIVE DIRECTORS

Mr. LIU Ji Yuan, aged 65, was appointed as the Chairman of the Company in June 1998. Mr. Liu graduated from Bowman Polytechnic University, Moscow, USSR (presently known as Russia) majoring in automatic and remote control, and obtained a Master's degree in 1960. After graduation, he was appointed consecutively as a Deputy Director and Director of the Twelfth Research Institute of the Seventh Ministry of Machinery Industry, Vice President of the China Academy of Launch Vehicle Technology under the Ministry of Astronautics and accredited as a Senior Engineer from May 1983 to March 1984, the Vice Minister of the Ministry of Astronautics and accredited as a Research Fellow from April 1984 to March 1988, and the Vice Minister of the PRC Ministry of Acrospace Industry (presently known as China Aerospace Corporation) from April 1988 to April 1993. In April 1993, Mr. Liu was appointed as the Administrator (Ministerial) of China National Space Administration (CNSA), as well as the President of China Aerospace Corporation. In 1988, Mr. Liu was granted the award of National Outstanding Young and Middle-aged Expert in the PRC. In the same year, he was appointed as a visiting professor of Harbin Institute of Technology, Beijing University of Aeronautics and Astronautics, and Beijing Information Control Institute. After 1993, Mr. Liu was also appointed as the President of the Chinese Society of Astronautics, Member of International Academy of Astronautics, President (third-term) of China Automatic Measurement and Control Association, Honorary Chairman of China Aerospace Industrial and Entrepreneurial Management Association, and Honorary Chairman of China Aerospace International Holdings Limited.

NON-EXECUTIVE DIRECTORS (Continued)

Mr. ZHANG Jia De, aged 61, was appointed as the Vice Chairman of the Company in June 1998. Mr. Zhang graduated from the Department of Force Engineering of Zhejiang University in Engineering. He has long been leading or participating the security management in respect of facilities and equipment, transportation, technical logistics, finance for various types of satellite launching, telemetry and control and therefore is well experienced in these areas. He had been appointed as the Deputy Director of China Satellite Launch & Tracking Control General. Mr. Zhang is also appointed as a Visiting Professor in the University of Defence Technology and the Academy of Vehicle Engineering of the Technical Insititute of Beijing.

Mr. ZHOU Ze He, aged 57, was appointed as the Vice Chairman of the Company in June 1998. Mr. Zhou graduated from Chongqing University of Posts & Telecommunications. Then he participated in education and scientific research in telecommunication. In 1972, he was appointed as Deputy Director and Deputy Director General of MPT of the PRC. In 1988, he was appointed as the Deputy Director General of the Beijing Telecommunications Administration in charging of development, planning, construction and management of Beijing's telecommunication. He also acted concurrently as a director of Beijing International Exchange Systems Inc. In 1993, he was appointed as the President of China National Posts & Telecommunications Industry Corporation. During this period, he promoted the rapid development and enterprises reformation in telecommunication industry. He successfully established joint ventures with international renowned telecommunication companies and completed the reformation of Shanghai Posts & Telecommunications Appliances Factory and Chengdu Cable Factory of MPT and listed their shares on foreign stock market. He was also the first Chairman of the Chengdu Cable Company Limited, the first company of MPT that successfully listed on foreign stock market. In March 1995, he was transferred to ChinaSat as President, endeavoring to the development of Chinese space segment resources and the planning of new projects, such as satellite mobile telecommunications and high speed digital satellite telecommunications. In May 1998, Mr. Zhou was appointed as Chairman of Asia Pacific Mobile Telecommunications (APMT).

NON-EXECUTIVE DIRECTORS (Continued)

Mr. WONG Hung Khim, aged 60, was appointed as a Director of the Company in October 1996 and has been a Director of APT since February 1993. He graduated from the University of Singapore with Honours in Physics and attended the Advanced Management Programme at Harvard Business School. He spent two years in teaching before joining the Administrative Service of Singapore in 1966. Mr. Wong began his service in the then Ministry of Social Affairs ("MSA") and later became the Deputy Secretary of the Ministry of Labour. In 1974, he served first as a General Manager and then Executive Director of Singapore Bus Service Ltd. In 1979, he became the General Manager of the Port of Singapore Authority. In 1984, Mr. Wong became the Permanent Secretary of the MSA, which subsequently became the Ministry of Community Development. In 1987, he became head of the Telecommunication Authority of Singapore and oversaw its privatisation into Singapore Telecommunications Limited ("Singapore Telecom") in October 1993. In recognition of his services, Mr. Wong was awarded a Public Administration Meritorious Services Medal in 1992. Mr. Wong is currently the Group Chairman of Singapore Bus Service (1978) Ltd., Chairman of Jurong Town Corporation and Deputy Chairman of Singapore Telecom.

Mr. HSU Chih Chang, aged 40, was appointed as a Director of the Company in October 1996 and has been a Director of APT since September 1996. Mr. Hsu graduated with a Master's degree in Business Administration from National Taiwan University in 1983 and a Doctoral Degree in Managerial Economics and Decision Sciences from Northwestern University in 1989. Mr. Hsu was a part-time Associate Professor in the Department of Financial Administration, National Chengchi University, Taiwan in 1989. From 1989 to 1991, Mr. Hsu served as a Special Assistant to the President of the Ruentex Industries Ltd. From 1991 to 1995, he was the General Auditor of the Ruentex Industries Ltd. Mr. Hsu is now a Special Assistant to the Chief Executive Officer of the Ruentex Group (Ruentex Construction & Development Company Limited and its affiliates), a Managing Director of the China Development Corporation and an Associate Director of the Yin Shu Tien Memorial Hospital Shu-Tien Urology & Ophthalmology Clinic in Taiwan.

Mr. ZHU You Jun, aged 63, was appointed as a Director of the Company in October 1996 and has been a Director of APT since February 1996. He graduated from Fu Dan University. He was the Director of the USA Branch of the China News Service, and has been a Deputy Director and Director of the China News Service. He is also the Vice Chairman of both China Travel Service (Holdings) Hong Kong Ltd., and Chinese Goods Centre Ltd., the Chairman of China Travel Air Service Co., Ltd. and a Director of Cathay Pacific Airways Ltd.

NON-EXECUTIVE DIRECTORS (Continued)

Mr. LIM Toon, aged 55, was appointed as a Director of the Company in October 1996 and has been a Director of APT since February 1993. Mr. Lim graduated in Engineering from University of Canterbury in New Zealand in 1966 and obtained a Postgraduate Diploma in Business Administration from the University of Singapore in 1975. He attended the Advanced Management Programme at Harvard Business School in 1992. He has been an Executive Vice-President for International Service of Singapore Telecom since April 1994 and has worked for Singapore Telecom since 1970, serving as a Vice-President of engineering, radio services, traffic operations, personnel training and information systems departments. He became the Executive Vice President for Network Services in 1989. Mr. Lim was awarded the Efficiency Medal in 1978 and the Public Administration Medal (Gold) in 1991 by the Singapore government. He is presently a Director of a number of overseas companies.

Mr. LEE Hsiang Wei, aged 39, was appointed as a Director of the Company in October 1996 and has been a Director of APT since June 1993. He is presently the Chairman of Kwang Hua Securities Investment and Trust Co., Ltd. Mr. Lee graduated in 1982 with a Bachelor of Science Degree from the National Taiwan University. He later attained his Master's Degree in Business Administration from Duke University. He joined Ruentex Industries Ltd. as a marketing manager in 1987 and was promoted to Vice-President in 1989. Since 1991, Mr. Lee has been a Director of Kwang Hua Securities Investment & Trust Co., Ltd. and is an executive committee member of that company. Mr. Lee is also a President in Ruentex International Holdings Ltd. which sponsors the Ruentex Group's offshore investment activities. He also holds directorships of AETNA Life Insurance Corporation of America and Shanghai International Asset Management (H.K.) Co. Ltd.

Mr. WONG Kit Ming, aged 54, was appointed as a Director of the Company in April 1997. He is presently the Chairman of Fine Source Investments Limited and In System Investment Limited, and a Director of China Travel Fok Tai (Macau) Limited and Safemerge Limited.

