

INTERIM REPORT 2004



**APT SATELLITE HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)





## 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 and telecommunication sectors in Asia, Europe and the United States.

APT Group currently operates three in-orbit geostationary satellites namely **APSTAR I**, **APSTAR IA** and **APSTAR IIR**, through its own satellite control center in Tai Po, Hong Kong. APT Group has launched APSTAR V in June 2004 to replace APSTAR I and is expected to launch APSTAR VI at the end of 2004 / early 2005 to replace APSTAR IA.

In line with the business development, APT Group has finished building its satellite TV broadcasting platform to provide “one-stop” satellite TV broadcasting services under the satellite TV broadcasting license granted by the government of Hong Kong Special Administrative Region, for the provision of the best quality and reliable satellite TV uplink and broadcasting services to the customers. APT Group endeavors to leverage the advantages stemming from strategic alliances and partnerships to prepare for further growth over the coming years.

## 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	China (including Hong Kong, Macau and Taiwan)
					8	China, India and Korea
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	–	–

For further information, please contact:

Address: 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong

Tel: (852) 2600 2100

Fax: (852) 2522 0419

Email: [investors@apstar.com](mailto:investors@apstar.com) (Investors Relation), [aptmk@apstar.com](mailto:aptmk@apstar.com) (Marketing)

Web-site: [www.apstar.com](http://www.apstar.com)

## CHAIRMAN'S STATEMENT

The Board of Directors (the "Board") of APT Satellite Holdings Limited (the "Company") hereby announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004.

The interim financial report has been reviewed by the Company's Audit Committee and the auditors.

## RESULTS

The Group's turnover and consolidated net loss attributable to shareholders amounted to HK\$130,623,000 (2003: HK\$151,261,000) and HK\$50,992,000 (2003: HK\$162,743,000) respectively. Basic loss per share was HK12.34 cents (2003: HK39.45 cents).

## INTERIM DIVIDEND

In view of the loss recorded for the first half of 2004 and in line with the need of the Group's future development, the Board has resolved not to declare an interim dividend for the six months ended 30 June 2004 (2003: Nil).

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004  
(Expressed in Hong Kong dollars)

		<b>Six months ended 30 June</b>	
	Note	<b>2004 \$'000 (Unaudited)</b>	2003 \$'000 (Unaudited)
<b>Turnover</b>	3	<b>130,623</b>	151,261
Cost of services		<b>(134,601)</b>	(141,769)
		<b>(3,978)</b>	9,492
Other revenue		<b>3,463</b>	5,026
Administrative expenses		<b>(39,569)</b>	(31,584)
Impairment loss recognised in respect of property, plant and equipment	4	–	(92,438)
Loss from operations	3	<b>(40,084)</b>	(109,504)
Share of results of jointly controlled entities		<b>(160)</b>	(54,345)
<b>Loss from ordinary activities before taxation</b>	5	<b>(40,244)</b>	(163,849)
Income tax	6	<b>(11,261)</b>	622
<b>Loss from ordinary activities after taxation</b>		<b>(51,505)</b>	(163,227)
Minority interests		<b>513</b>	484
<b>Loss attributable to shareholders</b>		<b>(50,992)</b>	(162,743)
Loss per share	7		
– Basic		<b>(12.34 cents)</b>	(39.45 cents)
– Diluted		<b>(12.34 cents)</b>	(39.45 cents)

# CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2004

(Expressed in Hong Kong dollars)

