APT SATELLITE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Annual Report

COMPANY PROFILE

APT SATELLITE HOLDINGS LIMITED ("APT Group") is a listed company on both The Stock Exchange of Hong Kong Limited and New York Stock Exchange, Inc. Having started its operation in 1992, APT Group mainly provides high quality services in satellite transponders, satellite communication and satellite TV broadcasting to the broadcasting and telecommunication sectors in Asia, Europe and the United States, and achieves remarkable results. APT Group currently operates three in-orbit geostationary satellites namely APSTAR I, APSTAR IA and APSTAR IIR, through its own satellite control centre in Tai Po, Hong Kong. Besides, APT Group has procured two high power satellites, APSTAR V and APSTAR VI, which will be launched in the second quarter of 2004 and end 2004 respectively as replacement satellites of APSTAR I and APSTAR IA respectively. In the meantime, APT Group has finished building its satellite TV broadcasting platform for the provision of "one-stop" satellite TV broadcasting services, providing the best quality and reliable satellite TV uplink and broadcasting services to the customers. In addition, APT Group would ensure a smooth launch of APSTAR V and APSTAR VI so as to complete APT Satellite replacements within this year to accommodate the needs of the customers.

APSTAR SYSTEMS

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

CONTENTS

DIRECTORS

Executive directors

Chen Zhaobin *(President)*
Tong Xudong *(Vice President)*
Cui Xinzheng *(Vice President)*

Non-executive directors

Liu Ji Yuan *(Chairman)*
Zhang Hainan *(Vice Chairman)*
Wong Hung Khim
Lim Toon
Wu Zhen Mu
Wu Jinfeng
Lim Shyong
Tay Chek Khoon
Wu Hongju
Yin Yen-liang
Tseng Ta-mon
Chen Chi-chuan
(alternate director to Yin Yen-liang)
Lim Wee Seng
(alternate director to Lim Shyong)

Independent non-executive directors

Yuen Pak Yiu, Philip
Huan Guocang

COMPANY SECRETARY

Lo Kin Hang, Brian

AUTHORISED REPRESENTATIVES

Chen Zhaobin
Lo Kin Hang, Brian

MEMBERS OF AUDIT COMMITTEE

Yuen Pak Yiu, Philip
Huan Guocang

QUALIFIED ACCOUNTANT

Lau Mei Bik

AUDITORS

KPMG

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISORS

Richards Butler
Preston Gates & Ellis LLP
Yung, Yu, Yuen & 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
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

ADR DEPOSITARY

The Bank of New York
Depositary Receipt Division
101 Barclay Street 22 W
New York NY 10286
USA

REGISTERED OFFICE

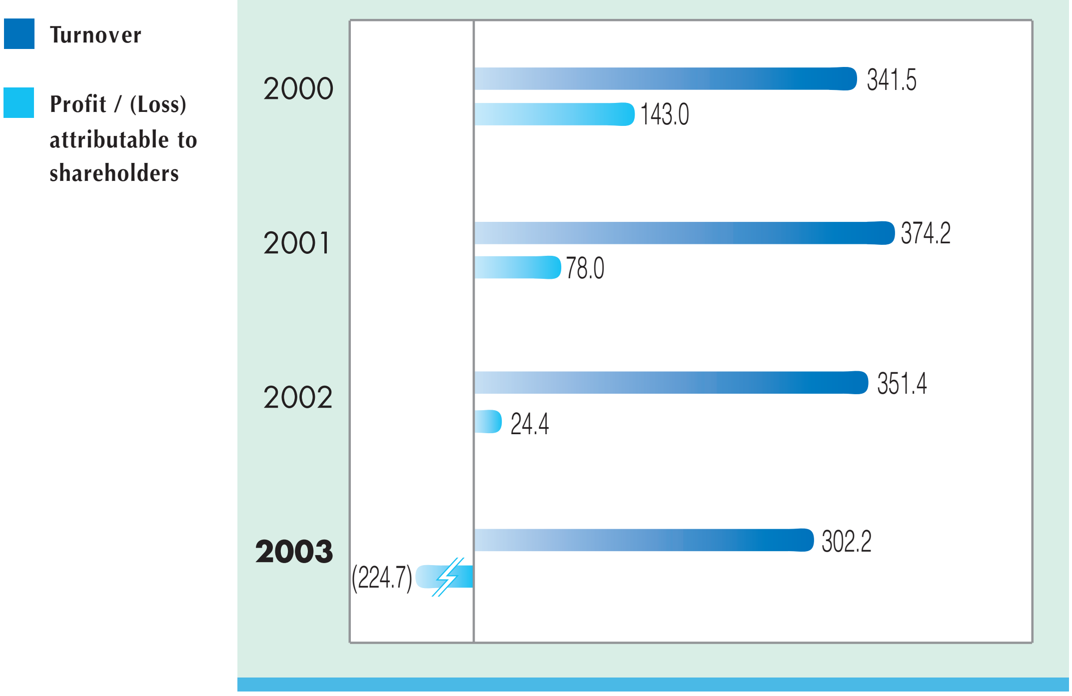
Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

22 Dai Kwai Street
Tai Po Industrial Estate
Tai Po
New Territories
Hong Kong
Tel: (852) 2600 2100
Fax: (852) 2522 0419
Web-site: www.apstar.com
e-mail: aptmk@apstar.com (Marketing)
aptir@apstar.com (Investor Relations)

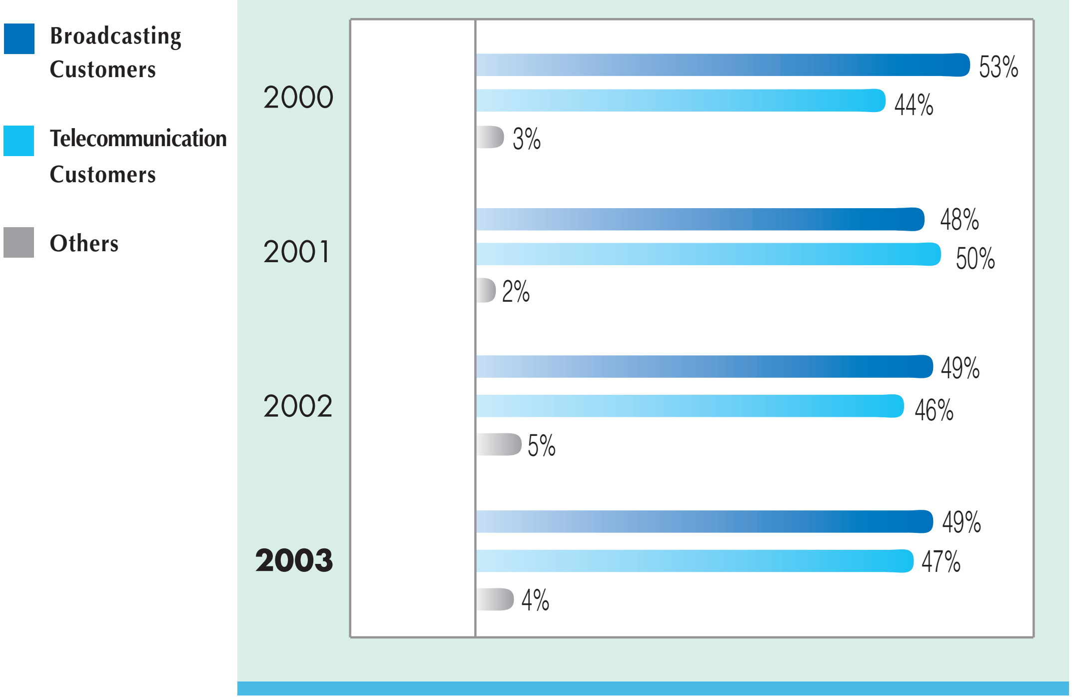
TURNOVER AND PROFIT / (LOSS)

(HK$ Million)



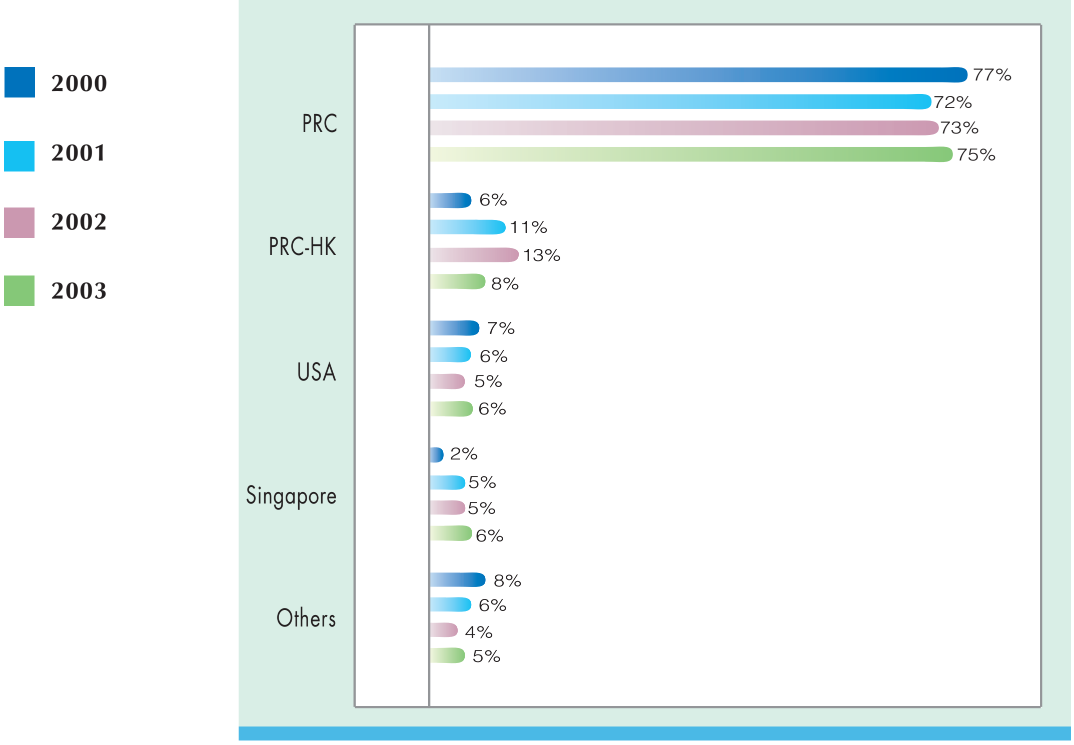
TURNOVER BREAKDOWN BY BUSINESS

(Percentage)



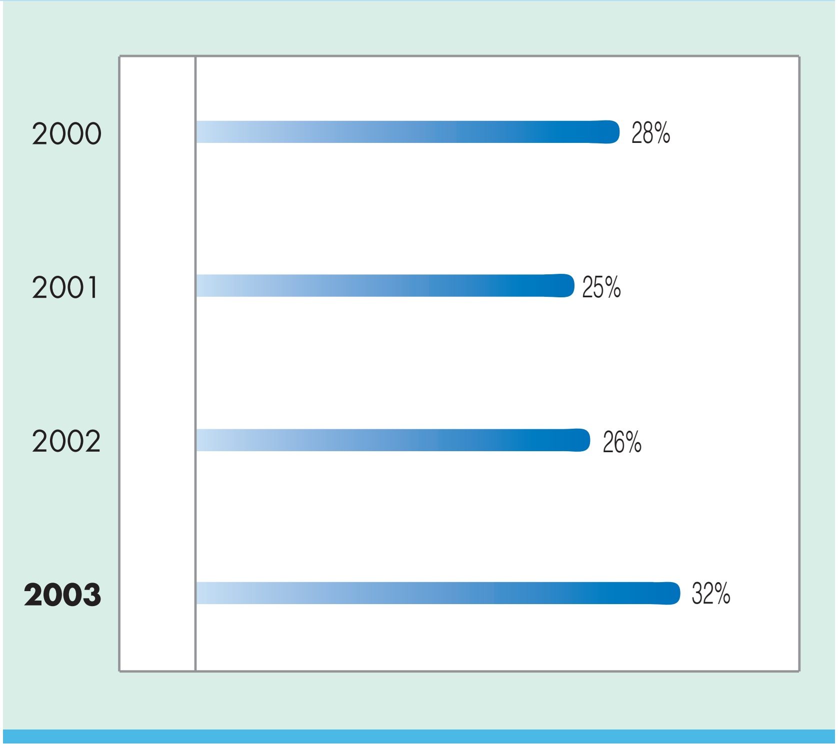
TURNOVER BREAKDOWN BY REGION

(Percentage)



TOTAL LIABILITIES TO TOTAL ASSETS RATIO

(Percentage)



Mr. Liu Ji Yuan
Chairman

The Board of Directors (the "Board") of APT Satellite Holdings Limited (the "Company") hereby announces the audited results of the Company and its subsidiaries (the "Group") in respect of the financial year ended 31 December 2003, which had been prepared in accordance with the accounting principles generally accepted in Hong Kong.

RESULTS

For the financial year ended 31 December 2003, the Group's turnover and consolidated loss attributable to shareholders amounted to HK$302,241,000 (2002: HK$351,425,000) and HK$224,718,000 (2002: profit of HK$24,435,000) respectively. Basic loss per share was HK54.43 cents (2002: earnings of HK5.92 cents).

DIVIDENDS

In view of future business development needs, the Board does not recommend any payment of final dividend for the financial year ended 31 December 2003 (2002: HK$nil).

BUSINESS REVIEW

The Group's three in-orbit satellites, together with their corresponding telemetry, tracking and control systems, have been operating under normal condition. Though the external economic environment has started to pick up in the second half of 2003, the transponder market has remained highly competitive and demand for transponders in the Asia Pacific region still rather weak. All these factors, coupled with the transitional stage of APSTAR I and IA, have exerted substantial pressure on the utilization rates of the satellites. As of 31 December 2003, the utilization rates of APSTAR I, IA and IIR stood at 53.9%, 60.7%, and 100%, respectively.

APSTAR V

APSTAR V, which is a high power satellite with 38 C-band and 16 Ku-band transponders supplied by Space Systems/Loral Inc. ("SS/L"), is a replacement satellite for APSTAR I. The total investment in APSTAR V is approximately US$230 million. Under the Term Sheet, which was entered into on 20 September 2002 between APT Satellite Company Limited

Mr. Chen Zhaobin
Executive Director and President

("APT HK"), a wholly-owned subsidiary of the Group and Loral Orion, Inc. ("Loral Orion"), a wholly-owned subsidiary of Loral Space and Communications Limited ("Loral Group"), Loral Orion agreed to participate in the development of APSTAR V by investing up to 50% of the total investment amount for the project, correspondingly reducing the financial and business risks to the Company.