Mr. HO Siaw Hong, aged 49, was appointed as the Alternate Director to Mr. T. Lim and Mr. H. K. Wong in October 1996. Mr. Ho graduated from the University of Singapore with a Bachelor of Engineering (Electrical & Electronics) Degree in 1972. He has been employed by Singapore Telecom since August 1972 and has been the Senior Director in charge of the Satellite Business Development Division since July 1996. Prior to July 1996, he was the Division Manager of the same division. From July 1991 to August 1993, he served as the Project Manager of the Satellite System II Unit at Singapore Telecom. From March 1993 to March 1994, he was a Director of American Mobile Satellite Corporation of the United States.

NON-EXECUTIVE DIRECTORS (Continued)

Mr. WU Zhen Mu, aged 53, was appointed as a director of the Company in June 1998. Mr. Wu graduated in Manufacturing Engineering of the Beijing Institute of Aeronautics in 1969 and obtained a Master's degree in Electro-Mechanical Automation in the same Institute in 1981. He was a lecturer in Zhengzhou Institute of Aeronautics from 1970 and 1979 and had been a lecturer, associate Professor and Professor in Beijing University of Aeronautics and Aerospace from 1982 to 1993. Since then, he has been appointed as a Professor of the Commission of Science and Technology of China Aerospace Corporation.

Mr. LIANG Wen Hao, aged 58, was appointed as a Director of the Company in June 1998. Mr. Liang graduated from Beijing Institute of Aeronautics. In 1964, he was appointed as an engineer of the First Design Department of the China Academy of Launch Vehicle Technology under the Ministry of Aerospace Industry of China (resently known as China Aerospace Corporation). Since 1972, Mr. Liang had been consecutively appointed as the Institute Director, Research Fellow, Chief Engineer and Factory Director of Nanjiang Chenguang Machinery Factory and in 1996, he was appointed as the Chairman of Nanjiang Chenguang Group Corporation. He is an executive director of China Aerospace International Holdings Limited.

Mr. Chatchaval JIARAVANON, aged 36, was appointed as a Director of the Company in October 1996 and had been a Director of APT since July 1996. He graduated from the University of Southern California in 1984. He is concurrently an Executive Vice President of Telecom Holding Co. Ltd., a Director of TelecomAsia, Metro Machinery Co. Ltd., the Thai Chamber of Commerce, the Federation of Thai Industries, and Thailand Management Association as well as an Executive Director of Radiophone Co. Ltd. and a Vice President of Thai Kodama Co. Ltd. He resigned as a Director of the Company with effect from 29 February 1998.

Mr. NGAI Man (also known as Montree Navikapol), aged 53, was appointed as the Vice Chairman of the Company in October 1996 and had been the Vice Chairman of APT since June 1992. He is a Director of Orient Telecom & Technology Holdings Ltd. and Orient Telecom & Technology (China) Ltd. Mr. Ngai joined the Charoen Pokphand Group in 1988 and has extensive experience in telecommunications projects and other investments in southeast Asia. Mr. Ngai resigned as a Director of the Company with effect from 20 April 1998.

NON-EXECUTIVE DIRECTORS (Continued)

Mr. XIE Gao Jue, aged 66, was appointed as the Chairman of the Company in October 1996 and had been the Chairman of APT since June 1992. Mr. Xie graduated from the Beijing Institute of Posts and Telecommunications in 1956 and further obtained a postgraduate degree in 1958. He has worked in the fields of telecommunication and telemetry and control systems, serving as the Supervisor of a research laboratory, and later the Senior Engineer, Chief Engineer, and the Head of a PRC Ministry of Electronic Industry research institute. In 1982, he was appointed as the Department Director of Science and Technology of the PRC Ministry of Electronic Industry and subsequently was promoted to the Vice-Minister of the same Ministry in 1984. In 1988, Mr. Xie was appointed as the Vice-Minister of the Ministry of Posts and Telecommunications of the PRC. He has also served as the Chairman of the China Management Association of Posts and Telecommunications Enterprises since 1991 and the Vice President of the Chinese Institute of Electronics since 1988. Mr. Xie resigned as the Chairman of the Company with effect from 1 June 1998

Mr. LI Bao Ming, aged 59, was appointed as the Vice Chairman of the Company in October 1996 and has been the Vice Chairman of APT since June 1992. Mr. Li graduated from the University of Aeronautics and Astronautics and the Harbin Institute of Military Engineering. He has many years of experience in launches of various types of satellites. He was also the Division Manager of the Technology Division and Planning Division of Jiuquan Satellite Launch Centre and the Deputy Head of CLTC. Mr. Li resigned as the Vice Chairman of the Company with effect from 23 June 1998.

Mr. HOU Zheng, aged 61, was appointed as Director of the Company in October 1996 and had been a Director of APT since June 1993. From 1954 to 1956, he studied at the Harbin Institute of Technology. He graduated with a Master's Degree in Engineering from Leningrad Engineering Institute in 1961. During the years between 1961 and 1985, he taught at Qinghua University after which he served as a senior designer of the then Ministry of Aerospace Industry. In 1992, he was commended as an Overseas Fellow of the Russian Engineering Academy (St. Petersburg). Mr. Hou resigned as a Director of the Company with effect from 23 June 1998.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LI Kwok Wing, Meocre, aged 44, was appointed as an Independent Non-executive Director of the Company in October 1996. He is the Chief Executive of NatWest Markets Corporate Finance Asia Limited, and prior to that was the managing partner of Arthur Anderson & Co.'s Hong Kong and China operations. Mr. Li received a Bachelor of Commerce Degree, with distinction, and the Financial Executive Institute Silver Medal from the University of Alberta, Canada. In 1988, Mr. Li completed the Program for Management Development offered by the Harvard University Graduate School of Business Administration. Mr. Li is a member of the Hong Kong Society of Accountants and of the Chartered Association of Certified Accountants, United Kingdom.

Mr. YUEN Pak Yiu, Philip, aged 63, was appointed as an Independent Non-executive Director of the Company in October 1996. He graduated from Law School in England in 1961 and commenced the practice of law in Hong Kong in 1962. In 1965, he established his solicitors' firm, Yung, Yu, Yuen & Co., and now is the principal partner in the firm. Mr. Yuen has over 30 years' experience in the legal field and has been a Director of a number of listed companies including Henderson Investment Limited, Henderson China Holdings Limited, Melbourne Enterprises Limited, Cheerful Holdings Limited, Tsingtao Brewery Company Limited, Guangzhou Shipyard International Company Limited and Oriental Metals (Holdings) Company Limited. He is a Director of the China Appointed Attesting Officers Association in Hong Kong, a Standing Committee Member of the China Chamber of Commerce of Hong Kong, a Member of the National Committee of Chinese Peoples' Political Consultative Conference, an Arbitrator at the China International Economic & Trade Arbitration Commission and an Adviser of Hong Kong Affairs to the PRC government.

Details of directorships of the Directors of the Company in the company which has an interest in the share capital of the Company as disclosed pursuant to the provisions of Part II of the Securities (Disclosure of Interests) Ordinance are set out in the Report of the Directors under the section headed "Substantial Shareholders".

SENIOR MANAGEMENT

Mr. LENG Yi Shun, aged 61, has been a Vice President of Finance of the Group since July 1994. Mr. Leng is responsible for the corporate finance division of the Group. He graduated from the Department of Electrical Engineering of the Harbin Institute of Technology in 1960. Upon graduation, he lectured in the Harbin Institute of Technology for two years. From 1962 to 1990, he served in the China Academy of Launch Vehicle Technology (“CALT”). His research topics, among others, included the power and reliability of guided missiles and rockets, and terrain environmental tests. He was accredited as an Engineering Research Fellow in 1993. From 1984 to 1990, he was the Supervisor of the Beijing Centre of New Dynamic Equipment and Facilities for Reliability and Environment Research of Rockets and Guided Missiles and the General Manager of a corporation which was principally engaged in the production and operation of dynamic equipment and facilities. From 1990 to 1992, he was the Chief Engineer of the Department of Civil Products. CALT and the Deputy General Manager of Beijing Wan Yuan Industry Corporation. He has over 30 years’ experience in launch vehicles research and over 20 years’ experience in corporation management.