	Note	At 30 June 2004 \$'000 (Unaudited)	At 31 December 2003 \$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	2,683,973	2,445,360
Investment property		2,262	2,262
Interest in jointly controlled entities		83,475	82,781
Club memberships		5,537	5,537
Transponder lease deposit		440	440
Deferred tax assets		9,416	9,416
		<b>2,785,103</b>	<b>2,545,796</b>
<b>Current assets</b>			
Trade receivables	9	51,174	68,364
Deposits, prepayments and other receivables		54,305	32,662
Amount due from immediate holding company		–	20
Pledged bank deposits		112,405	111,863
Cash and cash equivalents		240,614	546,864
		<b>458,498</b>	<b>759,773</b>
<b>Current liabilities</b>			
Payables and accrued charges		44,555	50,237
Rentals received in advance		10,992	20,961
Current taxation		188,833	188,231
Secured bank borrowings due within one year	10	17,550	17,550
		<b>261,930</b>	<b>276,979</b>
<b>Net current assets</b>		<b>196,568</b>	<b>482,794</b>
<b>Total assets less current liabilities</b>		<b>2,981,671</b>	<b>3,028,590</b>
<b>Non-current liabilities</b>			
Secured bank borrowings due after one year	10	684,450	684,450
Loan from a minority shareholder		7,488	7,488
Deposits received		40,998	37,960
Deferred income		26,333	27,881
Deferred tax liabilities		14,920	11,866
		<b>774,189</b>	<b>769,645</b>
<b>Minority interests</b>		<b>5,402</b>	<b>5,915</b>
<b>Net assets</b>		<b>2,202,080</b>	<b>2,253,030</b>
<b>Capital and reserves</b>			
Share capital	11	41,327	41,327
Share premium		1,285,466	1,285,466
Contributed surplus		511,000	511,000
Revaluation reserve		7,700	7,700
Translation reserve		(58)	(102)
Other reserves		102	102
Accumulated profits		356,543	407,535
		<b>2,202,080</b>	<b>2,253,030</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2004

(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
(Unaudited)								
Balance at 1 January 2003	41,254	1,283,520	511,000	-	182	94	632,261	2,468,311
Exchange differences	-	-	-	-	(161)	-	-	(161)
Net loss for the period	-	-	-	-	-	-	(162,743)	(162,743)
Balance at 30 June 2003	41,254	1,283,520	511,000	-	21	94	469,518	2,305,407
(Unaudited)								
Balance at 1 January 2004	41,327	1,285,466	511,000	7,700	(100)	102	407,535	2,253,030
Exchange differences	-	-	-	-	42	-	-	42
Net loss for the period	-	-	-	-	-	-	(50,992)	(50,992)
Balance at 30 June 2004	41,327	1,285,466	511,000	7,700	(58)	102	356,543	2,202,080
Attributable to jointly controlled entities								
At 30 June 2004	-	-	-	7,700	-	-	(80,021)	(72,321)
At 30 June 2003	-	-	-	-	-	-	(69,373)	(69,373)

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2004 \$'000 (Unaudited)	2003 \$'000 (Unaudited)
Net cash from operating activities	57,102	56,587
Net cash used in investing activities	(356,373)	(504,787)
Net cash used in financing activities	(6,979)	(33,858)
Net decrease in cash and cash equivalents	(306,250)	(482,058)
Cash and cash equivalents at 1 January	546,864	826,257
Cash and cash equivalents at 30 June	240,614	344,199
Analysis of the balances of cash and cash equivalents:		
Deposits with banks and other financial institutions	230,212	337,687
Cash at bank and in hand	10,402	6,512
Cash and cash equivalents at the end of the period	240,614	344,199

## NOTES TO THE INTERIM FINANCIAL REPORT

*(Expressed in Hong Kong dollars)*

### 1. BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

This interim financial report is unaudited, but has been reviewed by the Audit Committee of APT Satellite Holdings Limited (the "Company") and by the auditors, KPMG, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the HKICPA. KPMG's independent review report to the board of directors is included on page 20.

The financial information relating to the financial year ended 31 December 2003 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2003 are available from the Company's registered office.

### 2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

### 3. SEGMENTAL REPORTING

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

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

	Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	Turnover \$'000	Turnover \$'000	Contribution to loss from operations \$'000	Contribution to loss from operations \$'000
Hong Kong	14,730	17,794	(448)	1,116
Other regions in the People's Republic of China	95,506	112,116	(2,909)	7,036
Others	20,387	21,351	(621)	1,340
	<b>130,623</b>	151,261	<b>(3,978)</b>	9,492
Other revenue			3,463	5,026
Impairment loss on property, plant and equipment			–	(92,438)
Unallocated corporate expenses			(39,569)	(31,584)
Loss from operations			<b>(40,084)</b>	(109,504)

### 4. IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT

This represented an impairment loss of certain communication satellites recognised in 2003 as the recoverable amount of these assets was estimated to be less than their carrying amount.