On 15 July 2003, Loral Group had filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code as a means to ensure its fulfillment of transactions with its customers and because of the failure of SS/L in obtaining the export licence for the transferring of the title of APSTAR V in time for launching in mid November 2003. APT HK entered into a Satellite Procurement Amendment Agreement, a Satellite Transponder Agreement and a Satellite Agreement (collectively the "Definitive Agreements") with SS/L and Loral Orion on 26 August 2003. Under the Definitive Agreements, APT HK will obtain an irrevocable leasehold interest ("leasehold interest") in its transponders for the purpose of minimizing any further delay in the launch of the satellite and allow APSTAR V to be put into commercial operation avoiding the export licence difficulty. APT HK will have an irrevocable lease of 41.5 transponders and the lease term will last until the end of operational life of APSTAR V. Under the Definitive Agreements, APT HK will release the leasehold interest of 12.5 transponders to Loral Orion in stages over a five years period from the in-service date of APSTAR V subject to payment of installments by Loral Orion to APT HK. This will result in APT HK having 29 transponders (Loral Orion will have 25 transponders). Details of the transactions had been set out in a press announcement dated 26 August 2003 and in a circular to the shareholders. Under the leasehold arrangement, Loral Orion has committed that it would continue to pursue for the necessary export licence for title transfer of APSTAR V. The Definitive Agreements were approved by the United States Bankruptcy Court on 28 October 2003. The Directors consider that entering into the Definitive Agreements will allow for the timely replacement of APSTAR I so that satellite transponder services of the Group can be enhanced. The Definitive Agreements will not adversely impact the business and future plans of the Group because the leasehold interests under the Definitive Agreements will allow APT HK to carry on its business in a normal commercial practice of leasing its transponders capacities to any third parties.

APT's TV broadcasting users visited APT Satellite in December 2003 in Hong Kong. During the visit, APT and users have exchanged views and information with regard to our operation and latest development to further enhance our customer relations.

Owing to the failure by SS/L in achieving Congressional Notification in October 2003 in time for the State Department of the Government of the United States to approve the launch of APSTAR V, the launch window for APSTAR V under the Launch Agreement has been missed. The delay in obtaining the export licence has led to the postponement in the launch of APSTAR V. As a result, APT HK entered into a Settlement Agreement and the Amended Launch Agreement with Loral Orion, SS/L and Sea Launch Limited Partnership ("Sea Launch") on 16 November 2003. The Settlement Agreement makes certain amendments to the Satellite Procurement Amendment Agreement, the Satellite Transponder Agreement, the Satellite Agreement and the Launch Agreement, which mainly include (i) a postponement in the launch date of APSTAR V to 28 April 2004 (later on, due to the partial failure of deployment of north solar array of Estrela do Sul, a SS/L-made satellite that was launched by Sea Launch in January 2004, the launch date of APSTAR V was further postponed to 26 June 2004); and (ii) for Loral Orion to take an additional 4.5 transponders as Initial Loral Orion Transponders, which are in aggregate 17 transponders to be taken up upon the completion of in-orbit test of APSTAR V, resulting in Loral Orion assuming the payment of US$20,398,950 that would otherwise to be paid by APT HK for the construction, launch and insurance of APSTAR V. Such payment will significantly reduce the cash flow pressure of APT HK. The total number of 25 transponders of APSTAR V to be taken up by Loral Orion will remain unchanged.

The Settlement Agreement and the Amended Launch Agreement were approved by the United States Bankruptcy Court on 4 December 2003 and the export licence of APSTAR V was issued by the Government of the United States on 25 November 2003 in order for the satellite to be launched by Sea Launch.

APT Satellite TV Development Limited, a wholly-owned subsidiary of the Group has established a satellite TV uplink and broadcasting services platform for the provision of "one-stop" satellite TV broadcasting services, providing the best quality and reliable satellite TV uplink and broadcasting services to the customers.

APSTAR VI

APSTAR VI, a high power satellite with 38 C-band and 12 Ku-band transponders constructed by Alcatel Space, is a replacement satellite for APSTAR IA which is due to expire at the end of 2006. The construction progress of APSTAR VI has gone as planned to date. The Critical Design Review of the satellite, Telemetry, Tracking and Control System and Baseband System were completed in early July 2003. The AIT Sequence (Assembly, Integration and Test) has commenced in mid December 2003 and the satellite is scheduled to be delivered in the 4th quarter of 2004.

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

Satellite TV Broadcasting Platform

APT Satellite TV Development Limited ("APT TV"), a wholly-owned subsidiary of the Company has established a satellite TV uplink and broadcasting services platform for the provision of broadcasting services under the Satellite TV Broadcasting Licence of Hong Kong Special Administrative Region. APT TV has signed an agreement with TOM Digital Media Centre Limited ("TOM") for the provision of 24-hour satellite TV broadcasting and uplink services to TOM's TV Channel – CETV which has officially started on 1 January 2004.

APT Group are fully prepared to ensure a smooth launch of APSTAR V and APSTAR VI and their commercial operations.

Telecommunications Services

Owing to the continued depression of telecommunication services and oversupply of submarine cable capacities, APT Satellite Telecommunications Limited ("APT Telecom"), a jointly controlled entity owned by the Group and Singasat Private Limited on 55:45 basis, was re-organised on 10 September 2003. Pursuant to the reorganisation, APT Telecom transferred the cable network services business and related assets to the group of Singapore Telecommunications Limited for cash consideration of HK$5,560,000, while the satellite-based external telecommunications services such as VSAT, wholesales voice services, as well as the related telecommunications licence, were transferred to the Group for a cash consideration of HK$6,800,000. After the reorganisation, APT Telecom will only hold the property and assets located in the Telepark in the Tai Po Industrial Estate for the continuity of the Group's telecommunications services. Details of the reorganisation have been set out in a press announcement on 10 September 2003. The transaction was completed on 10 October 2003 and a wholly-owned subsidiary of the Group, APT Telecom Services Limited, would hold the Fixed Carrier Licence for the provision of satellite-based external telecommunications services. An impairment loss on fixed assets of APT Telecom of approximately HK$89,018,000 was made in the first half of 2003, including cables and satellite-based telecommunications equipment and property, out of which an amount of approximately HK$48,960,000 was attributed to the Group.

BUSINESS PROSPECTS

Looking ahead to the year of 2004, it is envisaged that the broadcasting and telecommunication businesses in the Asia Pacific region will grow slowly. The transponder service market will still be highly competitive due to supply over demand situation. The coming year will still be a challenging one. Nevertheless, the Directors consider the successful launch of APSTAR V will boost the Group's competitive edges in the transponder services market.

Development of APSTAR V and APSTAR VI

The Group will continue to closely monitor the launch preparation of APSTAR V, with the goal of ensuring that APSTAR V will be launched successfully as planned. The risks of the launch will be strictly controlled to safeguard the Group's interests and business. Upon the completion of in-orbit test, the Group will take every effort to transfer all the existing customers of APSTAR I to APSTAR V.

The construction of APSTAR VI will also be closely monitored for the smooth replacement of APSTAR IA in accordance with its plan.

The Group will continue to maintaining a prudent treasury policy. By making necessary provisions in assets impairment in 2003, the capital and asset structure of the Group has been streamlined and rationalised laying a solid foundation for future strategic development of the Group.

Amid the slow recovery of economy in the region, the Group will leverage on the additional and high power transponder capacities from APSTAR V and APSTAR VI to pursue for business expansion and enterprise value growth and will continue to consolidate its core business and to further develop new satellite-related businesses prudently for business expansion.

CONCLUSION

The Company believes that the economic environment will not improve significantly in the coming year owing to uncertain elements affecting the Asia Pacific region and competition in the transponder market will grow increasingly intense. In the face of such an unfavorable operating environment, the Group believes that it is important to work towards a smooth launch of both APSTAR V and APSTAR VI in order to complete the replacement of the APT satellites. The Group plans to leverage its additional transponder capacities to boost its competitive edge, while at the same time develop new satellite broadcasting and telecommunications businesses, with a view to maintaining business growth. The Group will continue to maintaining a prudent treasury policy and will endeavor to enhance internal control as a means to strengthen the corporate governance and to boost enterprise value.

NOTE OF APPRECIATION

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

Liu Ji Yuan
Chairman

Singapore, 13 April 2004

BUSINESS REVIEW

Details of the business review are contained in the chairman's statement on page 6.

BUSINESS PROSPECTS

Details of the business prospects are contained in the chairman's statement on page 10.

FINANCIAL REVIEW

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

The Group recorded a loss attributable to shareholders of HK$224,718,000 for the year ended 31 December 2003. Loss before impairment loss and the Group's share of impairment loss of a jointly controlled entity was HK$46,660,000. The loss was due primarily to the weakening of demand for transponders in the Asia Pacific region and intense market competition continued to exert downward pressure on the utilization rates of transponders, leading to a further decrease in revenues. Turnover for the year ended 31 December 2003 was HK$302,241,000, a decrease of HK$49,184,000, as compared to the year ended 31 December 2002.

During the year, the Group's capital expenditure incurred for the construction, launching, launch insurance of APSTAR V and APSTAR VI together with other fixed assets amounted to HK$763,000,000 (2002: HK$1,091,000,000) that was paid by internally generated cash flow and bank loans. The Group obtained a confirmation letter from the lenders with regard to the launch delay of APSTAR V. In accordance with the secured term loan facilities agreement ("Bank Loan") entered in December 2002, the availability period for the facility with respect to APSTAR V expired at year-end 2003, and the aggregate loan facility was reduced accordingly to HK$1,287,000,000 (US$165,000,000). Pursuant to the confirmation letter, the loan repayment date of the first installment for the facility with respect to APSTAR V was extended. In addition, certain financial covenants were amended. As at 31 December 2003, the aggregate amount drawn under the Bank Loan was HK$702,000,000 (US$90,000,000), and the remaining available balance of the Bank Loan amounted to HK$585,000,000 (US$75,000,000). Interest was computed at the London Inter-Bank Offering Rate plus a margin. The construction, launching and related equipment contracts relating to satellites under construction and their related insurance claims proceeds, all present and future transponder lease agreements relating to the satellites under construction and certain bank accounts were pledged to secure Bank Loan by the Group.

As at 31 December 2003, the Group has approximately HK$547,000,000 (2002: HK$826,000,000) free cash. Together with cash flow generated from operations and the remaining available balance of the Bank Loan, the Group could cope with the needs to invest in future satellite and telecommunications projects for further business development.

As at 31 December 2003, the Group's total liabilities were HK$1,047,000,000, an increase of HK$183,000,000 as compared to 2002, which was mainly due to the Group has drawn down HK$538,200,000 (2002: HK$163,800,000) from the Bank Loan. This resulted in a rise of the gearing ratio (total liabilities/total assets) to 32% (2002: 26%), representing a 6% increase as compared to 2002. Certain of the Group's banking facilities were secured by the Group's properties with aggregate carrying value of approximately HK$5,004,000 (2002: HK$5,120,000).

As at 31 December 2003, the Group's total assets was HK$3,305,000,000 (2002: HK$3,339,000,000). To streamline the Group's asset and on the principle of prudent financial management, the Group has reviewed the recoverable amount of the assets at the year end of 2003 in accordance with the accepted accounting principles. Since APSTAR I and APSTAR IA would be replaced prior to its operational life, a provision of impairment on certain fixed assets of approximately HK$129,098,000 (2002: HK$5,218,000) was made. Such structural adjustment will strengthen the Group's future development in the long run.

For the year ended 31 December 2003, the Group made no hedging arrangement in respect of exchange rate fluctuation as majority of its business transactions was settled in United States dollars. The Group would consider the fluctuation risk of the floating interest rate of loans and would take appropriate measure in due course to hedge against interest rate fluctuation.

During the year, APT Telecom, a jointly controlled entity under the Group, completed its reorganisation, whereby the non-cable based assets and telecommunications service business, as well as the related telecommunications licence were transferred to the Group. As at 31 December 2003, the Group's share of loss of jointly controlled entities was HK$64,833,000 (share of loss in 2002: HK$10,624,000), out of which an impairment loss of HK$48,960,000 (2002: HK$nil) of APT Telecom was attributed to the Group.

CONTINGENT LIABILITIES

Details of contingent liabilities of the Group are set out in note 29 to the financial statements.

HUMAN RESOURCES

As at 31 December 2003, the Group had 157 employees. With regard to the human resources policy, the Group remunerates its employees in accordance with their respective responsibilities and current market trends. On 19 June 2001, the Company first granted share options under the share option scheme adopted at the annual general meeting on 22 May 2001 ("Scheme 2001") to its employees including executive directors. On 22 May 2002, the Group adopted a new share option scheme ("Scheme 2002") at the annual general meeting to comply with the requirements of the Listing Rules. Share options granted in accordance with Scheme 2001 shall however remain valid until its expiry. To date, there are no share options granted under Scheme 2002.

EXECUTIVE DIRECTORS

Mr. CHEN Zhaobin, aged 48, was appointed as the Executive Director and President of the Company in February 2001. He is responsible for the overall management of the Company. He graduated with a Bachelor's Degree in Engineering from the Beijing University of Posts and Telecommunications in 1982 and accredited as a Senior Engineer. He held the posts of Deputy General Manager of China Telecommunications Broadcast Satellite Corporation ("ChinaSat"), Vice-Chairman and President of China Telecom (Hong Kong) Limited (presently known as China Mobile (Hong Kong) Limited) and China Telecom (Hong Kong) Group Limited, Director and Deputy President of Telpo Communications (Group) Limited, and the Deputy Director of the Office of Coordination Production of the Ministry of Posts and Telecommunications of the PRC (presently known as Ministry of Information Industry ("MII")). Mr. Chen has many years' of experience in post and telecommunication fields and in corporate management.

Mr. TONG Xudong, aged 40, was appointed as the Executive Director and Vice President of the Company in March and April 2004, respectively. Mr. Tong, graduated from Nanjing Aeronautic Institute in 1985 and obtained a master degree from Beijing Institute of Space Mechanics and Electricity, Chinese Academy of Space Technology in 1988. Immediately after his graduation, he served for the Beijing Institute of Space Mechanics and Electricity. In 1993, he further pursued his studies in Samara University of Aeronautics and Astronautics, Russia. From May 1995 to June 2000, he served as the Vice-Director of Beijing Institute of Space Mechanics and Electricity and was appointed as professor in 1998. From June 2000 to December 2003, he was the Director of the same Institute. During this period of his service, Mr. Tong, on the one hand, expanded its markets in response to the vast development of the astronautics industry and the strong market demands; while on the other, he implemented modification and reform in the Institute and as a result, the technical and economic capabilities of the Institute was greatly strengthened. In 2003, he was appointed as the Vice-President of Chinese Academy of Space Technology. He was accredited as an academic and technological leader across the centuries of China Aerospace Corporation. Mr. Tong is a standing committee member of Chinese Society of Space Research and Chairman of the Committee of Recovery and Reentry, Chinese Society of Astronautics.