Professor BAO Miao Qin, aged 59, has been the Chief Engineer of the Group since June 1992. Professor Bao is responsible for the technical aspects of the development and operation of the APSTAR System and the related insurance programs. He has over 30 years’ experience in systems engineering and space technology. He graduated from the Beijing Aeronautical Institute in 1963. Before joining the Group, he was the Director of Systems Engineering and Research Division of the Chinese Academy of Space Technology (“CAST”). Upon graduation, he spent his first three years in the space industry in the design of sub-orbital sounding rockets. Since 1968, he worked on several space projects for CAST, which included an important feasibility study of manned spacecraft, scientific satellite system engineering and research on the orbit and attitude dynamics of communications satellites. From 1974, he directed the system engineering of China’s first communications satellite. In 1984, he joined ChinaSat as a System Engineering Consultant for broadcasting satellites and worked for two years. Professor Bao also spent more than one year in the United Kingdom and served as a Research Professor at the British National Space Centre before he took the post of Director of System Engineering Division at CAST in 1989.

SENIOR MANAGEMENT (Continued)

Mr. ANG Teck Leng, aged 43, has been the Financial Controller of the Group since August 1994. He holds a Master's Degree in International Management from University of South Australia. He is a certified public accountant of the Institute of Certified Public Accountants of Singapore. After graduating from Nanyang University of Singapore with a degree of Commerce (Accountancy) in 1980, he practised accountancy by working in various companies in Singapore, Indonesia and the PRC. Before joining the Group, he was an Assistant Vice-President of Chia Tai International Telecommunication Co. Ltd., a subsidiary of Telecom Holdings Co. Ltd. which is a member of the Charoen Pokphand Group, which he joined in September 1989. Mr. Ang has over 18 years of financial and accounting experience in industries ranging from manufacturing, shipping, construction and telecommunications.

Mr. LO Kin Hang, Brian, aged 42, is the Assistant to the President and Company Secretary of the Company. Mr. Lo joined the Group in September 1996. He graduated with an Associateship in Production and Industrial Engineering and an M.Sc. Degree in Information Technology from Hong Kong Polytechnic University, and a MBA Degree from the University of Wales, UK. He has attained several professional qualifications including Chartered Engineer, Member of the Institute of Electrical Engineers, and is a Fellow of the Institute of Chartered Secretaries and Administrators in the United Kingdom and a Fellow of the Hong Kong Institute of Company Secretaries. Prior to joining the Group, he was a Director and senior management executive responsible for financial and investment management and the company secretary of a publicly listed company in Hong Kong. Mr. Lo has over 15 years' experience in corporate and project management, including telecommunication projects.

The Directors herein present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, and the principal activities of the subsidiaries consist of the maintenance and operation of satellite telecommunication systems.

There have been no significant changes in the nature of these activities during the year.

RESULTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 1998 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 64.

The Directors do not recommend the payment of any dividend in respect of the year.

SEGMENTED INFORMATION

The Group's turnover and contribution to profit before taxation were all derived from the maintenance and operation of satellite telecommunication systems.

An analysis of the source of the Group's turnover by geographical area for the year ended 31 December 1998 is as follows:

	Turnover
	HK$'000
The People's Republic of China:	
Hong Kong	49,823
Elsewhere	304,333
United States of America	90,223
Taiwan	39,936
Philippines	25,019
Others	78,471
	587,805

SEGMENTED INFORMATION (Continued)

No analysis of the contribution to profit before taxation by geographical area has been prepared as no contribution to the Group's profit from any of the above geographical areas is substantially out of line with the normal ratio of profit to turnover.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

The Group's third satellite, APSTAR IIR, commenced commercial operation in January this year. Together with APSTAR I and APSTAR IA, total lease rental income for the year amounted to HK$587.8 million (US$75.8 million). It is the principal sources of fund to defray all the cash operating expenses and other fixed assets cost. In 1998, the group incurred HK$33.7 million (US$4.3 million) for APSTAR IIR project cost.

During the year, the group repaid bank loans of HK$274.0 million (US$35.4 million) and partially repaid the shareholders' loans of HK$38.8 million (US$5.0 million). As a result of the above repayments, total indebtedness outstanding at 31 December 1998 stood at HK$766.9 million (US$99.0 million), which mainly comprised a syndicated bank loan, short term bank loans and shareholders' loans. The Group's strong cash position has enabled it to meet with ease all the debt repayment schedules during the year ended 31 December 1998. Further details of the debt profile of the Group are set out in notes 16 and 22 to the financial statements.

Funding and Treasury Policies

The Group maintains a prudent funding and treasury policy towards its overall business operations with an aim to minimise the financial risks. Satellite projects require substantial cash outlay to embark upon. As such, the Group expects that it will need to make substantial capital expenditures on new satellite projects over the next several years. All future satellite projects will be financed by cash inflow from operations and bank loans or any viable forms of financing.

Substantially all the incomes and expenditures of the Group are denominated in United States Dollars. The Group believes that this is likely to remain unchanged in the future. As such, the Group does not engage in or plan to engage in hedging the risks of currency exchange rate fluctuations. However, since the current bank loans of the Group carry floating interest rates, the Group is currently exposed to the risk of interest rate fluctuations. It intends to take appropriate measures in due course to hedge against interest rate fluctuations.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Remuneration Policy

As at 31 December 1998, the Group employed 72 full-time employees, including the Executive Directors and senior executives of the Group.

Remuneration packages are made in line with market terms and individual merits. Salaries are reviewed annually by senior management, and increment is made with reference to current market conditions and is based on the individual's performance. Special increments may be granted when warranted. Bonus is paid depending on the operational results of the Group. In addition, the Group offers other staff benefits, including a provident fund scheme and medical insurance. Housing allowances are also offered to certain senior executives.

The Group has entered into service agreements with the three Executive Directors namely, Mr. He Ke Rang, Mr. Chen Ji Bin and Mr. Qin Shen. Each contracted director will be paid a basic salary and a discretionary bonus of such amount as determined by the Board of Directors. Other benefits include housing allowances, use of an automobile, the provision of club memberships, medical insurance, and participation in the Group's staff provident fund and any approved share option scheme.

THE YEAR 2000 ("Y2K") PROBLEM

1. Y2K conformity requirements adopted by the Group

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

2. Evaluation and resolution of the Y2K Problem concerning the APSTAR systems

   2.1 Being fully aware of the Y2K Problem, the Group requested Hughes Space and Communications International, Inc. ("Hughes") and Space Systems/Loral Inc. ("SS/Loral") to investigate the APSTAR systems and their respective satellite control systems in respect of the Y2K Problem (the "Review"). The Group has also set up a special work group for the purpose of co-ordinating and facilitating Hughes and SS/Loral concerning the Review. The Review was completed in December 1998 and certain actions have been taken accordingly. As at the end of March 1999, the Group has completed about 70% of its work in resolving the Y2K Problem.

THE YEAR 2000 ("Y2K") PROBLEM (Continued)

2.2 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. Additionally, the Y2K Problem will not affect the satellite's transponders. Therefore, the satellites do not need any corresponding operations or actions with regard to the Y2K Problem.

2.3 Satellite control centre

Tracking, telemetry & control systems ("TT&C Systems")

The TT&C Systems conform to the Y2K conformity requirements defined in 1 above, except for certain minor software systems. These minor software systems have already been either upgraded or mended and are being tested by the respective vendors. The minor software systems will be tested and verified before they are installed and tested in the primary computer systems. It is anticipated that the Y2K conformity of these minor software systems will be accomplished by September 1999.

3. Resolution of the Y2K Problem concerning the office automation and other systems

3.1 The Group's office automation systems require only slight software revisions in order to achieve Y2K conformity. It is anticipated that such revisions and testing will also be completed by September 1999.

3.2 There are no Y2K Problem areas in the Group's other important systems, such as antennae systems, UPS power supply systems, PABX systems and air-conditioning systems.