### 5. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Depreciation	103,942	123,483
Loss on disposal of property, plant and equipment	18	1



## 6. INCOME TAX IN THE CONDENSED CONSOLIDATED INCOME STATEMENT

Taxation in the condensed consolidated income statement represents:

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Current tax – Provision for Hong Kong Profits Tax	–	4,918
Current tax – Overseas	<b>8,207</b>	10,072
Deferred tax	<b>3,054</b>	(15,612)
	<b>11,261</b>	(622)

Hong Kong Profits Tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. 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 capacity lease income derived from the customers which are located outside Hong Kong.

## 7. LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of \$50,992,000 (2003: \$162,743,000) and the weighted average of 413,265,000 ordinary shares (2003: 412,535,000 shares) in issue during the six months ended 30 June 2004.

### (b) Diluted loss per share

Diluted loss per share is the same as the basic loss per share as there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2004 and 2003.

## 8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group has acquired property, plant and equipment amounting to \$342,575,000 (2003: \$514,101,000).

## 9. TRADE RECEIVABLES

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:

	<b>At 30 June 2004 \$'000</b>	At 31 December 2003 \$'000
0 – 30 days	<b>10,857</b>	24,965
31 – 60 days	<b>9,116</b>	4,805
61 – 90 days	<b>10,838</b>	7,574
91 – 120 days	<b>2,774</b>	2,941
Over 121 days	<b>17,589</b>	28,079
	<b>51,174</b>	68,364

## 10. SECURED BANK BORROWINGS

During the current period, the Group has no repayment of bank loans (2003: repayment of \$33,858,000). At 30 June 2004, the assets pledged for securing bank borrowings are the satellites of approximately \$2,273,361,000 (2003: \$2,015,276,000) and bank deposit of approximately \$112,016,000 (2003: \$111,473,000).

## 11. SHARE CAPITAL

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

## 12. 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 customers. 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 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 30 June 2004 amounted to \$702,000,000 (at 31 December 2003: \$702,000,000).

- (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 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.

### 13. CAPITAL COMMITMENTS

At 30 June 2004, 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 satellite APSTAR VI:

	<b>At 30 June 2004 \$'000</b>	At 31 December 2003 \$'000
Contracted for	<b>341,480</b>	677,876
Authorised but not contracted for	<b>347,211</b>	417,887
	<b>688,691</b>	1,095,763

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

	<b>At 30 June 2004 \$'000</b>	At 31 December 2003 \$'000
Contracted but not provided for in the financial statements	–	20,896

#### 14. MATERIAL RELATED PARTY TRANSACTIONS

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

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Income from leasing of transponder capacities to certain shareholders of the Company (note i)	<b>20,955</b>	17,352
Income from leasing of transponder capacities and providing telecommunication services to a holding company and its subsidiaries of a shareholder of the Company (note i)	<b>10,070</b>	8,385
Income from leasing of transponder capacities to a jointly controlled entity (note i)	–	4,213
Payments of service fee in connection with the satellite project to a fellow subsidiary of a shareholder of the Company (note ii)	<b>87,603</b>	70,083
Facilities management services income from a jointly controlled entity (note iii)	–	2,187
Management fee expenses to a holding company of a shareholder of the Company (note iv)	<b>1,135</b>	1,140

In addition, at 30 June 2004, the Group had an outstanding commitment to pay launch service fee to a fellow subsidiary of a shareholder of the Company amounting to \$142,643,000 (at 31 December 2003: \$230,246,000).