Mr. CUI Xinzheng, aged 50, was appointed as the Executive Director and Vice President of the Company in February 2001. He is responsible for the daily management and administrative issues of the Company. He had served as the Director of General Office, Deputy Director of ChinaSat; the Deputy Director of Research Division of Beijing Micro-Electronics Technology Institute. He graduated from Graduate School of Chinese of Social Sciences Academy. He has 30-year experience in economics management and has much experience of the operation of satellite telecommunication.

Mr. HE Dongfeng, aged 38, was appointed as Executive Director and Vice President of the Company in July 2002. He graduated with double Bachelor Degrees in Engineering from Jilin University of Technology. He then graduated with a Master Degree in Engineering from Beijing Institute of Technology. He is now studying in Beijing Normal University for Phd degree in Economics. He has served for the China Aerospace Corporation (presently known as China Aerospace Science & Technology Corporation) since 1989. He was appointed as Deputy Section Head, Section Head, Branch Factory Head, Deputy General Manager & General Manager of Capital Aerospace Machinery Corporation. In January 2002, he was appointed as the Vice President of China Academy of Launch Vehicle Technology. He resigned as Executive Director and Vice President of the Company on 29 March 2004 and 5 April 2004 respectively.

NON-EXECUTIVE DIRECTORS

Mr. LIU Ji Yuan, aged 70, 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 Aerospace Industry (later 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.

Mr. ZHANG Hainan, aged 59, was appointed as Non-executive Director and Vice Chairman of the Company in March 2004. Mr. Zhang graduated from the Northwestern Polytechnical University in 1968 and was accredited as a senior engineer. Since 1984, he has been deputy director of Factory Number 782 and 762, the Ministry of Electronics Industry of China; deputy head and head of the Bureau of Electronics Industry, Shanxi Province; deputy head and head of Shanxi Economic and Trade Commission; and assistant to the governor of the Shanxi Province government, among others. In 2001, he was transferred to China Satellite Communications Corporation as deputy general manager and general manager. Mr. Zhang has many years' experience in government and corporate management.

Mr. WONG Hung Khim, aged 65, has been a Director of APT Satellite Company Limited since February 1993 and was appointed as a Director of the Company in October 1996. 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. He was the Executive Director of the Port of Singapore Authority from 1979 to 1987. From 1984 to 1987, Mr. Wong was Permanent Secretary of MSA, which subsequently became the Ministry of Community Development. From July 1987, he was appointed the President and CEO of the Telecommunication Authority of Singapore and oversaw its privatization into Singapore Telecommunications Limited (Singapore Telecom) in October 1993. Mr. Wong was appointed President and CEO of Singapore Telecom in March 1992. From May 1995 to September 2000, he served as the Deputy Chairman of Singapore Telecom. From 3 November 1993 to 31 December 1997, Mr. Wong served as Chairman of Jurong Town Corporation. In recognition of his services, Mr. Wong was awarded a Public Administration Meritorious Services Medal in 1992. Mr. Wong is currently the Group Chairman and Chief Executive Officer of Delgro Corporation Limited (formerly known as Singapore Bus Service (1978) Ltd.).

Mr. LIM Toon, aged 61, has been a Director of APT Satellite Company Limited since February 1993 and was appointed as a Director of the Company in October 1996. In 1966, Mr. Lim graduated from the University of Canterbury in New Zealand, with a first class honours degree in Engineering. In 1975, Mr. Lim obtained a Postgraduate Diploma in Business Administration from the University of Singapore. He attended the Advanced Management Programme at Harvard Business School in 1992. He has been the Chief Operating Officer of SingTel since April 1999 and has worked for Singapore Telecom since 1970, serving in various appointments of engineering, radio services, traffic operations, personnel, training and information systems departments. He was appointed Executive Vice President of Network Services in April 1989 and Executive Vice President of International Services in April 1994. He 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. WU Zhen Mu, aged 58, 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. WU Jinfeng, aged 43, was appointed as Director of the Company in February 2001. He graduated from University of Science & Technology of China in 1983 and from Guanghua School of Management, Beijing University in 2000. He possesses a Master's degree in Business Administration, and Senior Engineer. He is the Deputy General Manager of ChinaSat and is responsible for the development of and control of satellite systems and business and market development of satellite telecommunications. He had been the General Manager of Satellite Business Division and the Deputy Director of Telecommunications Division of ChinaSat. He also taught at University of Science & Technology of China. He has much experience of the operation of satellite telecommunication and corporate management.

Mr. LIM Shyong, aged 53, was appointed as Director of the Company in March 2001. Mr. Lim joined SingTel in 1972, after graduating from the University of Singapore with an Electrical Engineering Degree. Mr. Lim's experience in SingTel has extended widely ranging from domestic telecommunication network engineering, national wireless services sales to international telecommunication businesses. In the International Carrier business, he had established relations with important foreign partners and carriers to introduce SingTel's voice and data services globally as well as establishing SingTel's own voice nodes in the liberalised markets. He was also responsible in setting up SingTel's network of oversea offices in Asia, Europe and North America. In the last 3 years, Mr. Lim established SingTel's wholly owned and controlled Global Network Infrastructure for voice and data services as well as deploying it for IP peering in Asia, Europe and the USA. He was also involved in the successful launch of Singapore's first satellite, ST-1 in August 1998. In 1981, Mr. Lim was awarded the French Government Scholarship to pursue the MBA programme at INSEAD (European Institute of Business Administration). In 1991, he was awarded the Public Administration Medal by the Singapore Government for his contributions to the development of Singapore's telecommunications industry. He is currently Executive Vice President of Global Business in SingTel and the Chairman of the Board of C2C Private Limited.

Mr. TAY Chek Khoon, aged 53, was appointed as Director of the Company in March 2001. Mr. Tay joined SingTel in 1975, after graduating from the University of Liverpool, United Kingdom with an Engineering Degree. After an extensive training program in Pulse Code Modulation projects and satellite communication work, he was posted to Washington DC USA in 1982 to represent the Intelsat ASEAN Group as the Resident Alternate Governor. Mr. Tay's extensive telecommunication experience in SingTel ranged from media planning for both international submarine cable and satellite network systems to international carrier business. He was Director of International Carrier Business from 1995 where he also obtained the Certificate of International Management from INSEAD. In 1997, he was the Managing Director of International Operations responsible for set-up and management of SingTel's 18 overseas offices to provide regional support for SingTel's corporate clients. In 2000, he was the Vice President of Wholesale Account Management, responsible for managing SingTel's relations with other telecommunication carriers and also managing international and domestic wholesale business. He is now the Vice President of Satellite Business and Global Management responsible for all the satellite business and infrastructure in SingTel including the international gateways and global voice network.

Mr. WU Hongju, aged 42, was appointed as Director of the Company in November 2002. After graduation with the major in radio technology from Beijing Polytechnic University in 1984, he started his career in R&D in No. 502 Research Institute of the then Ministry of Aerospace Industry of China. From 1991 onward, he held such posts as Office Assistant of the Aerospace Foreign Trade Coordination Team of the former Ministry of Aviation & Aerospace of China, Assistant of General Planning & Development Bureau of the former China Aerospace Corporation, Vice President of China APMT Company, Vice President of Singapore APMT Company, Division Director of Investment Management Division of Business Investment Bureau of China Aerospace Science & Technology Corporation, and Vice President of Beijing Aerospace Satellite Application Company. He has acquired abundant experience in business trading, capital management and radio technology through his career.

Dr. YIN Yen-liang, aged 53, was appointed as a Director of the Company in January 2003. Dr. Yin graduated with an MBA Degree from National Taiwan University in 1983 and received the PhD Degree in Business Administration from National Chengchi University in 1987. He has been President of the Ruentex Group since 1994 and concurrently holding the position of Executive Director of SinoPac Holdings Co., Ltd., Executive Director of Bank SinoPac, Director of Acer Incorporate, Chairman of Aetna SinoPac Credit Card Company Limited.

Mr. TSENG Ta-mon, aged 46, was appointed as a Director of the Company in July 2003. Mr. Tseng graduated with an LL. B. Degree from National Chengchi University in 1980 and subsequently received the LL. M. Degree from University College London in 1982 and the LL. B. Degree from B.A. at University of Cambridge in 1984 respectively. He also graduated from the Inns of Court School of Law of Middle Temple in 1985 and became Barrister-at-Law in the same year. He was the Specialist of the Board of International Trade from 1985 to 1987. He was also the Partner of Dong & Lee from 1987 to 1992. He has been the Counsel of the Ruentex Group since 1992.

Mr. CHEN Chi-chuan, aged 46, was appointed as an Alternate Director to Dr. Yin Yen-liang, the director of the Company, in January 2003. Mr. Chen graduated with an MBA Degree from National Taiwan University in 1982. Having been in the securities investment sector for a long time, he had been Deputy Director of Yong Foong Yu Paper Manufacturing Co., Ltd. and Deputy General Manager of Kwang Hua Securities Investment & Trust Co., Ltd. At present, Mr. Chen is the Managing Director of China Development Financial Holdings Corporation and China Development Industrial Bank.

Mr. LIM Wee Seng, aged 50, was appointed as an Alternate Director to Mr. Lim Shyong, the director of the Company, in September 2003. Mr. Lim graduated from the University of Singapore with a First Class Honours Degree in Bachelor of Engineering (Electrical and Electronics) in 1979 and subsequently obtained a Master of Science (Electrical Engineering) Degree in 1985. He has been with SingTel since 1979 and has held management positions in various areas including engineering, radio services, network and carrier wholesale business. From 1998 to 2000, he was the Managing Director of SingTel's subsidiary company in UK, responsible for the setting up and running of SingTel's voice and data business in Europe. He was also a member of the Singapore ST-1 satellite planning team in 1991 to 1993. Mr. Lim is currently Director of Strategic Investment in SingTel and is responsible for mergers, acquisitions and monitoring of SingTel's joint venture companies, as well as management of SingTel's venture capital funds.

Dr. YANG Tze-kaing, aged 50, was appointed as Director of the Company in March 2001. After graduating from National Chengchi University, Dr. Yang received his MBA from the University of Illinois at Urbana-Champaign and returned to the Graduate School of Business Administration at National Chengchi University for his doctorate. He worked at the International Commercial Bank of China and entered China Development Industrial Bank (CDIB) in 1988 where he served as Vice President and was eventually named First Vice President and General Manager of the Investment Banking and Trust Department. Dr. Yang held the positions of Senior Vice President and General Manager of the Direct Investment Department and was later promoted to Executive Vice President of CDIB. When CDIB & Partners Investment Holding Corporation was founded, Dr. Yang was named Senior Executive Vice President in charge of daily operations and leads of group of diverse professionals. Dr. Yang is one of the most recognized experts in Taiwan's investment banking community. He resigned as a Director of the Company with effect from 16 January 2003.

Dr. HSU Chih Chang, aged 45, was appointed as a Director of the Company in October 1996 and has been a Director of APT Satellite Company Limited since September 1996. Dr. 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. Dr. Hsu was a part-time Associate Professor in the Department of Financial Administration, National Chengchi University, Taiwan in 1989. From 1989 to 1991, Dr. 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. Dr. 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. He resigned as a Director of the Company with effect from 8 July 2003.

Mr. ZHOU Ze He, aged 62, was appointed as the Vice Chairman of the Company in June 1998. Mr. Zhou graduated from Chongqing University of Posts & Telecommunications in 1964. Then he participated in education and scientific research in telecommunication. In 1972, he was appointed as Deputy Director and Deputy Director General of MII 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 MII and listed their shares on foreign stock market. He was also the first Chairman of the Chengdu Cable Company Limited, the first company of MII 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 (first term) of Asia Pacific Mobile Telecommunications (APMT). He resigned as a Director and Vice Chairman of the Company with effect from 29 March 2004.

Ms. LOH Yim Kew, aged 51, was appointed as an Alternate Director to Mr. Lim Shyong, the director of the Company, in March 2001. She was a Director of the Company from November 2000 to March 2001 and was an Alternate Director of the Company to Mr. Lim Toon and Mr. Wong Hung Khim from July 1999 to November 2000. Ms. Loh graduated from the University of Singapore with a First Class Honours Degree in Bachelor of Engineering (Electrical and Electronics) in 1975 and subsequently obtained Master of Science (Industrial Engineering) Degree in 1979. She has been employed by Singapore Telecom since 1975. During these years, she has been assigned to duties and responsibilities ranging from engineering to commercial and business development in the different telecommunication areas. She has been in charge of the planning and operation of packet switched network, frame relay network, messaging systems, value added networks and IP network as well as the launching of Singtel's first satellite, ST-1. Under her charge, many new services were launched and introduced to the sophisticated business customers, ranging from 1800 toll free, 1900 audio information, VPN (Virtual Private Network), messaging, Internet access (ISP), electronic commerce services to Inmarsat value added services, video broadcast via satellite, GMPCS and satellite capacity. She was also responsible for the formation and management of the various alliances and Joint Ventures which Singtel participated in, such as WorldPartner and ACASIA. At present, she is the Senior Director of Satellite Development, responsible for the strategic investment and business development in fixed and mobile satellite systems. She resigned as an Alternate Director to Mr. Lim Shyong, Director of the Company, with effect from 31 January 2003.

Ms. LIM Bee Ling, aged 39, was appointed as an Alternate Director to Mr. Tay Chek Khoon, the director of the Company, in March 2001. She was a Director of the Company from November 2000 to March 2001. Ms. Lim graduated from the National University of Singapore in 1987 with a Second Class Honours Degree in Accountancy. She was with the Monetary Authority of Singapore before joining SingTel in 1991. She obtained her Chartered Financial Analyst qualification in 1995. Ms. Lim is now the Treasury Director of SingTel, in charge of cash and investment management, financing, foreign exchange, insurance and risk management for the SingTel Group. She resigned as an Alternate Director to Mr. Tay Chek Khoon, Director of the Company, with effect from 4 September 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YUEN Pak Yiu, Philip, aged 68, 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.

Dr. HUAN Guocang, aged 54, was appointed as an Independent Non-executive Director of the Company in August 2002. He is the Head of Investment Banking, Asia Pacific of The Hongkong and Shanghai Banking Corporation Limited ("HSBC"). Before joining HSBC, he was Managing Director and Co-Head of Investment Banking, Asia Pacific of Salomon Smith Barney. Dr. Huan has more than 15 years of investment banking experience and has held senior positions at the Brookings Institution, the Atlantic Council of the U.S., J.P. Morgan & Co., BZW Asia Limited, and Columbia University. Dr. Huan holds a Ph.D. degree in International Political Economy from Princeton University, Master of Arts in International Relations from Columbia University and Master of Arts in International Economics from the University of Denver.