THE YEAR 2000 ("Y2K") PROBLEM (Continued)

4. Expenses incurred for the Y2K conformity and contingency plan

   The expenses to be incurred in achieving Y2K conformity will be insignificant because a substantial part of such expenses will be borne by certain suppliers or vendors. 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 30 December 1999 to 2 January 2000.

The Group will continue to monitor the Y2K Problem closely.

AUDIT COMMITTEE

The Group is in the process of forming an audit committee ("Audit Committee") in compliance with the requirement of the Stock Exchange of Hong Kong Limited. The Audit Committee will be set up for operation in mid 1999.

SUMMARY FINANCIAL INFORMATION

The following table summarises the consolidated/combined results of the Group for the last five financial years as extracted from the audited financial statements of the companies now comprising the Group, after appropriate adjustments and reclassifications which would have been necessary if the current Group structure had been in existence throughout these financial years.

RESULTS	Year ended 31 December				
	1994	1995	1996	1997	**1998**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Turnover					
Continuing operations	69,078	284,807	367,628	522,467	**587,805**
Discontinued operations	17,925	–	–	–	**–**
	87,003	284,807	367,628	522,467	**587,805**
Operating profit/(loss):					
Continuing operations before exceptional items	175	84,580	99,120	144,042	**64,440**
Exceptional items	–	(69,792)	–	–	**–**
Continuing operations	175	14,788	99,120	144,042	**64,440**
Discontinued operations	1,203	–	–	–	**–**
Profit before taxation	1,378	14,788	99,120	144,042	**64,440**
Taxation	(6)	(6)	(22,600)	(14,461)	**(5,223)**
Profit attributable to shareholders	1,372	14,782	76,520	129,581	**59,217**

SUMMARY FINANCIAL INFORMATION (Continued)

The Company was incorporated on 17 October 1996. Therefore, the only published audited consolidated balance sheets of the Group are those as at 31 December 1996, 1997 and 1998 and are set out below:

ASSETS AND LIABILITIES		As at 31 December	
	1996	1997	**1998**
	HK$'000	*HK$'000*	***HK$'000***
Total assets	3,193,572	3,575,092	**3,396,431**
Total liabilities	(1,251,111)	(1,503,050)	**(1,265,172)**
Net assets	1,942,461	2,072,042	**2,131,259**

FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company are set out in note 9 to the financial statements.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group are set out in note 10 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 13 to the financial statements.

BORROWINGS

Details of the borrowings of the Group and the Company at the balance sheet date are set out in notes 16 and 22 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 51% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 21%. The purchases attributable to the five largest suppliers accounted for less than 30% of the Group's total purchases for the year.

MAJOR CUSTOMERS AND SUPPLIERS (Continued)

One of the above five largest customers holds, directly and indirectly, more than 5% equity interest in the Company.

Save as disclosed above, neither the Directors, their associates, nor those shareholders of the Company which to the knowledge of the Directors own more than 5% of the Company's share capital had any interest in the five largest customers and suppliers.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

He Ke Rang
Chen Ji Bin
Qin Shen

Non-executive Directors:

Liu Ji Yuan	(Appointed on 8 June 1998)
Zhang Jia De	(Appointed on 8 June 1998)
Zhou Ze He	(Appointed on 8 June 1998)
Wong Hung Khim	
Hsu Chih Chang	
Zhu You Jun	
Lim Toon	
Lee Hsiang Wei	
Wong Kit Ming	
Ho Siaw Hong	(Alternate Director to Lim Toon and Wong Hung Khim)
Li Kwok Wing, Meocre	(Independent Director)
Yuen Pak Yiu, Philip	(Independent Director)
Wu Zhen Mu	(Appointed on 23 June 1998)
Liang Wen Hao	(Appointed on 23 June 1998)
Chatchaval Jiaravanon	(Resigned on 28 February 1998)
Ngai Man	(Resigned on 20 April 1998)
Xie Gao Jue	(Resigned on 1 June 1998)
Li Bao Ming	(Resigned on 23 June 1998)
Hou Zheng	(Resigned on 23 June 1998)

DIRECTORS (Continued)

In accordance with the Company's bye-laws 87, Messrs. Zhu You Jun, Lee Hsiang Wei, Yuen Pak Yiu, Philip, Zhang Jia De, Liu Ji Yuan, Zhou Ze He, Wu Zhen Mu and Liang Wen Hao will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The non-executive Directors of the Company 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.

DIRECTORS' SERVICE CONTRACTS

Mr. He Ke Rang has entered into a service contract with the Company for an initial term of three years, and Messrs. Chen Ji Bin and Qin Shen have entered into separate service contracts with the Company for initial terms of two years commencing 1 December 1996 and continuing thereafter until terminated by either party giving to the other not less than three months' notice.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

At the balance sheet date, Mr. Wong Kit Ming, a Director of the Company, had a personal interest in 1,440,000 shares of the Company.

Save 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 Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as recorded in the register to be kept under Section 29 of the SDI Ordinance at the balance sheet date.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Except for the share option scheme as described in note 20 to the financial statements, at no time during the year 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.

At the balance sheet date, no options had been granted pursuant to the existing share option scheme.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a beneficial interest, either direct or indirect, in any significant contract to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

Details of the Directors' remuneration and the five highest paid employees' remuneration disclosed pursuant to Section 161 of the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are set out in notes 5 and 6 to the financial statements, respectively.

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 year.

SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, according to the register kept under Section 16(1) of the SDI Ordinance, the only shareholder who had an interest in 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

Messrs. He Ke Rang, Chen Ji Bin, Qin Shen, Wong Hung Khim, Hsu Chih Chang, Zhu You Jun, Lim Toon, Lee Hsiang Wei, Wong Kit Ming, Liu Ji Yuan, Zhou Ze He, Zhang Jia De, Wu Zhen Mu and Liang Wen Hao, Directors of the Company, are also Directors of APT Satellite International Company Limited. Messrs. Chatchaval Jiaravanon, Ngai Man, Xie Gao Jue, Li Bao Ming and Hou Zheng resigned as Directors of APT Satellite International Company Limited on 28 February 1998, 20 April 1998, 1 June 1998, 23 June 1998 and 23 June 1998, respectively.

Save 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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 throughout the accounting period covered by the annual 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.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK$585,207,000 as computed in accordance with the Companies Act 1981 of Bermuda (as amended). In addition, the Company's share premium account of HK$1,315,522,000 is available for distribution by way of a bonus issue of shares.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

He Ke Rang	**Qin Shen**
Vice Chairman and President	*Director and Vice President*

Hong Kong
7 April 1999

ERNST & YOUNG
安永會計師事務所

To the members
APT Satellite Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 34 to 64 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31 December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

7 April 1999

	Notes	1998 HK$'000	1997 HK$'000
TURNOVER	2	**587,805**	522,467
PROFIT BEFORE TAXATION	3	**64,440**	144,042
Taxation	4	**(5,223)**	(14,461)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	7	**59,217**	129,581
Retained profits at beginning of year		**203,520**	73,939
Retained profits at end of year		**262,737**	203,520
Earnings per share – Basic	8	**14.10¢**	30.85¢

	Notes	1998 HK$'000	1997 HK$'000
FIXED ASSETS	9	**3,120,895**	1,643,213
INVESTMENT PROPERTY	10	**2,557**	2,945
SATELLITE PROJECT PROGRESS PAYMENTS	11	**–**	1,804,963
LONG TERM INVESTMENTS	12	**5,537**	5,537
INTEREST IN A JOINT VENTURE	14	**2,522**	5
CURRENT ASSETS			
Cash and bank balances		**230,377**	96,424
Trade debtors		**21,785**	4,796
Prepayments, deposits and sundry debtors		**7,973**	17,209
Tax recoverable		**4,785**	–
		264,920	118,429
CURRENT LIABILITIES			
Sundry creditors and accrued expenses		**27,041**	49,860
Trade deposits received	15	**–**	8,912
Rentals received in advance		**52,553**	47,087
Bank loans	16	**401,865**	274,001
Taxation		**–**	1,313
Due to ultimate holding company		**–**	5
Due to a related company	17	**2,150**	4,123
		483,609	385,301
NET CURRENT LIABILITIES		**(218,689)**	(266,872)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,912,822**	3,189,791