Notes:

- (i) The terms and conditions of these transponder lease agreements are similar to those contracted with other customers of the Group.
- (ii) The Directors consider that the service fee is charged according to prices and conditions similar to those offered to other customers by the launch service provider.
- (iii) The Directors consider that the facilities management services income was charged according to the terms and conditions similar to those offered to other customers.
- (iv) Management fee expenses arose from a reimbursement of cost of service provided from the holding company of a shareholder of the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group's three in-orbit satellites, APSTAR I, APSTAR IA and APSTAR IIR, together with their corresponding telemetry, tracking and control systems, have been operating under normal condition. Owing to the transitional stage of APSTAR I and APSTAR IA, and the fact that the satellite transponder services market in Asia Pacific Region has remained highly competitive, the utilization rates of the Group's satellites, APSTAR I, IA and IIR reported at 50.1%, 61.2%, and 100% respectively.

## APSTAR V

APSTAR V, which is a replacement satellite for APSTAR I, was launched on 29 June 2004 by Sea Launch Limited Partnership ("Sea Launch"). The satellite has been successfully maneuvered in the geostationary orbital slot 138 degree East (the "Orbit Slot") and the in-orbit test ("IOT") was completed with an estimated mission life of 15.3 years. APSTAR V has commenced commercial operation on 13 August 2004 and all existing customers of APSTAR I have been migrated to APSTAR V smoothly. APT Group has also started transponder services to new customers who utilize APSTAR V capacities such as Singapore Telecommunications Limited and Hong Kong Cable Television Limited ("HK Cable TV"). To support APSTAR V operation, the newly built 13 metre C-band satellite antenna and 9 metre Ku-band satellite antenna also started their operations.

APSTAR V is a high power satellite with 38 C-band and 16 Ku-band transponders supplied by Space Systems/Loral Inc. ("SS/L"). The satellite was commissioned by APT Satellite Company Limited ("APT HK"), a wholly-owned subsidiary of the Group in January 2001. On 26 August 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 such that APT HK would obtain an irrevocable leasehold interest ("leasehold interest") for the transponder capacities of the satellite without further delayed due to export license difficulty. Pursuant to the Settlement Agreement and the Amended Launch Agreement entered with Loral Orion, SS/L and Sea Launch on 16 November 2003, Loral Orion has taken up in aggregate 17 transponders upon the completion of IOT of APSTAR V. Further, Loral Orion will take up 4 transponders each on the fourth and fifth anniversaries from the in-services date of APSTAR V subject to payments of installments under the Settlement Agreement. The total number of transponders of APSTAR V to be taken by Loral Orion and APT HK would be 25 and 29 respectively.

APSTAR V is a more versatile and powerful satellite compared to APSTAR I by providing a wider choices and greater flexibility for regional coverage to our customers, which further strengthens our superior and reliable satellite services. The Directors are confident that the commencement of APSTAR V will enhance the competitiveness of APT Group for its provisions of highly competitive satellite communication and broadcasting services and global connectivity to our customers for years to come.

APSTAR I, which has been operated since its launch in 1994, has ended its operation and is retired from the Orbit Slot upon the commencement of APSTAR V.

## **APSTAR VI**

APSTAR VI, which is a high power satellite with 38 C-band and 12 Ku-band transponders constructed by Alcatel Space, is a replacement satellite for APSTAR IA that is due to expire around 2006/2007. The construction progress of the satellite has gone as planned to date. The AIT (Assembly, Integration and Test) Sequence is in progress in the first half of 2004. The satellite is scheduled to be delivered in the fourth quarter of 2004.

APSTAR VI will be launched on board Long March 3B launch vehicle around end of this year or early next year. So far, the implementation of the launch service has been smooth.

The construction and installation of the Telemetry, Tracking and Control System of APSTAR VI is also in progress as scheduled. APT Group has started to liaise the launch insurance for APSTAR VI to control the launch risk for the protection of the Group's investment.

## **SATELLITE TV BROADCASTING PLATFORM**

APT Satellite TV Development Limited ("APT TV"), a wholly-owned subsidiary of the Group successfully developed 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 commenced TOM's TV Channel – CETV on 1 January 2004. Further APT TV successfully commenced its TV uplink and broadcasting services for Sun TV on 1 July 2004. APT TV starts to provide TV uplink and broadcasting services for the DTH (Direct-To-Home) services of HK Cable TV and a Taiwanese satellite TV broadcaster in September 2004.