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 the Securities and Futures Ordinance are set out in the Directors' Report under the section headed "Substantial Shareholders".

SENIOR MANAGEMENT

Mr. KWOK Kah Wai, Victor, aged 48, joined the Company in March 2001. Mr. Kwok is responsible for Marketing and Sales division of the Group. Prior to joining the Company, Mr. Kwok was the Managing Director of Global Services Development in SingTel, Mr. Kwok established the SingTel's global communication network and services, ConnectPlus, as well as SingTel's global internet backbone to US and the Asian region, SingTel IX. Mr. Kwok has also been active in the alliance development works during this period. Mr. Kwok has been with SingTel for the last twenty years and has held management positions in Corporate Product Marketing and Corporate Account Management. Mr. Kwok has been seconded to be the Managing Director of STI Svenska in 1995 and Acting CEO of SingCom, Australia in 1994. Mr. Kwok graduated from National University of Singapore with an Honors Degree in Electrical Engineering and an MBA degree in 1981 and 1987 respectively. Mr. Kwok also attended the Harvard Business School's International Senior Management Program in May, 1993.

Mr. LO Kin Hang, Brian, aged 47, has been the Vice President of the Group since April 2002 and Company Secretary (since October 1996) of the Company. Mr. Lo joined the Company in September 1996 and was the Assistant to the President (since December 1997). 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.

Mr. WU Shou Kang, aged 64, has been the Chief Engineer of the Group since February 2001. He joined the Group in 1993. Mr. Wu graduated from Beijing Institute of Post & Telecommunications in 1963 and served for the First Institute of Research of Ministry of Post and Telecommunications of the PRC in the same year. Since 1972, he had organized and participated in satellite telecommunication researches in various topics such as transmission, equipment development, the design of satellite telecommunication network of the PRC, commissioning and technical support. During that period, he was designated as senior engineer and he was also awarded the Government Special Incentive and the Certificate from the State Council of PRC for his contributions to the development of science and technology in PRC. He had been the tutor of the research students of Professional Master of Satellite Telecommunication network.

Mr. LENG Yi Shun, aged 66, has been the 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. He resigned as the Vice President of the Group with effect from 7 January 2003.

The directors ("Directors") of the Company present their report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the maintenance, operation and leasing of satellite telecommunication systems.

SEGMENTAL INFORMATION

Details of the segmental information are set out in note 12 to the financial statements.

RESULTS AND APPROPRIATIONS

Details of the results of the Group and appropriations of the Company for the year ended 31 December 2003 are set out in the consolidated income statement on page 35 and the accompanying notes to the financial statements.

The Directors do not recommend any payment of final dividend for the year ended 31 December 2003.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 85.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company for the year ended 31 December 2003 are set out in note 13 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2003 are set out in note 16 to the financial statements.

ASSOCIATE/JOINTLY CONTROLLED ENTITIES

Details of the Group's interest in associate and jointly controlled entities are set out in notes 17 and 18 to the financial statements respectively.

SHARE CAPITAL

Details of movement of the share capital are set out in note 24 to the financial statements. During the year, 730,000 ordinary shares were issued upon the exercising of share options by employees of the Company at an exercise price of HK$2.765 per share in accordance with the share option scheme adopted in the annual general meeting on 22 May 2001.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

RESERVES

Details of movements during the year in the reserves of the Group and of the Company are set out in the statements of changes in equity on page 39.

BORROWINGS

Details of the Group's bank borrowings are set out in note 20 to the financial statements. Interest of approximately HK$6,553,000 was capitalised by the Group during the year.

DIRECTORS

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

Executive directors

Chen Zhaobin *(President)*	
Tong Xudong *(Vice President)*	*(appointed as executive director on 29 March 2004 and will be appointed as vice president in April 2004)*
Cui Xinzheng *(Vice President)*	
He Dongfeng *(Vice President)*	*(resigned as executive director and vice president on 29 March 2004 and 5 April 2004 respectively)*

Non-executive directors

Liu Ji Yuan *(Chairman)*	
Zhang Hainan *(Vice Chairman)*	*(appointed on 29 March 2004)*
Wong Hung Khim	
Lim Toon	
Wu Zhen Mu	
Wu Jinfeng	
Lim Shyong	
Tay Chek Khoon	
Wu Hongju	
Yin Yen-liang	*(appointed on 16 January 2003)*
Tseng Ta-mon	*(appointed on 8 July 2003)*
Chen Chi-chuan	*(appointed as alternate director to Yin Yen-liang on 16 January 2003)*
Lim Wee Seng	*(appointed as alternate director to Lim Shyong on 4 September 2003)*
Yang Tze-kaing	*(resigned on 16 January 2003)*
Hsu Chih Chang	*(resigned on 8 July 2003)*
Zhou Ze He *(Vice Chairman)*	*(resigned on 29 March 2004)*
Loh Yim Kew	*(resigned as alternate director to Lim Shyong on 31 January 2003)*
Lim Bee Ling	*(resigned as alternate director to Tay Chek Khoon on 4 September 2003)*

Independent non-executive directors

Yuen Pak Yiu, Philip
Huan Guocang

In accordance with Article 86(2) and Article 87 of the Company's Bye-Laws, Messrs. Wong Hung Khim, Wu Zhen Mu, Lim Shyong, Tay Chek Khoon, Tseng Ta-mon, Zhang Hainan and Tong Xudong will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The remaining directors of the Company continue in office.

Mr. Chen Zhaobin and Mr. Cui Xinzheng entered into service contracts with the Company for an initial term of three years, commencing 10 February 2001 and 1 February 2001 respectively and continuing thereafter until terminated by either party giving to the other not less than six months notice.

Mr. Tong Xudong will enter into a service contract with the Company in April 2004.

No director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-Laws.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2003, the interests of each director and the chief executive of the Company are interested, or are deemed to be interested in the long and short positions in the shares and underlying shares of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company under section 352 of the SFO are as follows:

Name of Directors and chief executives	Nature of interests	Number of shares held	Number of share options[1]
Chen Zhaobin *(Executive Director and President)*	Personal	–	2,200,000
Cui Xinzheng *(Executive Director and Vice President)*	Personal	–	1,200,000
Lo Kin Hang, Brian *(Vice President and Company Secretary)*	Personal	5,000	800,000

(1) The share options were granted on 19 June 2001 under the share option scheme adopted at the annual general meeting of the Company held on 22 May 2001 and all the above share options have an exercise price of HK$2.765 per share and are exercisable within the period from 22 May 2003 to 21 May 2011.

Save as disclosed above, as at 31 December 2003, none of the Directors or the chief executive of the Company had or was interested, or were deemed to be interested in the long and short positions in the shares and underlying shares of the Company nor any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO and the Model Code respectively.

SHARE OPTION SCHEMES

Owing to the enforcement of the new requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in September 2001, the Company adopted a new share option scheme (the "Scheme 2002") at its annual general meeting on 22 May 2002, whereupon the Board of Directors of the Company shall only grant new options under the Scheme 2002.

During the year, no options were granted under the Scheme 2002, which will expire on 21 May 2012.

On 19 June 2001, the Company had granted options to its employees under a previous share option scheme (the "Scheme 2001"), which was adopted at the annual general meeting on 22 May 2001, details of which are set out below. Since then, no further options were granted under the Scheme 2001 and, all the options granted under the Scheme 2001 shall however remain valid until their expiry.

With the adoption of the Scheme 2002, the Company can provide incentives or rewards to its employees including non-executive directors and independent non-executive directors for their contribution to the Group and/or enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

The total number of shares available for issue under the existing share option schemes (Scheme 2001 and Scheme 2002) is upon exercise of all share options granted and yet to be exercised, 9,670,000 (2002: 13,410,000) which represents 2.34% (2002: 3.25%) of the issued shares of the Company for the time being and not exceeding 10% of the shares of the Company in issue on the adoption date of the Scheme 2002 (i.e. 412,720,000). As at the date of report, the total number of shares of the Company in issue was 413,265,000 (2002: 412,535,000).

Save for a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates according to the Listing Rules, the total number of shares of the Company issued and which may fall to be issued upon exercise of the options granted under the Scheme 2002 and any other share option schemes of the Company (including outstanding options) to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options to any participant in excess of the 1% limit must be subject to shareholders' approval in general meeting of the Company.

The exercise price (subscription price) will be determined by the Board of Directors in its absolute discretion but shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares of the Company.

The particulars of the outstanding share options granted under Scheme 2001 are as follows:

	Options granted on 19 June 2001 and remain outstanding as at 1 January 2003	Options cancelled during the year	Options exercised during the year	Options outstanding as at 31 December 2003
Name of director and chief executive				
Chen Zhaobin *(Executive Director and President)*	2,200,000	–	–	2,200,000
Cui Xinzheng *(Executive Director and Vice President)*	1,200,000	–	–	1,200,000
Leng Yi Shun (Vice President)	1,500,000	1,500,000[a]	–	–
Lo Kin Hang, Brian *(Vice President and Company Secretary)*	800,000	–	–	800,000
	5,700,000	1,500,000	–	4,200,000
Employees in aggregate:				
Employees under employment contracts	13,410,000	3,010,000	730,000[b]	9,670,000

Notes:

(a) Mr. Leng Yi Shun resigned as the Vice President of the Group on 7 January 2003.

(b) The weighted average closing price of shares immediately before the dates on which the options were exercised was approximately HK$3.752.

The above granted options have an exercise price of HK$2.765 per share and are exercisable within the period from 22 May 2003 to 21 May 2011, whilst there is no minimum period nor any amount payable on application required before exercising the options. The closing price of the shares immediately before the date on which these options were granted was HK$3.85.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

INTERESTS IN COMPETING BUSINESS DISCLOSURES

As at 31 December 2003, the following non-executive directors of the Company are also directors in other businesses, which compete or are likely to compete, either directly or indirectly, with the Group's business:

Name of Director	Name of the Companies	Principal Activities
Tay Chek Khoon	Lanka Communication Services (Private) Limited	Provision of data communication services
Lim Shyong	GB21 (Hong Kong) Limited	Provision of telecommunications services and products
	C2C Pte Ltd C2C Singapore Pte Ltd Network i2i Limited	Operation and provision of telecommunications facilities and services utilising a network of submarine cable systems and associated terrestrial capacity
	C2C (Hong Kong) Limited C2C Cable (Ireland) Limited C2C Infocom Cable (Taiwan) Ltd C2C Cable Korea Ltd C2C Japan K K	Operation and provision of telecommunication facilities and services

Name of Director	Name of the Companies	Principal Activities
Lim Toon	SingTelSat Pte Ltd	Provision of satellite capacity for telecommunication and video broadcasting services
	Singapore Telecom Hong Kong Limited INS Holdings Pte Ltd	Investment holding and provision of telecommunications services
	SingTel Services Australia Pty Limited SingTel (Philippines), Inc. Singapore Telecom Taiwan Limited	Provision of customer services for telecommunications related activities
	Singapore Telecom Japan Co Ltd Singapore Telecom Korea Limited	Provision of telecommunications services and all related activities
	Bharti Tele-Ventures Limited	Provision of cellular, fixed line, national long distance and international telecommunication services
	Singapore Telecom USA, Inc.	Provision of telecommunication services and engineering and marketing services for telecommunications networks in USA
Lim Wee Seng	C2C Pte Ltd	Operation and provision of telecommunications facilities and services utilising a network of submarine cable systems and associated terrestrial capacity

SUBSTANTIAL SHAREHOLDER

As at 31 December 2003, according to the register of interests in shares and short positions kept by the Company under section 336 of the SFO, the following companies are directly and indirectly interested in 5 per cent or more of the issued share capital of the Company:

Name	*Note*	Number of shares interested	% of issued share capital
APT Satellite International Company Limited		214,200,000	51.83
China Aerospace Science & Technology Corporation	1	37,200,000	9.00
China Aerospace International Holdings Limited	1	31,200,000	7.55
Sinolike Investments Limited	1	31,200,000	7.55
Temasek Holdings (Private) Limited	2	22,800,000	5.52
Singapore Telecommunications Limited	2	22,800,000	5.52
Singasat Private Limited	2	22,800,000	5.52

Note:

1. China Aerospace Science & Technology Corporation was deemed to be interested in the shares of the Company by virtue of its 41.86% shareholding in China Aerospace International Holdings Limited, which was deemed to be interested in the shares of the Company by virtue of its 100% shareholding in Sinolike Investments Limited, which was deemed to be interested in the shares of the Company by virtue of its 100% shareholding in CASIL Satellite Holdings Limited which holds 14,400,000 shares of the Company.

2. Temasek Holdings (Private) Limited was deemed to be interested in the shares of the Company by virtue of its 67.16% shareholding in Singapore Telecommunications Limited, which was deemed to be interested in the shares of the Company by virtue of its 100% shareholding in Singasat Private Limited.

Save as disclosed above, as at 31 December 2003, no other party has an interest or a short position in the issued share capital of the Company, as recorded in the register required to be kept by the Company under section 336 of the SFO.

Messrs. Chen Zhaobin, Tong Xudong, Cui Xinzheng, Liu Ji Yuan, Zhang Hainan, Wong Hung Khim, Yin Yen-liang, Wu Jinfeng, Lim Shyong, Tay Chek Khoon, Tseng Ta-mon, Lim Toon, Wu Zhen Mu, Wu Hongju, Lim Wee Seng (alternate director to Lim Shyong) and Chen Chi-chuan (alternate director to Yin Yen-liang), directors of the Company, are also directors of APT Satellite International Company Limited.

Save as disclosed above, the Company has not been notified of any other interest representing 5% or more of the Company's issued share capital at 31 December 2003.

MAJOR CUSTOMERS AND SUPPLIERS

In 2003, the largest customer accounted for 13% (2002: 23%) of the Group's turnover. Turnover attributable to the Group's five largest customers accounted for 39% (2002: 57%) of the turnover for the year. Aggregate purchases attributable to the Group's five largest suppliers were less than 30% of total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers.

CONNECTED TRANSACTIONS

Certain connected transactions also constituted related party transaction in accordance with the Hong Kong accounting principles, details are set out in note 33 to the financial statements.

During the period since last publication of the Company's 2002 annual report, the connected transactions with the Company or any of its subsidiaries as defined by the Chapter 14 of the Listing Rules under disclosure obligations are as follow:

(a) On 11 April 2003, the Company's wholly-owned subsidiary, APT Satellite Company Limited ("APT HK") in its ordinary and usual course of business, and Singapore Telecommunications Limited ("SingTel") entered into a new transponder lease agreement, subject to certain conditions, to lease 6 transponders of APSTAR V satellite at a price of US$33,657,000 (approximately HK$262,525,000) including a security deposit of US$4,000,000 (approximately HK$31,200,000) with an option to lease 5 additional transponders at a price of US$22,158,000 (approximately HK$172,832,000) superceding the original agreement dated 8 January 2001. Upon the commencement of this new agreement, in case of 11 transponders, US$29,863,000 (approximately HK$232,932,000) the aggregate management fees for the operation and maintenance services shall be payable by SingTel in two semi-annual installments per annum through the satellite's useful life.