	Notes	1998 HK$'000	1997 HK$'000
LONG TERM LIABILITIES			
Trade deposits received	15	**60,706**	73,291
Bank loans	16	**228,017**	513,623
Deferred rental income	18	**243,921**	263,655
Deferred taxation	19	**111,919**	99,215
		644,563	949,784
		2,268,259	2,240,007
SHAREHOLDERS' EQUITY			
Share capital	20	**42,000**	42,000
Share premium		**1,315,522**	1,315,522
Contributed surplus	21	**511,000**	511,000
Retained profits		**262,737**	203,520
		2,131,259	2,072,042
LOANS FROM SHAREHOLDERS	22	**137,000**	167,965
		2,268,259	2,240,007

He Ke Rang
Vice Chairman and President

Qin Shen
Director and Vice President

	Notes	1998 HK$'000	1997 HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	23(a)	**420,712**	324,190
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**10,292**	21,176
Interest paid		**(53,244)**	(64,128)
Net cash outflow from returns on investments and servicing of finance		**(42,952)**	(42,952)
TAXATION			
Hong Kong profits tax paid		**(5,415)**	(33,306)
Overseas taxes paid		**(6)**	(6)
Taxes paid		**(5,421)**	(33,312)
INVESTING ACTIVITIES			
Purchases of fixed assets		**(5,708)**	(11,421)
Satellite project progress payments		**(33,671)**	(664,302)
Proceeds from disposal of fixed assets		**2**	1,811
Advance capital contribution paid to a joint venture		**(2,495)**	–
Advance to a joint venture		**(22)**	–
Increase in pledged bank balances		**(145,442)**	(642)
Net cash outflow from investing activities		**(187,336)**	(674,554)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		**185,003**	(426,628)

	Notes	1998 HK$'000	1997 HK$'000
FINANCING ACTIVITIES	23(b)		
New bank loans		**116,250**	387,500
New other loan		**15,500**	–
Repayment of bank loans		**(273,992)**	(70,133)
Repayment of other loan		**(15,500)**	–
Repayment of loans from shareholders		**(38,750)**	(108,500)
Net cash inflow/(outflow) from financing activities		**(196,492)**	208,867
DECREASE IN CASH AND CASH EQUIVALENTS		**(11,489)**	(217,761)
Cash and cash equivalents at beginning of year		**87,545**	305,306
CASH AND CASH EQUIVALENTS AT END OF YEAR		**76,056**	87,545
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**230,377**	96,424
Pledged bank balances		**(154,321)**	(8,879)
		76,056	87,545

Balance Sheet

31 December 1998

	Notes	1998 HK$'000	1997 HK$'000
FIXED ASSETS	9	**356**	–
INTERESTS IN SUBSIDIARIES	13	**2,061,240**	1,941,968
CURRENT ASSETS			
Bank balances		**1,198**	948
Prepayments, deposits and sundry debtors		**380**	308
		1,578	1,256
CURRENT LIABILITIES			
Bank loans	16	**116,250**	–
Sundry creditors and accrued expenses		**4,195**	974
		120,445	974
NET CURRENT ASSETS/(LIABILITIES)		**(118,867)**	282
		1,942,729	1,942,250
SHAREHOLDERS' EQUITY			
Share capital	20	**42,000**	42,000
Share premium		**1,315,522**	1,315,522
Contributed surplus	21	**584,358**	584,358
Retained profits		**849**	370
		1,942,729	1,942,250

He Ke Rang
Vice Chairman and President

Qin Shen
Director and Vice President

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies is set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 1998. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its Board of Directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the Directors, there have been permanent diminutions in value, when they are written down to values determined by the Directors.

Joint ventures

A joint venture is a contractual arrangement where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's interests in jointly controlled entities are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated profit and loss account.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of joint ventures represents the excess of purchase consideration paid for subsidiaries/joint ventures over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition.

Upon the disposal of subsidiaries or joint ventures, the relevant portion of the attributable goodwill previously eliminated against reserves is realised and accounted for in arriving at the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, other than investment properties, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the terms of the leases
Buildings	2%
Leasehold improvements	Over the terms of the leases
Furniture and equipment	20%
Motor vehicles	20%
Computer equipment	20%
Communication satellite equipment	6-2/3% – 20%
Communication satellites	6-1/4% – 20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the sales proceeds and the carrying amount of the relevant asset.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of the previous valuations is released to the profit and loss account.

Long term investments

Investments held on a long term basis are stated at cost less any provisions for permanent diminutions in value deemed necessary by the Directors, on an individual investment basis.

Deferred taxation

Deferred taxation is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Staff provident fund

The Group operates a defined contribution staff provident fund. Group contributions under the scheme are charged to the profit and loss account as incurred. The amount of Group contributions is based on specified percentages of the basic salary of the employees and forfeited contributions in respect of unvested benefits are used to reduce the Group's ongoing contributions otherwise payable. The assets of the scheme are held separately from those of the Group.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of an overseas subsidiary are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) for transponder leases under which customers have obtained the right to use the transponder capacity for the life of the satellite, revenue is recognised, along with the related costs, on a straight-line basis over the warranty period provided to the customers;

(b) rental income from the leasing of satellite transponders, on an accrual basis;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(d) rental income from an investment property, in the period in which the property is let and on the straight-line basis over the lease term.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the construction and launch of satellites are capitalised as part of the satellite costs. Capitalisation of such borrowing costs ceases when the satellites are substantially ready for their intended use.

2. TURNOVER

Turnover represents the income on the renting of satellite transponders, excluding intra-group transactions.

3. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Group	
	1998	1997
	HK$'000	*HK$'000*
Depreciation	**332,983**	218,744
Rent of land and buildings under operating leases	**3,426**	3,685
Auditors' remuneration	**280**	340
Foreign exchange losses, net	**54**	103
Revaluation deficit on an investment property	**388**	835
Amortisation of deferred liabilities *(note 19)*	**6,804**	7,515
Interest income	**(11,588)**	(20,938)
Rental income	**(703)**	(193)
Loss/(gain) on disposal of fixed assets	**4**	(129)
Interest on:		
Bank loans	**49,337**	39,751
Other loans not wholly repayable after five years	**7,945**	17,244
	57,282	56,995
Less : Amount capitalised in fixed assets and satellite project progress payments	**–**	16,845
	57,282	40,150

4. TAXATION

	Group	
	1998	1997
	HK$'000	*HK$'000*
Provision for taxation in respect of profits for the year:		
Hong Kong	**–**	17,000
Elsewhere	**116**	278
Prior year's overprovision	**(793)**	(2,037)
Deferred taxation *(note 19)*	**5,900**	(780)
Taxation charge for the year	**5,223**	14,461

No provision for Hong Kong taxation has been made for the year as no assessable profits were earned in or derived from Hong Kong during the year. The prior year's Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for that year.

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.

5. DIRECTORS' REMUNERATION

	Group	
	1998	1997
	HK$'000	*HK$'000*
Executive Directors:		
Fees	**150**	150
Basic salaries, allowances and benefits in kind	**6,739**	5,744
Bonuses	**316**	120
Contributions to provident fund	**210**	215
	7,415	6,229
Non-executive Directors:		
Fees	**529**	550
Independent non-executive Directors:		
Fees	**100**	100
	8,044	6,879

The remuneration of the above Directors fell within the following bands:

	Number of Directors	
	1998	1997
Nil – HK$1,000,000	**19**	14
HK$1,500,001 – HK$2,000,000	**–**	2
HK$2,000,001 – HK$2,500,000	**2**	–
HK$2,500,001 – HK$3,000,000	**1**	1
	22	17

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

6. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (1997: three) Directors, details of whose remuneration are disclosed in note 5 above. The details of the remuneration of the remaining two (1997: two) non-Director, highest paid employees are set out below:

	Group	
	1998	1997
	HK$'000	*HK$'000*
Basic salaries and allowances	**4,750**	4,963
Bonuses	**125**	180
Contributions to provident fund	**150**	150
	5,025	5,293

The remuneration of the non-Director, highest paid employees fell within the following bands:

	Number of individuals	
	1998	1997
HK$2,000,001 – HK$2,500,000	**1**	1
HK$2,500,001 – HK$3,000,000	**1**	1
	2	2

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders dealt with in the financial statements of the Company is HK$479,000 (1997: loss of HK$254,000).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year of HK$59,217,000 (1997: HK$129,581,000) and the 420,000,000 (1997: 420,000,000) shares in issue during the year.