    SingTel was a connected person inasmuch as it was the holding company of Singasat Private Limited, which was a substantial shareholder of an indirect subsidiary of the Company. The entering of the foregoing agreements were connected transactions.

(b) As announced on 28 August 2003, the Group and its non wholly-owned subsidiary namely APT Satellite Telecommunications Limited ("APTT") had in their ordinary course of business entered into various transactions with SingTel and its subsidiaries ("SingTel Group"), and a waiver from strict compliance with the requirements of Rule 14.25(1) of the Listing Rules for these ongoing connected transactions was given by the Stock Exchange thereafter.

SingTel or any of its subsidiaries was a connected person because it was the holding company of Singasat Private Limited, which was a substantial shareholder of an indirect subsidiary of the Company. The entering into the foregoing transactions were connected transactions. Details of these ongoing connected transactions during the year are as follow:

(i) The aggregate value of the type of transponder leasing between the Group and SingTel Group was HK$19,690,000;

(ii) the aggregate value of the type of provision or purchase of telecommunication services between APTT and SingTel Group was HK$9,881,000; and

(iii) the aggregate value of the type of secondment of executive from SingTel Group with the Group and APTT was HK$2,758,000.

The independent non-executive directors of the Company have reviewed these ongoing connected transactions and confirmed that they were (i) entered into in the ordinary and usual course of business of the Group; (ii) conducted on normal commercial terms; (iii) conducted on terms that were fair and reasonable so far as the shareholders of the Company are concerned; (iv) carried out in accordance with the terms of the agreements governing these transactions; and (v) the aggregate value of each type of these transactions entered into during the year was not exceeding the higher of HK$10 million or 3% of the net tangible asset value of the Group as disclosed in its latest published financial statements.

(c) On 10 September 2003, APTT, a company as to 55% and 45% owned by the Company's wholly-owned subsidiary namely Skywork Corporation ("Skywork") and SingTel's wholly-owned subsidiary namely Singasat Private Limited ("Singasat") respectively, entered into a master agreement with the Company's wholly-owned subsidiary, APT Telecom Services Limited ("APTTS"), Skywork and Singasat whereby the business of APTT was being reorganised through transferring APTT's Fixed Carrier Licence ("FCL") business together with the FCL to APTTS and transferring APTT's cable interests related to FCL including the APCN and C2C interests to SingTel. The former transfer was done pursuant to a transfer of business agreement between APTT and APTTS at a consideration of HK$6,800,000 together with a compensation of HK$13,500,000 payable in 5 equal annual installments commencing on 1 February 2005 by APTT to APTTS's holding company, APT HK, for the surrender by APTT of the remaining term of a services and facilities lease agreement in respect of a premises in Tai Po Industrial Estate. The latter transfer was done pursuant to a cable interests transfer agreement between APTT and Singasat, which subsequently assigned it to its holding company SingTel, at considerations of HK$2,986,000 and HK$2,574,000 in respect of the APCN interest and C2C interest respectively. The reorganisation was completed on 10 October 2003.

The Directors intended that upon the completion of the reorganisation the Group can concentrate on the satellite-related telecom services business, which was in line with the Group's core business in provision of satellite transponder services. They also considered that the reorganisation was in the interests of the Company and that such considerations and terms of the agreements between the parties thereto were fair and reasonable arriving after arm's length negotiation with reference to the valuation conducted by an independent valuation company, American Appraisal China Limited.

As APTT was owned as to 55% indirectly by the Company and 45% by Singasat, a substantial shareholder and a connected person of the Company, the entering into the foregoing agreements with, inter alia, Singasat and SingTel were connected transactions. As APTTS and APT HK were subsidiaries of the Company, the entering into the foregoing agreements were connected transactions.

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.

AUDITORS

KPMG were first appointed as auditors of the Company in 2003 upon resignation of Messrs. Deloitte Touche Tohmatsu.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chen Zhaobin
Director

Cui Xinzheng
Director

Singapore, 13 April 2004

AUDITORS' REPORT TO THE SHAREHOLDERS OF
APT SATELLITE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 35 to 84 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, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 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 of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, 13 April 2004

For the year ended 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003 $'000	2002 $'000
Turnover	2 & 12	**302,241**	351,425
Cost of services		**(280,319)**	(275,717)
		21,922	75,708
Write-back of provision on regulatory matters	3	**–**	47,212
Other operating income	4	**33,039**	25,115
Gain on partial disposal of an associate		**12**	–
Administrative expenses		**(74,892)**	(69,886)
Deficit arising on revaluation of investment property	14	**(70)**	(70)
Impairment loss recognised in respect of property, plant and equipment	13(a)	**(129,098)**	(5,218)
Impairment loss recognised in respect of goodwill arising on acquisition of interest in a subsidiary	15	**–**	(3,376)
(Loss)/profit from operations		**(149,087)**	69,485
Finance costs	5(a)	**–**	–
Share of results of jointly controlled entities		**(64,833)**	(10,624)
(Loss)/profit from ordinary activities before taxation	5	**(213,920)**	58,861
Income tax	6(a)	**(11,721)**	(36,814)
(Loss)/profit from ordinary activities after taxation		**(225,641)**	22,047
Minority interests		**923**	2,388
(Loss)/profit attributable to shareholders	9	**(224,718)**	24,435
(Loss)/earnings per share	10		
– Basic		**(54.43 cents)**	5.92 cents
– Diluted		**(54.43 cents)**	5.92 cents

The notes on pages 42 to 84 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2003

(Expressed in Hong Kong dollars)

	Note	2003 $'000	2002 $'000
Non-current assets			
Property, plant and equipment	13(a)	**2,445,360**	2,018,873
Investment property	14	**2,262**	2,332
Interest in jointly controlled entities	18	**82,781**	86,263
Interest in an associate	17	**–**	–
Club memberships		**5,537**	5,537
Transponder lease deposit		**440**	353
Deferred tax assets	23(b)	**9,416**	–
		2,545,796	2,113,358
Current assets			
Trade receivables	19	**68,364**	23,981
Deposits, prepayments and other receivables		**32,662**	57,878
Amount due from immediate holding company		**20**	–
Amount due from an associate		**–**	209
Pledged bank deposits	28	**111,863**	317,686
Cash and cash equivalents		**546,864**	826,257
		759,773	1,226,011
Current liabilities			
Payables and accrued charges		**50,237**	44,048
Rentals received in advance		**20,961**	43,482
Current taxation	23(a)	**188,231**	81,279
Secured bank borrowings due within one year	20	**17,550**	317,682
		276,979	486,491
Net current assets		**482,794**	739,520
Total assets less current liabilities carried forward		**3,028,590**	2,852,878

At 31 December 2003

(Expressed in Hong Kong dollars)

	Note	2003 $'000	2002 $'000
Total assets less current liabilities brought forward		**3,028,590**	2,852,878
Non-current liabilities			
Secured bank borrowings due after one year	20	**684,450**	163,800
Loan from a minority shareholder		**7,488**	7,488
Deposits received	21	**37,960**	39,542
Deferred income	22	**27,881**	41,436
Deferred tax liabilities	23(b)	**11,866**	125,463
		769,645	377,729
Minority interests		**5,915**	6,838
Net assets		**2,253,030**	2,468,311
Capital and reserves			
Share capital	24	**41,327**	41,254
Share premium		**1,285,466**	1,283,520
Contributed surplus	26	**511,000**	511,000
Revaluation reserve		**7,700**	–
Translation reserve		**(100)**	182
Other reserves	26	**102**	94
Accumulated profits	26	**407,535**	632,261
		2,253,030	2,468,311

Approved and authorised for issue by the Board of Directors on 13 April 2004.

Chen Zhaobin
DIRECTOR

Cui Xinzheng
DIRECTOR

The notes on pages 42 to 84 form part of these financial statements.

BALANCE SHEET

At 31 December 2003
(Expressed in Hong Kong dollars)

	Note	2003 $'000	2002 $'000
Non-current assets			
Property, plant and equipment	13(b)	**–**	27
Interest in subsidiaries	16	**1,912,612**	1,888,157
		1,912,612	1,888,184
Current assets			
Receivables and prepayments		**138**	185
Amount due from a subsidiary	16	**42,900**	–
Cash and cash equivalents		**162**	63,942
		43,200	64,127
Current liabilities			
Payables and accrued charges		**1,886**	1,540
Net current assets		**41,314**	62,587
		1,953,926	1,950,771
Capital and reserves			
Share capital	24	**41,327**	41,254
Share premium		**1,285,466**	1,283,520
Contributed surplus	26	**584,358**	584,358
Accumulated profits	26	**42,775**	41,639
		1,953,926	1,950,771

Approved and authorised for issue by the Board of Directors on 13 April 2004.

Chen Zhaobin
DIRECTOR

Cui Xinzheng
DIRECTOR

The notes on pages 42 to 84 form part of these financial statements.

For the year ended 31 December 2003
(Expressed in Hong Kong dollars)

	Share capital $'000	Share premium $'000	Contributed surplus $'000	Revaluation reserve $'000	Translation reserve $'000	Other reserves $'000	Accumulated profits/ (losses) $'000	Total $'000
The Group								
Balance at 1 January 2002	41,272	1,283,809	511,000	–	–	64	628,492	2,464,637
Repurchase of shares	(18)	(289)	–	–	–	–	–	(307)
Exchange differences	–	–	–	–	182	–	–	182
Transfer to other reserves	–	–	–	–	–	30	(30)	–
Dividends paid	–	–	–	–	–	–	(20,636)	(20,636)
Net profit for the year	–	–	–	–	–	–	24,435	24,435
Balance at 1 January 2003	41,254	1,283,520	511,000	–	182	94	632,261	2,468,311
Shares issued under the share option scheme	73	1,946	–	–	–	–	–	2,019
Exchange differences	–	–	–	–	(282)	–	–	(282)
Share of a jointly controlled entity's reserve	–	–	–	7,700	–	–	–	7,700
Transfer to other reserves	–	–	–	–	–	8	(8)	–
Net loss for the year	–	–	–	–	–	–	(224,718)	(224,718)
Balance at 31 December 2003	41,327	1,285,466	511,000	7,700	(100)	102	407,535	2,253,030
Attributable to jointly controlled entities								
At 31 December 2003	–	–	–	7,700	–	–	(79,861)	(72,161)
At 31 December 2002	–	–	–	–	–	–	(15,028)	(15,028)

	Share capital $'000	Share premium $'000	Contributed surplus $'000	Accumulated profits $'000	Total $'000
The Company					
Balance at 1 January 2002	41,272	1,283,809	584,358	61,906	1,971,345
Repurchase of shares	(18)	(289)	–	–	(307)
Dividends paid	–	–	–	(20,636)	(20,636)
Net profit for the year	–	–	–	369	369
Balance at 1 January 2003	41,254	1,283,520	584,358	41,639	1,950,771
Shares issued under the share option scheme	73	1,946	–	–	2,019
Net profit for the year	–	–	–	1,136	1,136
Balance at 31 December 2003	41,327	1,285,466	584,358	42,775	1,953,926

The notes on pages 42 to 84 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003
(Expressed in Hong Kong dollars)

	2003 $'000	2002 $'000
Operating activities		
(Loss)/profit from ordinary activities before taxation	**(213,920)**	58,861
Adjustments for:		
Depreciation	**236,322**	233,971
Amortisation of goodwill	**–**	660
Impairment losses recognised	**129,098**	8,594
Gain on partial disposal of an associate	**(12)**	–
Interest income	**(7,111)**	(22,189)
Loss on disposal of property, plant and equipment	**–**	30
Deficit arising on revaluation of investment property	**70**	70
Share of results of jointly controlled entities	**64,833**	10,624
Write-back of provision on regulatory matters	**–**	(47,212)
Provision for doubtful receivables	**8,402**	5,207
Operating profit before changes in working capital	**217,682**	248,616
(Increase)/decrease in trade receivables	**(47,055)**	1,659
Increase in transponder lease deposit	**(87)**	(252)
(Increase)/decrease in amount due from immediate holding company	**(20)**	20
Increase in deposits, prepayments and other receivables	**(240)**	(30,175)
Decrease in payables and accrued charges	**(955)**	(5,534)
Decrease in rentals received in advance	**(13,789)**	(8,379)
(Increase)/decrease in amounts due from jointly controlled entities	**(12,731)**	198
Decrease/(increase) in amount due from an associate	**209**	(209)
Decrease in deferred income	**(22,286)**	(22,286)
Decrease in deposits received	**(1,582)**	(4,109)
Cash generated from operations	**119,146**	179,549
Hong Kong profits tax paid	**(9,541)**	(7,422)
Overseas tax paid	**(18,313)**	(9,364)
Net cash from operating activities	**91,292**	162,763

For the year ended 31 December 2003
(Expressed in Hong Kong dollars)

	2003 $'000	2002 $'000
Investing activities		
Payment for purchase of property, plant and equipment	**(763,454)**	(1,091,362)
Payment for acquisition of a subsidiary	**–**	(4,421)
Proceeds from partial disposal of an associate	**12**	–
Proceeds from disposal of property, plant and equipment	**1**	5
Advances/loans to jointly controlled entities	**(40,920)**	(23,650)
Interest received	**9,279**	20,254
Decrease in pledged bank deposits	**205,823**	61,982
Net cash used in investing activities	**(589,259)**	(1,037,192)
Financing activities		
Interest paid	**(3,681)**	–
New bank borrowings	**538,200**	163,800
Repayment of bank borrowings	**(317,682)**	(61,986)
Dividends paid	**–**	(20,636)
Repurchase of shares	**–**	(307)
Proceeds from shares issued under the share option scheme	**2,019**	–
Net cash from financing activities	**218,856**	80,871
Net decrease in cash and cash equivalents	**(279,111)**	(793,558)
Cash and cash equivalents at 1 January	**826,257**	1,619,686
Effect of foreign exchange rates changes	**(282)**	129
Cash and cash equivalents at 31 December	**546,864**	826,257
Analysis of the balances of cash and cash equivalents:		
Deposits with banks and other financial institutions	**539,916**	812,709
Cash at bank and in hand	**6,948**	13,548
Cash and cash equivalents at the end of the year	**546,864**	826,257

The notes on pages 42 to 84 form part of these financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties as explained in the accounting policies set out below.

(c) Subsidiaries and controlled enterprises

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

All significant intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and controlled enterprises (Continued)

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates and jointly controlled entities (Continued)

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses recognised in the consolidated income statement (see note 1(i)); and

- for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(i)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Goodwill (Continued)

– for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

– for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment, and investment property

(i) Fixed assets are carried in the balance sheets on the following bases:

- property, plant, and equipment, other than construction in progress, are stated in the balance sheet at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)); and

- construction in progress is stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less impairment losses (see note 1(i)); and

- investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers; and

(ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties immediately prior to the revaluation; and

- when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties had previously been charged to the income statement.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(n)(i).

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(h) Amortisation and depreciation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) No depreciation is provided on construction in progress until such time as the relevant assets are completed and ready for their intended use.

(iii) Depreciation is calculated to write off the cost of property, plant and equipment on a straight-line basis over their estimated useful lives, to residual values, as follows:

Leasehold land	Over the lease term
Leasehold buildings	50 years
Leasehold improvements	Over the lease term
Furniture and equipment, motor vehicles, and computer equipment	5 years
Communication satellite equipment	5 to 15 years
Communication station	5 years
Communication satellites	9 to 16 years

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– investments in subsidiaries, associates and joint ventures (except for those accounted for at fair value under notes 1(c) & (d));

– intangible assets; and

– positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the assets is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset (including positive goodwill taken directly to reserves) exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(k) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

(iii) The employees of the Group participate in retirement plans managed by respective local governments of the municipalities in which the Group operates in the People's Republic of China (the "PRC"). The Group's contributions to the plan are calculated based on fixed rates of the employees' salary costs and charged to the income statement when incurred. The Group has no other obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(iv) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(v) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income tax (Continued)

(iii) (Continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Transponder lease income*

Rental income from leasing of satellite transponders receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Service income in respect of satellite control and providing satellite telecommunications and related service is recognised when services are provided.

(iii) Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Foreign currency assets, being equity investments or other long-term non-monetary assets, the holding or the use or the subsequent disposal of which will generate receipts in a foreign currency, hedged by foreign currency borrowings, are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

Exchange gains and losses are dealt with in the income statement, except those arising from the translation at closing rates of foreign currency assets hedged by foreign currency borrowings, and the gains and losses on those foreign currency borrowings (to the extent of exchange differences arising on the foreign currency assets), which are taken directly to reserves.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(p) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. TURNOVER

The principal activities of the Group are engaged in the maintenance, operation and leasing of satellite telecommunication systems.

Turnover represents rental income received and receivable from leasing of satellite transponders and service income received and receivable in respect of satellite control and providing satellite telecommunications and related service. The amount of each category of revenue recognised in turnover during the year is as follow:

	2003 $'000	2002 $'000
Transponder lease income	**274,652**	323,961
Service income	**27,589**	27,464
	302,241	351,425

3. WRITE-BACK OF PROVISION ON REGULATORY MATTERS

This represented the adjustment of a provision made in 2000 for the estimated cost of retrofitting the dishes of potential affected customers of APSTAR IIR under the terms of an agreement made with an independent third party dated 18 August 1999 in relation to the leasing of substantially all of the transponder capacities of APSTAR IIR.

4. OTHER OPERATING INCOME

	2003 $'000	2002 $'000
Other operating income includes the following:		
Compensation income from a jointly controlled entity for early termination of services and facilities lease	**13,500**	–
Interest income	**7,111**	22,189
Rental income in respect of properties	**452**	448

5. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2003 $'000	2002 $'000
Interest on bank borrowings wholly repayable within five years	**6,553**	117
Other borrowing costs	**1,162**	2,125
Less: Amount capitalised into construction in progress*	**(7,715)**	(2,242)
	–	–

* The borrowing costs have been capitalised at a rate of 1.97% per annum (2002: 2.15%).

Borrowing costs capitalised during the year arose on bank loans borrowed for the purpose of financing the construction and launching of satellites.

(b) Staff costs

	2003 $'000	2002 $'000
Staff costs (including directors' emoluments)		
Pension contributions	**1,370**	1,294
Less: Forfeited contributions	**(167)**	(28)
Net pension contributions	**1,203**	1,266
Salaries, wages and other benefits	**36,764**	35,900
	37,967	37,166
Less: Capitalised into construction in progress	**(1,326)**	(1,108)
	36,641	36,058

5. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (Continued)

(c) Other items

	2003 $'000	2002 $'000
Auditors' remuneration	**508**	515
Amortisation of goodwill (included in administrative expenses)	**–**	660
Depreciation	**236,322**	233,971
Exchange loss	**–**	16
Loss on disposal of property, plant and equipment	**–**	30
Operating lease charges: minimum lease payments		
– land and buildings	**3,650**	3,597
– satellite transponders	**3,228**	1,474
Provision for doubtful receivables	**8,402**	5,207

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2003 $'000	2002 $'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	**114,487**	7,744
Current tax – Overseas		
Tax for the year	**20,247**	23,551
Under-provision in respect of prior years	**–**	3,731
	134,734	35,026
Deferred tax		
Origination and reversal of temporary differences	**(134,775)**	1,788
Effect of increase in tax rate on deferred tax balance at 1 January	**11,762**	–
	(123,013)	1,788
	11,721	36,814

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(a) (Continued)

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Overseas tax includes the withholding tax paid or payable in respect of Group's transponder lease income derived from the lessees which are located outside Hong Kong.

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2003 $'000	2002 $'000
(Loss)/profit before tax	**(213,920)**	58,861
Notional tax on (loss)/profit before tax, calculated at the rates applicable to (losses)/profits in the countries concerned	**(37,455)**	9,353
Overseas withholding tax	**20,237**	23,516
Tax effect of non-deductible expenses	**7,616**	9,592
Tax effect of non-taxable revenue	**(3,099)**	(11,992)
Tax effect of unused tax losses not recognised	**12,660**	2,614
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	**11,762**	–
Under-provision in prior years	**–**	3,731
Actual tax expenses	**11,721**	36,814

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2003 $'000	2002 $'000
Fees to independent non-executive directors	**100**	165
Fees to non-executive directors	**500**	573
Remuneration to executive directors:		
Fees	**150**	125
Salaries and other emoluments	**7,771**	6,312
Retirement benefits contributions	**248**	201
	8,169	6,638
	8,769	7,376

Mr. Wu Hongju, a non-executive director, and Dr. Huan Guocang, an independent non-executive director, have waived their directors' fees from the date of appointment up to 31 December 2003. Save as afore-mentioned, none of the directors have waived the rights to receive their remunerations.

In addition to the above emoluments, certain Directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Share option schemes" in the Directors' report and note 25.

The remuneration of the Directors is within the following bands:

	Number of Directors	
	2003	2002
$Nil to $1,000,000	**19**	19
$2,500,001 to $3,000,000	**2**	1
$3,000,001 to $3,500,000	**1**	1

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group included three directors (2002: two), details of whose remuneration are set out above. The emoluments of the remaining two (2002: three) highest paid individuals are as follows:

	The Group	
	2003	2002
	$'000	$'000
Salaries and other emoluments	**3,000**	5,553
Discretionary bonuses	**–**	114
Retirement benefits contributions	**190**	266
	3,190	5,933

The emoluments of the two (2002: three) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2003	2002
$Nil to $2,000,000	**2**	2
$2,500,001 to $3,000,000	**–**	1
	2	3

9. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss)/profit attributable to shareholders includes a profit of $1,136,000 (2002: $369,000) which has been dealt with in the financial statements of the Company.

10. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of $(224,718,000) (2002: profit of $24,435,000) and the weighted average of 412,892,000 ordinary shares (2002: 412,675,000 shares) in issue during the year ended 31 December 2003.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share as there were no dilutive potential ordinary shares in existence during the years 2003 and 2002.

11. CHANGE IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 1(l). The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

12. SEGMENTAL REPORTING

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

The Group's geographical segment analysis of turnover and contribution to (loss)/ profit from operations by location of customers, is as follows:

	2003 Turnover $'000	2002 Turnover $'000	2003 Contribution to loss from operations $'000	2002 Contribution to profit from operations $'000
Hong Kong	**25,082**	47,178	**1,819**	10,164
Other regions in the PRC	**225,786**	254,901	**16,377**	54,914
Others	**51,373**	49,346	**3,726**	10,630
	302,241	351,425	**21,922**	75,708
Other operating income			**33,051**	72,327
Impairment loss on property, plant and equipment			**(129,098)**	(5,218)
Unallocated corporate expenses			**(74,962)**	(73,332)
(Loss)/profit from operations			**(149,087)**	69,485

The Group's operating assets consist primarily of its satellites which are used, or are intended for use, for transmission to multiple countries but not located at a specific geographical area. Accordingly, no segment analysis of the carrying amount of segment assets by location of assets is presented.

12. SEGMENTAL REPORTING (Continued)

The Group's analysis of the total carrying amount of segment assets and segment liabilities by location of customers is as follows:

	2003		2002	
	Segment assets $'000	Segment liabilities $'000	Segment assets $'000	Segment liabilities $'000
Hong Kong	**3,548**	**6,655**	206	17,970
Other regions in the PRC	**75,673**	**49,117**	42,077	69,935
Others	**8,718**	**35,466**	934	38,347
	87,939	**91,238**	43,217	126,252
Unallocated corporate assets/liabilities	**3,217,630**	**955,386**	3,296,152	737,968
	3,305,569	**1,046,624**	3,339,369	864,220

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $'000	Leasehold improvements $'000	Furniture and equipment, motor vehicles, and computer equipment $'000	Communication satellite equipment $'000	Communication station $'000	Communication satellites $'000	Construction in progress $'000	Total $'000

(a) The Group

	Land and buildings $'000	Leasehold improvements $'000	Furniture and equipment, motor vehicles, and computer equipment $'000	Communication satellite equipment $'000	Communication station $'000	Communication satellites $'000	Construction in progress $'000	Total $'000
Cost:								
At 1 January 2003	118,770	6,910	56,721	94,892	5,179	2,100,129	1,266,614	3,649,215
Additions	–	2,341	1,466	29,567	–	–	758,534	791,908
Disposals	–	–	(16,509)	(37)	–	–	–	(16,546)
Transfer	–	–	–	1,178	3,246	–	(4,424)	–
At 31 December 2003	118,770	9,251	41,678	125,600	8,425	2,100,129	2,020,724	4,424,577
Accumulated depreciation:								
At 1 January 2003	13,148	4,759	28,156	52,367	291	1,531,621	–	1,630,342
Charge for the year	2,439	744	7,325	11,100	1,152	213,562	–	236,322
Impairment loss	–	–	–	–	–	129,098	–	129,098
Written back on disposal	–	–	(16,508)	(37)	–	–	–	(16,545)
At 31 December 2003	15,587	5,503	18,973	63,430	1,443	1,874,281	–	1,979,217
Net book value:								
At 31 December 2003	103,183	3,748	22,705	62,170	6,982	225,848	2,020,724	2,445,360
At 31 December 2002	105,622	2,151	28,565	42,525	4,888	568,508	1,266,614	2,018,873

Included in construction in progress is interest capitalised of approximately $6,553,000 (2002: $117,000).

Impairment loss

During the year, the Directors of the Group conducted a review of the Group's property, plant and equipment and determined that certain communication satellites were impaired as the recoverable amount of these assets is estimated to be less than their carrying amount. Accordingly, an impairment loss of $129,098,000 in respect of communication satellites (2002: $5,218,000 in respect of land and buildings) has been recognised and charged to the income statement.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Motor vehicle $'000
(b) The Company	
Cost:	
At 1 January 2003 and 31 December 2003	411
Accumulated depreciation:	
At 1 January 2003	384
Charge for the year	27
At 31 December 2003	411
Net book value:	
At 31 December 2003	–
At 31 December 2002	27

(c) The analysis of net book value of land and buildings held by the Group is as follows:

	Land and buildings 2003 $'000	Land and buildings 2002 $'000
Medium-term leases outside Hong Kong	**2,651**	2,718
Medium-term leases in Hong Kong	**100,532**	102,904
	103,183	105,622

14. INVESTMENT PROPERTY

The investment property was revalued at 31 December 2003 at $2,262,000 (2002: $2,332,000) by Chesterton Petty Limited, an independent professional property valuer, on an open market value basis by reference to net rental income allowing for reversionary income potential. This valuation gave rise to a revaluation deficit of $70,000 (2002: $70,000) which has been charged to the income statement.

The investment property, which is situated in the PRC under a medium-term lease, is rented out under an operating lease and the rental income earned from the investment property during the year was $245,000 (2002: $257,000).

15. GOODWILL

	2003 $'000	2002 $'000
Cost:		
At 1 January	**4,036**	–
Addition through acquisition of a subsidiary	**–**	4,036
At 31 December	**4,036**	4,036
Accumulated amortisation and impairment:		
At 1 January	**4,036**	–
Charge for the year	**–**	660
Impairment loss	**–**	3,376
At 31 December	**4,036**	4,036
Carrying amount:		
At 31 December	**–**	–

In 2002, the Directors of the Group reviewed the impairment of the goodwill by comparing the Group's share of the recoverable amount of the subsidiary concerned as a whole to the Group's share of the carrying value of assets together with the goodwill. In view of the net liabilities position of the subsidiary and based on the projected future operating cash flow, it was expected that the remaining unamortised balance will not be recovered and therefore, an impairment was recognised.

16. INTEREST IN SUBSIDIARIES

	The Company	
	2003 $'000	2002 $'000
Unlisted shares, at cost	**615,862**	615,862
Loans to subsidiaries	**1,201,712**	1,201,712
Amounts due from subsidiaries	**95,038**	70,583
	1,912,612	1,888,157

Loans to and amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. The Company has agreed not to demand for repayment within the next twelve months from the balance sheet date and accordingly, the amounts are classified as non-current.

Amount due from a subsidiary under current assets is unsecured, interest-free and repayable on demand and arose in the ordinary course of business.