8. EARNINGS PER SHARE (Continued)

Diluted earnings per share for the years ended 31 December 1998 and 1997 has not been calculated as no diluting events existed during these years.

9. FIXED ASSETS

Group

	Land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Computer equipment	Communication satellite equipment	Communication satellites	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:								
At beginning of year	46,708	3,366	17,863	4,501	1,428	66,942	2,022,073	2,162,881
Additions	–	11	266	532	14	10	4,875	5,708
Transferred from satellite project progress payments	–	–	–	–	–	–	1,804,963	1,804,963
Disposals	–	–	(17)	–	–	–	–	(17)
At 31 December 1998	**46,708**	**3,377**	**18,112**	**5,033**	**1,442**	**66,952**	**3,831,911**	**3,973,535**
Accumulated depreciation:								
At beginning of year	1,975	1,936	12,697	3,151	808	19,206	479,895	519,668
Provided during the year	952	421	3,483	776	252	6,733	320,366	332,983
Disposals	–	–	(11)	–	–	–	–	(11)
At 31 December 1998	**2,927**	**2,357**	**16,169**	**3,927**	**1,060**	**25,939**	**800,261**	**852,640**
Net book value:								
At 31 December 1998	**43,781**	**1,020**	**1,943**	**1,106**	**382**	**41,013**	**3,031,650**	**3,120,895**
At 31 December 1997	44,733	1,430	5,166	1,350	620	47,736	1,542,178	1,643,213

9. FIXED ASSETS (Continued)

The Group's land and buildings are held on the following lease terms:

	Group	
	1998	1997
	HK$'000	*HK$'000*
The People's Republic of China:		
Hong Kong		
Medium term	**40,989**	40,989
Elsewhere		
Medium term	**3,804**	3,804
Overseas:		
Long term	**1,915**	1,915
	46,708	46,708

Certain of the land and buildings held by the Group have been pledged to secure mortgage loans granted to the Group *(note 16)*.

Company

	Motor vehicle
	HK$'000
Cost:	
Addition during the year and at 31 December 1998	411
Accumulated depreciation:	
Provided during the year and at 31 December 1998	(55)
Net book value:	
At 31 December 1998	**356**

10. INVESTMENT PROPERTY

	Group	
	1998	1997
	HK$'000	*HK$'000*
At beginning of year	**2,945**	–
Transferred from fixed assets	**–**	3,780
Revaluation deficit	**(388)**	(835)
At end of year	**2,557**	2,945

At 31 December 1998, the investment property, which is situated in the People's Republic of China and held on a medium term lease, was revalued by Chesterton Petty Limited on an open market value, continued existing use basis.

11. SATELLITE PROJECT PROGRESS PAYMENTS

	Group	
	1998	1997
	HK$'000	*HK$'000*
At beginning of year	**1,804,963**	947,396
Additions	**–**	861,993
Transferred to fixed assets	**(1,804,963)**	(4,426)
At end of year	**–**	1,804,963

Satellite project progress payments include progress payments for communication satellites under construction, and launching and related services, together with insurance and finance costs on loans borrowed to finance the above payments.

12. LONG TERM INVESTMENTS

	Group	
	1998	1997
	HK$'000	*HK$'000*
Unlisted investments, at cost	**5,537**	5,537

13. INTERESTS IN SUBSIDIARIES

	Company 1998 HK$'000	Company 1997 HK$'000
Unlisted shares, at cost	**615,862**	615,862
Due from subsidiaries	**1,445,378**	1,326,106
	2,061,240	1,941,968

The particulars of the subsidiaries, all of which are wholly-owned, are as follows:

Name	Place of incorporation/ operations @	Issued and fully paid share capital*	Principal activities
APT Satellite Investment Company Limited	British Virgin Islands	US$1,400	Investment holding
APT Satellite Company Limited	Hong Kong	Ordinary Class 'A' HK$100 Non-voting Deferred Class 'B' HK$542,500,000	Satellite transponder leasing
Acme Star Investment Limited	Hong Kong	HK$2	Investment holding
APT Satellite Enterprise Limited	Cayman Islands	US$2	Satellite transponder leasing
APT Satellite Global Company Limited	Cayman Islands	US$2	Investment holding
APT Satellite Glory Limited	Hong Kong	HK$2	Not yet commenced business

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations @	Issued and fully paid share capital*	Principal activities
APT Satellite Link Limited	Cayman Islands	US$2	Satellite transponder leasing
APT Satellite (USA), Limited	United States of America	US$320,000	Provision of management services
APT Satellite Vision Limited	Hong Kong	HK$2	Satellite leasing
Haslett Investments Limited	British Virgin Islands	US$1	Investment
Telewell Investment Limited	Hong Kong	HK$2	Investment holding
The 138 Leasing Partnership	Hong Kong	Partners' capital HK$329,128,857	Satellite leasing
Ying Fai Realty (China) Limited	Hong Kong/ The People's Republic of China	HK$20	Property holding

@ – The place of operations is the place of incorporation unless otherwise stated.
* – All share capital consists of ordinary shares unless otherwise stated.

All subsidiaries are indirectly held by the Company with the exception of APT Satellite Investment Company Limited.

14. INTEREST IN A JOINT VENTURE

	Group	
	1998	1997
	HK$'000	*HK$'000*
Share of net assets other than goodwill	**5**	5
Capital contribution paid in advance	**2,495**	–
Due from the joint venture	**22**	–
	2,522	5

Particulars of the joint venture are as follows:

Name	Place of incorporation and operation	Issued and fully paid share capital	Percentage of equity attributable to the Group 1998	1997	Principal activity
CTIA VSAT NETWORK LIMITED (formerly known as CEAPT Limited)	Hong Kong	HK$10,000	**50%**	50%	Dormant

The joint venture has remained dormant since being entered into by the Group.

Subsequent to the balance sheet date, the joint venture increased its issued share capital to HK$5,000,000 and the Group has taken up its subscription entitlement of HK$2,495,000, which had been paid in advance before the balance sheet date (see above).

In previous years' financial statements, the joint venture was classified as an associated company. However, in accordance with Statement of Standard Accounting Practice No. 21 "Accounting for Interests in Joint Ventures" issued by the Hong Kong Society of Accountants in March 1998, it is now classified as a joint venture. This change in classification has resulted in no change to the amounts recorded in the current or prior years' financial statements.

15. TRADE DEPOSITS RECEIVED

These amounts represent reservation fees and deposits received from lessees for satellite transponders booked.

16. BANK LOANS

	Group	
	1998	1997
	HK$'000	*HK$'000*
Bank loan, unsecured	**77,500**	–
Bank loans, secured	**547,208**	781,755
Mortgage loans, secured	**5,174**	5,869
	629,882	787,624
Less : Portion due within one year included under current liabilities	**(401,865)**	(274,001)
Long term portion	**228,017**	513,623
The amounts are repayable:		
Within one year	**401,865**	274,001
In the second year	**105,146**	285,600
In the third to fifth years, inclusive	**122,653**	226,587
Beyond five years	**218**	1,436
	629,882	787,624

	Company	
	1998	1997
	HK$'000	*HK$'000*
Bank loan, secured	**38,750**	–
Bank loan, unsecured	**77,500**	–
Short term portion	**116,250**	–

16. BANK LOANS (Continued)

The Group has assigned, by way of legal charge in favour of the lenders of the bank loans, certain bank accounts and a portion of the transponder receipts. The amount of cash from transponder receipts withheld by the banks as at 31 December 1998 was HK$154,321,000 (1997: HK$8,879,000).

At the balance sheet date, the Group had pledged land and buildings with a net book value of HK$12,251,000 (1997: HK$12,507,000) in respect of the mortgage loans.

17. DUE TO A RELATED COMPANY

The amount due to Super Asia Telecommunications Company Limited is unsecured, interest-free and has no fixed terms of repayment.

18. DEFERRED RENTAL INCOME

Deferred rental income represents unrecognised revenue received in respect of transponder leases under which customers have obtained the right to use the transponder capacity for the life of the satellite.

19. DEFERRED TAXATION

	Group	
	1998	1997
	HK$'000	*HK$'000*
At beginning of year	**99,215**	92,480
Charge/(credit) to profit and loss account		
– operating expenses *(note 3)*	**6,804**	7,515
– taxation *(note 4)*	**5,900**	(780)
At end of year	**111,919**	99,215

19. DEFERRED TAXATION (Continued)

The principal components of the provision for deferred tax liability are as follows:

	Group	
	1998	1997
	HK$'000	*HK$'000*
Timing differences arising from:		
Certain leasing arrangements	**103,589**	96,785
Accelerated depreciation	**190,330**	2,430
Tax losses	**(182,000)**	–
	111,919	99,215

There are no significant potential deferred tax liabilities for which provision has not been made.

The revaluation of the Group's investment property does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

Certain lease arrangements provide the Group with an initial cash inflow in return for being responsible for the future obligations to make payments of taxation on behalf of the lessor under the lease arrangements. Any differences between the initial benefit and the eventual tax liability are provided for over the lives of the relevant leases and are charged to operating expenses.

20. SHARE CAPITAL

	Company	
	1998	1997
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
420,000,000 shares of HK$0.10 each	**42,000**	42,000

20. SHARE CAPITAL (Continued)

Pursuant to the Company's share option scheme adopted on 3 December 1997 (the "Scheme"), the Directors of the Company may at any time and from time to time within ten years after the date on which the Scheme was adopted, invite any full-time employee, including any executive Director or officer, of the Company and its subsidiaries to apply for options to subscribe for shares of the Company. The subscription price for the options is to be determined by the Directors on a case-by-case basis and may not be less than the nominal value of the shares, nor will the price be at a discount of more than 20% below the average of the closing price of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), as stated in the Stock Exchange's daily quotation sheets, on the five dealing days immediately preceding the date on which the invitation to apply for an option under the Scheme is resolved by the Directors to be given.

The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued capital of the Company, excluding any shares issued pursuant to the Scheme from time to time. An option may be exercised in accordance with the terms of the Scheme at any time or times as determined by the Directors, being not later than 10 years after the date on which the option is granted or the tenth anniversary of the date of adoption of the Scheme, whichever is the earlier.

No share options were granted during the year and there were no share options outstanding at the balance sheet date.

21. CONTRIBUTED SURPLUS

The contributed surplus of the Company arose as a result of the Group reorganisation in 1996 and represented the excess value of the subsidiaries acquired over the par value of the Company's shares issued for their acquisition. Under the Companies Act (1981) of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances.

The contributed surplus of the Group arose as a result of the Group reorganisation in 1996 and represented the excess of the par value of the shares of the subsidiaries which the Company acquired over that of the Company's shares issued in consideration therefor.

22. LOANS FROM SHAREHOLDERS

The loans from shareholders are unsecured, bear interest at LIBOR and are repayable in full no later than 2002. Included in the loans from shareholders is an amount of HK$51,667,000 which will be repayable on demand should certain shareholders request for it.

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities:

	1998	1997
	HK$'000	*HK$'000*
Profit before taxation	**64,440**	144,042
Interest income	**(11,588)**	(20,938)
Interest expense, net	**57,282**	40,150
Depreciation	**332,983**	218,744
Revaluation deficit on an investment property	**388**	835
Amortisation of deferred liabilities	**6,804**	7,515
Loss/(gain) on disposal of fixed assets	**4**	(129)
Decrease/(increase) in trade debtors	**(16,989)**	9,569
Decrease in prepayments, deposits and sundry debtors	**9,249**	12,782
Increase/(decrease) in sundry creditors and accrued expenses	**14,599**	(9,833)
Decrease in trade deposits received	**(20,214)**	(2,902)
Increase in rentals received in advance	**5,466**	6,238
Increase/(decrease) in amount due to ultimate holding company	**(5)**	5
Decrease in amount due to a related company	**(1,973)**	(52,438)
Decrease in deferred rental income	**(19,734)**	(29,450)
Net cash inflow from operating activities	**420,712**	324,190

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year:

	Bank loans and other loan *HK$'000*	Loans from shareholders *HK$'000*
Balance at 1 January 1997	470,257	292,814
Net cash inflow/(outflow) from financing activities	317,367	(108,500)
Accrued interest expense	–	15,626
Interest paid	–	(31,975)
Balance at 31 December 1997 and 1 January 1998	787,624	167,965
Net cash outflow from financing activities	(157,742)	(38,750)
Accrued interest expense	–	7,785
Balance at 31 December 1998	**629,882**	**137,000**

24. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

		Group	
		1998	1997
	Notes	***HK$'000***	*HK$'000*
Income from leasing of transponders to certain shareholders of the Company	(i)	**123,195**	142,850
Income from leasing of transponders to a company which is a fellow subsidiary of a shareholder of the Company	(i)	**14,531**	–
Interest income from a shareholder of the Company	(ii)	**–**	1,616
Launch service fee to a company which is a fellow subsidiary of a shareholder of the Company	(iii)	**3,875**	283,650
Interest expense to a company which is a fellow subsidiary of a shareholder of the Company	(iv)	**–**	1,618
Interest expense on loans from shareholders	(v)	**7,785**	15,626

Notes:

(i) The terms and conditions of these transponder lease agreements are similar to those contracted with other customers of the Group. The balance due from these related companies at 31 December 1998 was HK$9,595,000 (1997: Nil).

(ii) The interest income in the prior year arose from an advance payment of a launch service fee which bore interest at 8% per annum.

(iii) The Directors consider that the launch service fee was charged according to prices and conditions similar to those offered to other customers by the launch service provider. There was no balance owing to the related company at 31 December 1998 (1997: Nil).

(iv) The interest expense in the prior year arose from an overdue payment of a launch service fee which bore interest at 8% per annum.

(v) The interest expense to shareholders arose from loans, details of which, including the terms, are disclosed in note 22.

25. PROVIDENT FUND

	Group	
	1998	1997
	HK$'000	*HK$'000*
Contributions to provident fund	**1,154**	1,231
Forfeited unvested provident fund contributions in respect of former employees	**(94)**	(104)
	1,060	1,127

At the balance sheet date, there were no forfeited contributions available to offset employer's future contributions to the scheme (1997: Nil).

26. COMMITMENTS

(a) Capital commitments:

	Group	
	1998	1997
	HK$'000	*HK$'000*
Authorised and contracted for	**–**	792
Authorised, but not contracted for	**44,700**	44,700
	44,700	45,492

The capital commitments authorised and contracted for represented unpaid contract sums in relation to the acquisition of communication satellite equipment.

26. COMMITMENTS (Continued)

The capital commitments authorised, but not contracted for represent the construction of a building and installation of antennae and other satellite-related equipment in the currently undeveloped area adjacent to the Group's satellite control centre in Tai Po, Hong Kong, as required by the terms of the Group's lease agreements for the land in Tai Po. The terms of the lease agreements require the Group to complete the development of the currently undeveloped adjacent property by no later than 27 April 2000. At the balance sheet date, the Group had not begun to develop the adjacent property. Failure to develop the adjacent property would result in a breach of the lease agreements which would give the Hong Kong Industrial Estates Corporation the right to re-enter and take possession of the undeveloped adjacent property.