(Expressed in Hong Kong dollars)

16. INTEREST IN SUBSIDIARIES (Continued)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group financial statements.

			Proportion of ownership interest			
Name of Company	Place of incorporation and operation*	Particulars of issued and paid up capital and debt securities	Group's effective interest	held by the Company	held by subsidiary	Principal activities
APT Satellite Investment Company Limited	British Virgin Islands	US$1,400	100%	100%	–	Investment holding
Acme Star Investment Limited	Hong Kong	HK$2	100%	–	100%	Investment holding
APT Satellite Company Limited	Hong Kong	Ordinary Class "A" HK$100; Non-voting Deferred Class "B" HK$542,500,000	100%	–	100%	Satellite transponder leasing
APT Satellite Enterprise Limited	Cayman Islands	US$2	100%	–	100%	Satellite transponder leasing
APT Satellite Global Company Limited	Cayman Islands	US$2	100%	–	100%	Investment holding
APT Satellite Link Limited	Cayman Islands	US$2	100%	–	100%	Satellite transponder leasing
APT Satellite Telewell Limited (formerly Telewell Investment Limited)	Hong Kong	HK$2	100%	–	100%	Investment holding
APT Satellite TV Development Limited	Hong Kong	HK$2	100%	–	100%	Provision of satellite television uplink and downlink services
APT Satellite Vision Limited	Hong Kong	HK$2	100%	–	100%	Satellite leasing
APT Telecom Services Limited (formerly APT Satellite (Apstar V) Limited)	Hong Kong	HK$2	100%	–	100%	Provision of telecommunication services
Haslett Investments Limited	British Virgin Islands	US$1	100%	–	100%	Investment
Skywork Corporation	British Virgin Islands	US$1	100%	–	100%	Investment holding
The 138 Leasing Partnership	Hong Kong	Partners capital HK$329,128,857	N/A	N/A	N/A	Satellite leasing
Ying Fai Realty (China) Limited	Hong Kong/PRC	HK$20	100%	–	100%	Property holding

16. INTEREST IN SUBSIDIARIES (Continued)

Name of Company	Place of incorporation and operation*	Particulars of issued and paid up capital and debt securities	Proportion of ownership interest: Group's effective interest	held by the Company	held by subsidiary	Principal activities
亞訊通信技術開發(深圳)有限公司 (APT Communication Technology Development (Shenzhen) Co., Ltd.)	Wholly-owned foreign enterprises, PRC	Registered capital HK$5,000,000	100%	–	100%	Satellite transponder leasing
CTIA VSAT Network Limited	Hong Kong	HK$5,000,000	60%	–	60%	Investment holding
北京亞太東方通信網絡有限公司	Joint venture, PRC	Registered capital US$4,000,000	36%	–	60%	Provision of data transmission services

* The place of operations is the place of incorporation/establishment unless otherwise stated.

No loan capital has been issued by any of the subsidiaries.

17. INTEREST IN AN ASSOCIATE

	The Group 2003 $'000	The Group 2002 $'000
Share of net assets	–	–

In 2002, the Group had a 35% interest in the issued ordinary share capital of APT Eurosportnews Distribution Limited, a company incorporated in Hong Kong which is engaged in the provision of satellite television broadcasting services. The Group disposed of a 33% interest of the associate on 23 December 2003.

18. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2003 $'000	2002 $'000
Share of net assets	**12,935**	34,047
Amounts due from jointly controlled entities	**69,846**	52,216
	82,781	86,263

Details of the jointly controlled entities of the Group as at 31 December 2003 are set out below:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	held by the Company	held by the subsidiary	Principal activity
APT Satellite Telecommunications Limited ("APT Telecom")	Incorporated	Hong Kong	HK$153,791,900	55%	–	55%	Property holding
北京中廣信達數據廣播技術有限公司 (「中廣信達」)	Joint venture, Incorporated	PRC	Registered capital RMB11,000,000	12.6%	–	35%	Provision of data transmission services

APT Telecom is considered as a jointly controlled entity as the Group and the other shareholder of APT Telecom both have the right to appoint an equal number of directors to the board of directors.

The amounts due from jointly controlled entities are unsecured and interest-free. Except for amount of $13,500,000 (2002: $nil), the amounts have no fixed repayment terms. The Group has agreed not to demand for repayment within the next twelve months from the balance sheet date and accordingly, the amounts are classified as non-current.

In 2002, the Group acquired an additional 20% interest in CTIA VSAT Network Limited ("CTIA"), previously was a 40% owned jointly controlled entity, for a consideration of $7,180,000. CTIA became a subsidiary and its assets and liabilities have been consolidated after the acquisition.

19. TRADE RECEIVABLES

	The Group	
	2003	2002
	$'000	$'000
Due from third parties	**58,350**	23,827
Due from a shareholder of the Company	**7,496**	53
Due from holding company and its subsidiaries of a shareholder of the Company	**2,518**	–
Due from a jointly controlled entity	**–**	101
	68,364	23,981

The Group allows an average credit period of 10 days to its trade customers. The following is an ageing analysis of trade receivables (net of specific provisions for bad and doubtful debts) at the balance sheet date:

	The Group	
	2003	2002
	$'000	$'000
0 – 30 days	**24,965**	9,735
31 – 60 days	**4,805**	4,550
61 – 90 days	**7,574**	4,150
91 – 120 days	**2,941**	546
Over 121 days	**28,079**	5,000
	68,364	23,981

20. SECURED BANK BORROWINGS

	The Group	
	2003	2002
	$'000	$'000
Bank loans	**702,000**	481,482
Less: Amount due within one year included under current liabilities	**(17,550)**	(317,682)
Amount due after one year	**684,450**	163,800

At 31 December 2003, the bank borrowings are repayable as follows:

	2003 $'000	2002 $'000
Within one year or on demand	**17,550**	317,682
After one year but within five years	**310,635**	163,800
After five years	**373,815**	–
	702,000	481,482

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. The bank loans in respect of the arrangement borrowed by the Partnership were repaid at 29 December 2003. As at 31 December 2003, the bank loans borrowed by the Partnership of $nil (2002: $317,682,000) included above are secured by time deposits of an equivalent amount (see note 28). The amounts of bank loans and time deposits are separately presented in the balance sheet. The corresponding interest income and interest expense for the year amounting to $35,771,000 (2002: $43,685,000) are set-off in the consolidated income statement.

21. DEPOSITS RECEIVED

The amount represents deposits received in respect of leasing of satellite transponders.

22. DEFERRED INCOME

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

23. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2003	2002
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**114,487**	7,744
Provisional Profits Tax paid	**(6,352)**	(4,576)
Overseas tax payable	**1,938**	17,992
	110,073	21,160
Balance of overseas tax provision relating to prior years	**78,059**	59,999
Balance of Profits Tax provision relating to prior years	**99**	120
	188,231	81,279

(b) Deferred tax assets and liabilities recognised:

(i) The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation $'000	Other temporary differences $'000	Losses $'000	Certain leasing arrangements $'000	Total $'000
At 1 January 2002	77,499	162	(64,873)	110,887	123,675
Charged/(credited) to consolidated income statement	(10,862)	(162)	13,758	(946)	1,788
At 31 December 2002	66,637	–	(51,115)	109,941	125,463
At 1 January 2003	66,637	–	(51,115)	109,941	125,463
Charged/(credited) to consolidated income statement	(29,051)	(281)	16,260	(109,941)	(123,013)
At 31 December 2003	37,586	(281)	(34,855)	–	2,450

23. INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised: (Continued)

(i) The Group (Continued)

Prior to 2002, certain leasing arrangements provided the Group with an initial cash inflow in return for being responsible for the future obligations to make payments of taxation under the leasing arrangements. Any differences between the initial benefit and the eventual tax liability were provided for over the lives of the relevant leases. The arrangement was completed in December 2003.

	The Group	
	2003	**2002**
	$'000	**$'000**
Net deferred tax assets recognised in the consolidated balance sheet	**(9,416)**	–
Net deferred tax liabilities recognised in the consolidated balance sheet	**11,866**	125,463
	2,450	125,463

(ii) The Company

The Company did not have any deferred tax assets/liabilities recognised in the balance sheet.

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of tax losses of $62,594,000 (2002: $10,493,000) due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation.

Deferred tax has not been provided on the deficit arising on the revaluation of the Group's properties because gain/loss on the disposal of these assets would not be subject to taxation. Accordingly, the deficit arising on revaluation does not constitute a timing difference.

24. SHARE CAPITAL

	Number of shares '000	Issued and fully paid share capital $'000
Ordinary shares of $0.10 each		
At 1 January 2002	412,720	41,272
Repurchase of shares	(185)	(18)
At 31 December 2002	412,535	41,254
Shares issued under the share option scheme	730	73
At 31 December 2003	413,265	41,327

The Company's authorised share capital is 1,000,000,000 shares of $0.10 each. There were no changes in the Company's authorised share capital during either year.

25. SHARE OPTIONS

At the annual general meeting on 22 May 2001, the Company adopted a share option scheme ("Scheme 2001") and granted options to its employees on 19 June 2001. On 22 May 2002, the Company adopted a new share option scheme ("Scheme 2002") at its 2002 annual general meeting. Thereafter, no further options can be granted under the Scheme 2001. The options granted on 19 June 2001 shall continue to be valid until their expiry.

The total number of shares which may be issued upon exercise of all options to be granted under Scheme 2001 and Scheme 2002 shall not in aggregate exceed 10% of the total number of shares of the Company in issue on the adoption date of the Scheme 2002 (i.e. 412,720,000 shares). As at the date of report, 413,265,000 shares of the Company were in issue.

Under Scheme 2002, the total number of shares to be issued upon exercise of the options granted to each eligible person (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. The exercise price (subscription price) shall be such price as determined by the Board of Directors in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be lower than the highest of (i) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited's (the "Exchange's") daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a share.

During the year, no options were granted under the Scheme 2002.

(Expressed in Hong Kong dollars)

25. SHARE OPTIONS (Continued)

Under the Scheme 2001, the maximum entitlement of each eligible person was that the total number of shares issued or issuable under all options granted to such eligible person (including both exercised and outstanding options) upon such grant being made shall not exceed 25% of the total number of the shares for the time being issued and issuable under the Scheme 2001. In addition, the subscription price was determined by the Board of Directors on a case-by-case basis and would not be less than the nominal value of the shares nor at a discount of more than 20% below the average closing price of the shares as stated in the Exchange's daily quotation sheets on the five dealing days immediately preceding the date on which the invitation to apply for an option under Scheme 2001.

(a) Movements in share options

The particulars of the share options granted under the Scheme 2001 outstanding during the year are as follows:

	2003 Number	2002 Number
At 1 January	**13,410,000**	13,450,000
Cancelled during the year	**(3,010,000)**	(40,000)
Exercised	**(730,000)**	–
At 31 December	**9,670,000**	13,410,000

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

The financial impact of share options granted is not recorded in the financial statements until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

(b) Details of share options exercised during the year

Exercise period	Exercise price	Market value per share at exercise date	Proceeds received	Number
16 July 2003 to 8 September 2003	$2.765	Range from $2.944 to $3.782	$2,019,000	730,000

26. CONTRIBUTED SURPLUS/OTHER RESERVES/ACCUMULATED PROFITS

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 the par value of the Company's shares issued in consideration thereof.

The contributed surplus of the Company also arose as a result of the Group reorganisation in 1996 and represented the excess of the 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 shareholders out of the contributed surplus under certain circumstances.

Other reserves represent the Enterprise Expansion Fund and General Reserve Fund set aside by a subsidiary in accordance with the relevant laws and regulations of the PRC, which are not available for distribution.

At 31 December 2003, the Company's reserves available for distribution amounted to $627,133,000 (2002: $625,997,000) as computed in accordance with the Companies Act 1981 of Bermuda (as amended).

27. ACQUISITION OF A SUBSIDIARY

On 11 April 2002, the Group had completed the acquisition of an additional 20% interest in CTIA such that CTIA became a subsidiary of the Group thereafter. The transaction was accounted for by the acquisition method of accounting.

	2002 $'000
Net assets acquired:	
Property, plant and equipment	11,079
Interest in jointly controlled entity	509
Trade receivables	848
Deposits, prepayments and other receivables	13,473
Bank balances and cash	2,759
Payables and accrued charges	(3,135)
Amounts due to shareholders	(16,902)
Minority interests	(9,231)
	(600)
Shareholders' loan acquired	3,744
Goodwill	4,036
Total consideration	7,180
Satisfied by:	
Cash consideration	7,180
Net cash outflow arising on acquisition:	
Cash consideration	7,180
Bank balances and cash of the subsidiary acquired	(2,759)
Net cash outflow in respect of the purchase of a subsidiary	4,421

The subsidiary acquired in 2002 contributed approximately $3,896,000 to the Group's turnover and approximately a loss of $4,800,000 to the Group's result from operations for the year ended 31 December 2002.

28. PLEDGE OF ASSETS

In December 2002, the Group entered into a US$240 million secured term loan facility, which is secured by the assignment of the construction, launching and related equipment contracts relating to satellites under construction and their related insurance claim proceeds, assignment of all present and future lease agreements of their transponders of satellites under construction, first fixed charge over certain bank accounts which will hold receipts of the transponder income and the termination payments under construction, launching and related equipment contracts. At 31 December 2003, the assets under fixed charge are the satellites under construction with carrying value of approximately $2,015,276,000 (2002: $1,259,513,000) and bank deposit of approximately $111,473,000 (2002: $4,000).

At the balance sheet date, certain of the Group's banking facilities are secured by the Group's land and buildings with a net book value of $5,004,000 (2002: $5,120,000) and bank deposit of approximately $390,000 (2002: $nil).

Furthermore, at 31 December 2003, the Group had outstanding bank loans of approximately $nil (2002: $317,682,000) arranged under certain leasing arrangements which are secured by time deposits of an equivalent amount. Of this amount $nil (2002: $317,682,000) is included as part of current pledged bank deposits.

29. CONTINGENT LIABILITIES

(i) In the years before 1999, overseas withholding tax was not charged in respect of the Group's transponder lease income derived from the overseas lessees. From 1999, overseas withholding tax has been charged on certain transponder lease income of the Group and full provision for such withholding tax for the years from 1999 onwards has been made in the financial statements. The Directors of the Company are of the opinion that the new tax rules should take effect from 1999 onwards and, accordingly, no provision for the withholding tax in respect of the years before 1999 is necessary. The Group's withholding tax in respect of 1998 and before, calculated at the applicable rates based on the relevant transponder lease income earned in those years, not provided for in the financial statements amounted to approximately $75,864,000.

(ii) The Company has given guarantees to banks in respect of the secured term loan facility granted to its subsidiary. The extent of such facility utilised by the subsidiary at 31 December 2003 amounted to $702,000,000 (2002: $163,800,000).

29. CONTINGENT LIABILITIES (Continued)

(iii) The Hong Kong Profits Tax returns of a subsidiary of the Company for the years of assessment 1999/2000 and 2000/2001 are currently under dispute with the Hong Kong Inland Revenue Department ("IRD"). This subsidiary recognised a gain of $389,744,000 in 1999 in relation to the transfer of substantially all of the satellite transponder capacities of APSTAR IIR for the rest of its useful life. This subsidiary has claimed the gain as a non-taxable capital gain in its 1999/2000 Profits Tax return. The non-taxable claim is under review by the IRD which has proposed to treat the proceeds received as taxable income to this subsidiary with a corresponding entitlement to statutory depreciation allowance in respect of APSTAR IIR.