(b) Annual commitments under non-cancellable operating leases on land and buildings payable during the forthcoming year are as follows:

	Group		**Company**	
	1998	1997	**1998**	1997
	HK$	*HK$*	***HK$***	*HK$*
Leases expiring:				
Within one year	**2,100**	261	**19**	261
In the second to fifth years, inclusive	**–**	3,624	**–**	198
	2,100	3,885	**19**	459

27. LEASING ARRANGEMENT

On 29 December 1994, the Company's subsidiaries entered into an arrangement for the leasing of a communication satellite with The 138 Leasing Partnership (the "Partnership"), which became a wholly-owned subsidiary of the Company in 1997. As at 31 December 1998, the bank loans borrowed by the Partnership were covered by funds amounting to HK$527,499,000 (1997: HK$566,405,000) placed with a financial institution under defeasance and other arrangements which have not been included in these financial statements.

28. CONTINGENT LIABILITY

At the balance sheet date, the Company had given a guarantee of HK$193,750,000 (1997: HK$387,500,000) to a bank for a bank loan granted to a subsidiary for financing the satellite project progress payments of APSTAR-IIR.

29. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

30. ULTIMATE HOLDING COMPANY

In the opinion of the Directors, the ultimate holding company of the Group is APT Satellite International Company Limited, which is incorporated in the British Virgin Islands.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 7 April 1999.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's consolidated financial statements are prepared in accordance with Hong Kong Generally Accepted Accounting Principles ("HK GAAP"), which differ in certain significant respects from United States Generally Accepted Accounting Principles ("US GAAP"). Differences which have a significant effect on the consolidated net income and shareholders' equity are set out below.

(a) Recognition of revenue

Certain of the Group's transponder lease agreements for transponder capacity contain pre-determined escalations over the terms of the agreements. Under HK GAAP, the Group recognises revenue on an accrual basis under the contract terms. Under US GAAP, revenue under these agreements is recognised on a straight-line basis over the terms of the agreements.

(b) Capitalisation of finance costs

Under HK GAAP, interest on loans, including the related costs of raising the loans, incurred specifically to finance the construction of satellites is capitalised as part of the satellite costs until the satellites are substantially ready for their intended use. Under US GAAP, the interest capitalised is computed by applying an average borrowing rate to the total amount of qualifying assets under construction, not to exceed total interest costs incurred, and the related costs of raising the loans are deferred and amortised over the life of the loans. The application of US GAAP would not have a significant effect for the years presented in these financial statements.

(c) Investment properties

Under HK GAAP, investment properties are stated at valuation and are not depreciated. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Under US GAAP, such investment properties would be stated at cost and depreciated over the lease terms.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

(d) Deferred taxation

Under HK GAAP, deferred taxation is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Under US GAAP, the tax effects of both taxable and deductible temporary differences are recognised as deferred tax liabilities and assets, respectively. A valuation allowance is recorded to the extent it is considered more likely than not that the deferred tax assets will not be realised.

The effect on net income of significant differences between HK GAAP and US GAAP is as follows:

	1998	1997
	HK$'000	*HK$'000*
Net income as reported under HK GAAP	**59,217**	129,581
Adjustments:		
Recognition of revenue	**(1,885)**	1,867
Investment properties	**305**	793
Tax effect of reconciling items	**302**	(308)
Approximate net income as reported under US GAAP	**57,939**	131,933
Earnings per share under US GAAP	**13.80¢**	31.41¢

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

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

	1998	1997
	HK$'000	*HK$'000*
Shareholders' equity as reported under HK GAAP	**2,131,259**	2,072,042
Adjustments:		
Recognition of revenue	**25,946**	27,831
Investment properties	**496**	191
Tax effect of reconciling items	**(4,290)**	(4,592)
Shareholders' equity as reported under US GAAP	**2,153,411**	2,095,472

The changes in shareholders' equity in accordance with US GAAP is as follows:

	Capital stock	**Share premium and contributed surplus**	**Retained earnings**
	HK$'000	*HK$'000*	*HK$'000*
Balance at December 31, 1996	42,000	1,826,522	95,017
Net income	–	–	131,933
Balance at December 31, 1997	42,000	1,826,522	226,950
Net income	–	–	57,939
Balance at December 31, 1998	**42,000**	**1,826,522**	**284,889**

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

A reconciliation of the expected tax with the actual tax expense under US GAAP is presented below:

	1998	1997
	HK$'000	*HK$'000*
Hong Kong statutory income tax rate	**16%**	16.5%
Statutory rate applied to income before income taxes under US GAAP	**10,058**	24,206
Prior year overprovision	**(793)**	(2,037)
Expenses not deductible	**2,077**	2,849
Offshore transponder rental income not taxable	**(10,533)**	(12,522)
Interest income not taxable	**(561)**	(370)
Subsidiaries' losses not deductible	**4,690**	2,182
Others	**(17)**	461
Actual taxation under US GAAP	**4,921**	14,769

Subsidiaries' losses not deductible represents losses incurred by several subsidiaries which do not produce any taxable income and as such, the losses are not deductible against future profits.

An analysis of the actual tax expense under US GAAP is presented below:

	1998	1997
	HK$'000	*HK$'000*
Current tax provision/(written back)	**(677)**	15,241
Deferred tax	**5,598**	(472)
	4,921	14,769

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

Under US GAAP, the loan borrowed by the Partnership would not be offset with the matching offshore deposit held by a wholly-owned subsidiary. As a result, current assets and liabilities would increase by HK$38,906,000 and HK$43,714,000 at December 31, 1997 and 1998, respectively, and long term assets and liabilities would increase by HK$527,499,000 and HK$483,785,000 at December 31, 1997 and 1998, respectively. Similarly, the interest expense on the loan and the matching interest income on the deposit would not be offset, resulting in increases in interest expense and interest income of HK$105,696,000, HK$73,220,000 and HK$66,789,000 in the years ended December 31, 1996, 1997 and 1998, respectively.

Under US GAAP, the Group's consolidated total assets would have been HK$4,169,519,000 and HK$3,950,372,000 at December 31, 1997 and 1998, respectively. Consolidated total liabilities would have been HK$2,074,047,000 and HK$1,796,961,000 at December 31, 1997 and 1998, respectively.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Satellite Control Centre, APT Satellite Holdings Limited, 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on 12 May 1999, Wednesday, at 11 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and consider the audited financial statements and reports of the Directors and the auditors for the year ended 31 December 1998.

2. To elect Directors and to authorise the Board of Directors to fix the Directors' remuneration.

3. To appoint the auditors of the Company and to authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

4. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

   "**THAT**

   (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to purchase shares of HK$0.10 each in the capital of the Company be and is hereby generally and unconditionally approved;

   (b) the total nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution, and the said approval shall be limited accordingly; and

   (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

      (i) the conclusion of the next annual general meeting of the Company;

      (ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting; and

      (iii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company or any applicable laws to be held."

5. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT**

(a) subject to paragraph (c) of this Resolution, the exercise by the Directors during the Relevant Period (as defined in paragraph (d) of this Resolution) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which may require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue; (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company; or (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-Laws of the Company, shall not exceed 20% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting; and

(iii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company or any applicable laws to be held; and

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares on the register on a fixed record date in proportion to their holdings of such shares, subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or of the requirements of any recognised regulatory body or any stock exchange."

6. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

   "**THAT** the general mandate granted to the Directors of the Company to exercise the powers of the Company to issue, allot and dispose of shares pursuant to Resolution 5 above be and is hereby extended by the addition to the total nominal amount of share capital and any shares which may be issued, allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to such general mandate an amount representing the total nominal amount of shares in the capital of the Company which has been purchased by the Company since the granting of such general mandate pursuant to Resolution 4 above, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution."

By Order of the Board
Lo Kin Hang
Company Secretary

Hong Kong, 7 Apri 1999

Notes:

1. A member entitled to attend and vote at the annual general meeting is entitled to appoint one or (if holding two or more shares) more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy must be deposited with the Company's branch share registrars in Hong Kong, Tengis Limited at 1601 Hutchison House, 10 Harcourt Road, Central, Hong Kong, together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or other authority, not less than 48 hours before the time appointed for the Meeting or adjourned meeting (as the case may be).

3. An explanatory statement containing further details as regarding Resolutions 4 to 6 above will be sent together with the Annual Report.