Having taken into consideration an independent professional advice, the Company believes it has a reasonable likelihood of success in defending its position that the gain derived from the abovementioned transaction should be treated as non-taxable. Accordingly, no provision for additional taxation is required. In the event that the Company is unsuccessful in the capital gains claim, the estimated tax exposure is $56,000,000.

30. CAPITAL COMMITMENTS

At 31 December 2003, the Group has the following outstanding capital commitments not provided for in the Group's financial statements, mainly in respect of the procurement and launch of new satellites, APSTAR V and APSTAR VI:

	The Group	
	2003	**2002**
	$'000	**$'000**
Contracted for	**677,876**	1,095,129
Authorised but not contracted for	**417,887**	868,997
	1,095,763	1,964,126

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

	The Group	
	2003	**2002**
	$'000	**$'000**
Contracted but not provided for in the financial statements	**20,896**	69,407

31. LEASING ARRANGEMENTS

The Group as lessee

At 31 December 2003, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

(i) *Land and buildings:*

	The Group	
	2003	**2002**
	$'000	**$'000**
Within one year	**1,229**	3,452
After one year but within five years	**507**	670
	1,736	4,122

Operating lease payments represent rental payable by the Group for its office properties. Leases are negotiated for a period of one to three years and rentals are fixed for the whole lease term.

(ii) *Satellite transponders:*

	The Group	
	2003	**2002**
	$'000	**$'000**
Within one year	**5,857**	3,037
After one year but within five years	**1,683**	4,565
	7,540	7,602

Operating lease payments represent rental payable by the Group for leasing of satellite transponders for a period of one to three years and rentals are fixed for the whole lease term.

31. LEASING ARRANGEMENTS (Continued)

The Group as lessor

(i) Rental income in respect of leasing of satellite transponders earned during the year was $274,652,000 (2002: $323,961,000). Depreciation charged for the year in respect of these satellites was $213,562,000 (2002: $215,570,000). At the balance sheet date, communication satellites with an aggregated net book value of $225,848,000 (2002: $568,508,000) were held for the purpose of transponder leasing and the Group had contracted with customers for the following future minimum lease payments under non-cancellable operating leases:

	2003 $'000	2002 $'000
Within one year	**127,412**	196,242
After one year but within five years	**67,812**	143,980
	195,224	340,222

(ii) At the balance sheet date, the Group contracted with a jointly controlled entity in respect of rented premises and facilities management services under non-cancellable operating leases. The future minimum lease payments are calculated based on the terms of the respective operating lease agreement and are fall due as follows:

	2003 $'000	2002 $'000
Within one year	**–**	4,330
After one year but within five years	**–**	16,440
Over five years	**–**	16,794
	–	37,564

31. LEASING ARRANGEMENTS (Continued)

The Group as lessor (Continued)

(iii) Property rental income earned during the year was $452,000 (2002: $448,000). At the balance sheet date, certain properties with an aggregate carrying value of $9,137,000 (2002: $6,327,000) were held for rental purpose and the Group had contracted with tenants for the future minimum lease payments under non-cancellable operating leases which fall due within one year amounting to $236,000 (2002: $291,000) and after one but within five years amounting to $nil (2002: $129,000). Depreciation charged for the year in respect of these properties was $160,000 (2002: $149,000).

Service income earned during the year was $293,000 (2002: $nil). At the balance sheet date, the Group had contracted with customers for the future minimum lease payments under non-cancellable operating leases which fall due within one year amounting to $1,183,000 (2002: $nil) and after one but within five years amounting to $618,000 (2002: $nil).

The Company did not have any leasing arrangements at the balance sheet date.

32. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. Under the scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The Group also joins the retirement insurance scheme operated by the local government under the law of the PRC for all employees in the PRC. Under the scheme, both the Group and employees are required to contribute 8% and 5% of the monthly salary respectively to the retirement insurance scheme.

The only obligation of the Group with respect to the Mandatory Provident Fund Scheme and the retirement insurance scheme is to make the specific contributions.

33. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

	2003 $'000	2002 $'000
Income from leasing of transponders to certain shareholders of the Company *(note i)*	**35,921**	34,551
Income from leasing of transponders and providing telecommunication services to a holding company and its subsidiaries of a shareholder of the Company *(note i)*	**19,741**	18,594
Income from leasing of transponders to a jointly controlled entity *(note i)*	**6,160**	8,245
Management fee income from a jointly controlled entity *(note ii)*	**1,121**	1,500
Management fee income from an associate *(note iii)*	**65**	189
Facilities management services income from a jointly controlled entity *(note iv)*	**3,386**	8,311
Rental expenses in connection with the leasing of transponders from a shareholder of the Company *(note v)*	**–**	2,574
Technical support services expenses to a shareholder of the Company *(note vi)*	**75**	–
Management fee expenses to a holding company of a shareholder of the Company *(note vii)*	**2,280**	2,280
Payments of service fee in connection with the satellite project to a fellow subsidiary of a shareholder of the Company *(note viii)*	**87,604**	12,324
Compensation income from a jointly controlled entity in connection with the early termination of services and facilities lease *(note ix)*	**13,500**	–
Purchase of certain fixed assets from a jointly controlled entity *(note x)*	**6,800**	–

Certain these transactions also constitute connected transactions under the Listing Rules. Further details of these transactions are disclosed under the paragraph “Connected transactions” in the Directors’ report.

33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) At the balance sheet date, the Group had the following amounts included in the consolidated balance sheet in respect of amounts owing by and to related parties:

	Trade receivables		Deposits, prepayments and other receivables		Payables and accrued charges		Rentals received in advance and deferred income	
	2003	2002	2003	2002	2003	2002	2003	2002
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Jointly controlled entities	**–**	101	**70,723**	52,215	**921**	1,590	**–**	–
Certain shareholders of the Company	**7,496**	53	**3,120**	–	**3,750**	4,665	**3,524**	12,638
Holding company and its subsidiaries of a shareholder of the Company	**2,518**	–	**–**	–	**31,910**	31,862	**2,907**	1,113
Shareholder of a jointly controlled entity	**–**	–	**–**	4,673	**–**	–	**–**	–

During the year, a shareholder of the Company advanced RMB3,300,000, equivalent to US$400,000, to the Group. In return the Group advanced US$400,000 to that shareholder. The terms of such advance are interest-free and repayable within one year.

(c) In addition, at 31 December 2003, the Group had an outstanding commitment to pay launch service fees to a fellow subsidiary of a shareholder of the Company amounting to $230,246,000 (2002: $317,850,000).

Notes:

(i) The terms and conditions of these transponder lease agreements are similar to those contracted with other customers of the Group.

(ii) Management fee income arose from a reimbursement of cost of service provided to a jointly controlled entity under the agreement.

(iii) Management fee income from an associate arose from the reimbursement of expenses paid on behalf of an associate.

(iv) The Directors consider that the facilities management services income is charged according to the terms and conditions similar to those offered to other customers.

(v) The Directors consider that the terms and conditions of these transponders lease agreements were similar to those offered to other customers by the lessor.

33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

(vi) The Directors consider that the technical support services expenses were charged according to prices and conditions similar to those offered to other customers by the service provider.

(vii) Management fee expenses arose from a reimbursement of cost of service provided from the holding company of a shareholder of the Company.

(viii) The Directors consider that the service fee is charged according to prices and conditions similar to those offered to other customers by the launch service provider.

(ix) As a result of the reorganisation of a jointly controlled entity, the jointly controlled entity terminated the services and facilities lease agreement and the Group received a compensation for the early termination of the agreement. The Directors consider that the compensation is charged according to prices and conditions similar to those offered to other customers by the termination.

(x) As a result of the reorganisation of a jointly controlled entity, certain fixed assets are purchased from the jointly controlled entity. The Directors consider that the purchase consideration is arrived after arm's length negotiation with reference to the valuation conducted by an independent valuation company.

34. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2003 to be APT Satellite International Company Limited, which is incorporated in the British Virgin Islands.

(Expressed in Hong Kong dollars)

RESULTS

	Year ended 31 December				
	1999	2000	2001	2002	2003
	$'000	$'000	$'000	$'000	$'000
Turnover	481,958	341,496	374,158	351,425	**302,241**
Cost of services	(355,526)	(261,518)	(266,015)	(275,717)	**(280,319)**
	126,432	79,978	108,143	75,708	**21,922**
Other operating income	436,016	179,742	78,491	72,327	**33,051**
Administrative expenses	(84,395)	(65,540)	(71,922)	(69,886)	**(74,892)**
Other operating expenses and losses	–	–	(45)	(8,664)	**(129,168)**
Profit/(loss) from operations	478,053	194,180	114,667	69,485	**(149,087)**
Finance costs	(31,750)	(15,338)	(5,644)	–	**–**
Share of results of jointly controlled entities	–	(1,335)	(5,067)	(10,624)	**(64,833)**
Profit/(loss) before taxation	446,303	177,507	103,956	58,861	**(213,920)**
Income tax	(71,764)	(34,511)	(25,947)	(36,814)	**(11,721)**
Profit/(loss) for the year	374,539	142,996	78,009	22,047	**(225,641)**
Minority interests	–	–	–	2,388	**923**
Profit/(loss) attributable to shareholders	374,539	142,996	78,009	24,435	**(224,718)**

ASSETS AND LIABILITIES

	At 31 December				
	1999	2000	2001	2002	2003
	$'000	$'000	$'000	$'000	$'000
Total assets	3,792,751	3,421,151	3,280,698	3,339,369	**3,305,569**
Total liabilities	(1,286,953)	(972,411)	(816,061)	(864,220)	**(1,046,624)**
Minority interests	–	–	–	(6,838)	**(5,915)**
Net assets	2,505,798	2,448,740	2,464,637	2,468,311	**2,253,030**

The Group's accounting policies conform with generally accepted accounting principles in Hong Kong ("HK GAAP") which differ in certain material respects from those applicable generally accepted accounting principles in the United States of America ("US GAAP").

The significant differences relate principally to the following items and the adjustments considered necessary to present the net (loss)/profit and shareholders' equity in accordance with US GAAP are set out below.

(a) Revenue recognition

Certain of the Group's transponder lease agreements for transponder capacity contain pre-determined escalations over the terms of the agreements. Prior to 2002, revenue was recognised on an accrual basis under the contract terms under HK GAAP. Under US GAAP, revenue is recognised on a straight-line basis over the relevant lease term. Effective from 1 January 2002, revenue is recognised on a straight-line basis over the relevant lease terms under HK GAAP. As such, US GAAP adjustments were made in 2002 to reverse the accumulated difference as at 31 December 2001 between revenue recognised on an accrual basis and on a straight-line basis under HK GAAP, and its corresponding tax effect.

(b) Investment properties revaluation and depreciation

Under HK GAAP, investment properties are stated at appraised values and are not depreciated. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserve in the shareholders' equity. 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 income statement. Under US GAAP, investment properties are stated at cost and depreciated over the lease terms. Accordingly, the investment properties of the Group and its jointly controlled entity, which are stated at open market value, have been restated at historical cost less accumulated depreciation.

Depreciation has been based on the historical cost of the properties held by the Group and its jointly controlled entity and the useful lives of such properties which range from 44 to 46 years. The gross historical cost of properties held by the Group and a jointly controlled entity subject to depreciation under US GAAP which are not depreciated under HK GAAP at 31 December 2003 amounted to $3,821,000 (2002: $3,821,000) and $140,000,000 (2002: $nil), respectively. The adjustments represent the effects of reversal of revaluation and the depreciation charged under US GAAP.

(c) Share options

Under HK GAAP, no compensation expense is recognised.

Under US GAAP, in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issue to Employees" ("APB 25"), compensation expense is recognised for options granted to employees and amortised over the vesting period of the options concerned to the extent that the fair value of the equity instrument exceeds the exercise price of the option granted at a defined measurement date, which is generally the grant date unless certain conditions apply. Under Statement of Financial Accounting Standard ("SFAS") No. 123 "Accounting for Stock-Based Compensation", an entity may alternatively compute compensation expense based on the fair value of the options granted. The Company has adopted APB 25 for purposes of accounting for its fixed plan stock options issued to employees.

When the eligible employees are resigned and their corresponding share options will be cancelled, adjustment is made to reverse any previous years' amortised compensation expenses of those employees under US GAAP.

(d) Goodwill

Under HK GAAP, the Group adopted the acquisition method to account for the purchase of subsidiaries from the holding company. Under the acquisition method, the acquired results are included in the results of operations from the date of their acquisition. For acquisitions before 1 January 2001, goodwill arising on the acquisition, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired is eliminated against reserves immediately on acquisition. For acquisitions on or after 1 January 2001, goodwill arising on the acquisition is amortised to the consolidated income statement on a straight-line basis over its estimated useful life.

Under US GAAP effective 1 January 2002, SFAS No. 142, "Goodwill and Other Intangible Assets", requires that goodwill and other indefinite life assets acquired in a business combination no longer be amortised, instead, these assets must be tested for impairment at least annually. The excess fair value of net assets acquired over the purchase price (negative goodwill) shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets except financial assets other than investments accounted for by the equity method, assets to be disposed of by sale, deferred tax assets, prepaid assets relating to pension or other post-retirement benefit plans, and any other current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognised as an extraordinary gain. The extraordinary gain shall be recognised in the period in which the business combination is completed unless the acquisition involves contingent consideration that, if paid or issued, would be recognised as an additional element of cost of the acquired entity.

The effect on net (loss)/profit of significant differences between HK GAAP and US GAAP is as follows:

	Note	2003 $'000	2002 $'000
Net (loss)/profit as reported under HK GAAP		**(224,718)**	24,435
Adjustments:			
Recognition of revenue	(a)	**–**	(3,697)
Investment properties	(b)	**(888)**	(13)
Tax effect of reconciling items		**–**	591
Compensation expense of share options granted	(c)	**344**	(7,553)
Approximate net (loss)/profit as reported under US GAAP		**(225,262)**	13,763

Under US GAAP effective from 1 January 2002, goodwill is no longer amortised but is subject to annual impairment review. Hence, amortisation of goodwill of approximately $660,000 which has been provided under HK GAAP during 2002 was reversed under US GAAP. However, as a result of the Group's impairment assessment, a provision was recorded to reduce goodwill to its estimated fair value for both HK GAAP and US GAAP. The impairment provision recorded under US GAAP was $660,000 higher than that recorded under HK GAAP.

	2003	2002
(Loss)/earnings per share under US GAAP – basic and diluted	**(54.56 cents)**	3.34 cents

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

	Note	2003 $'000	2002 $'000
Shareholders' equity as reported under HK GAAP		**2,253,030**	2,468,311
Adjustments:			
Accumulated depreciation on investment properties	(b)	**(520)**	368
Revaluation reserve	(b)	**(7,700)**	–
Shareholders' equity as reported under US GAAP		**2,244,810**	2,468,679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