## **SATELLITE-BASED TELECOMMUNICATIONS SERVICES**

APT Telecom Services Limited ("APTS"), a wholly-owned subsidiary of the Group has taken up the satellite-based external telecommunication services such as VSAT, wholesale voice services under the Fixed Carrier Licence since the completion of the reorganisation of APT Satellite Telecommunications Limited ("APT Telecom") in October 2003 (the "Reorganisation"). APTS continues to provide VSAT, wholesales voice services, facilities management services and teleport uplink services. In January 2004, APTS commissioned a network for an Asian carrier for the provision of voice and speedy data platform via APSTAR System and teleport and internet routing facilities. In August 2004, APTS has established a cooperation network with a business partner to provide data network services in Asia Pacific based on DVB-IP (Digital Video Broadcast-Internet Protocol) technology. APTS has achieved the growth of two-way internet based services and teleport uplink services. Upon the commencement of the operation of APSTAR V, APTS can provide a comprehensive telecommunication solution to customers and continues to enlarge its customer base with its first class telecommunication facilities capability.

After the Reorganisation, APT Telecom, which is a jointly controlled entity owned as to 55% by a wholly-owned subsidiary of the Group and 45% by SingaSat Private Limited, will only hold the property and assets located in the Telepark in Tai Po Industrial Estate to continue to support the Group's telecommunications services and related facilities management services.

## **BUSINESS PROSPECTS**

We saw the slow but steady growth of transponder services market in the Greater China region in the first half of 2004. We are of the view that the same trend will continue in the second half of this year and next year. We must therefore fully prepare ourselves for the forthcoming new business opportunities.

Though the transponder services market will still be highly competitive due to supply over demand situation, however, the commencement of commercial operation of APSTAR V will strongly boost the Group's competitive edge in the market. The Group will fully explore its advantages to strive for business growth.

## ***DEVELOPMENT OF APSTAR V AND APSTAR VI***

The Group will continue to closely monitor the initial operation of APSTAR V following the completion of IOT and completion of transferring of all the existing customers of APSTAR I to APSTAR V so as to ensure the quality and reliability of our services.

The Group will also continue to closely monitor the construction, delivery and launch of APSTAR VI for the smooth replacement of APSTAR IA. Similar to APSTAR V, launch insurance will be arranged for APSTAR VI so as to control the risks for the protection of the Group's investment. The successful launch of APSTAR VI will symbolise the completion of the satellite replacement program of the Group.

## **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\$50,992,000 for the period ended 30 June 2004. 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 transponder capacity utilization, leading to a further decrease in revenues. Turnover for the period ended 30 June 2004 was HK\$130,623,000, a decrease of HK\$20,638,000, as compared to the period ended 30 June 2003. APSTAR V has commenced commercial operation on 13 August 2004. The cost of construction in progress relating to APSTAR V would be transferred to assets.

During the period, 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\$359,000,000 (30 June 2003: HK\$506,000,000) that was paid by internally generated cash flow from operation. As at 30 June 2004, 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 APSTAR V and APSTAR VI and their related insurance claims proceeds, all their present and future transponder capacity utilization agreements and certain bank accounts were pledged to secure Bank Loan by the Group.

As at 30 June 2004, the Group has approximately HK\$241,000,000 (31 December 2003: HK\$547,000,000) free cash and HK\$112,000,000 (31 December 2003: HK\$112,000,000) pledged deposit. The pledged deposit has been released after APSTAR V was launched. 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 30 June 2004, the Group's total liabilities were HK\$1,036,000,000, a decrease of HK\$11,000,000 as compared to 31 December 2003. During the period, as there was no drawdown from the Bank Loan, the Gearing ratio (total liabilities/total assets) remains unchanged and stood at 32% (31 December 2003: 32%). Certain of the Group's banking facilities were secured by the Group's properties with aggregate carrying value of approximately HK\$4,945,000 (31 December 2003: HK\$5,004,000).

As at 30 June 2004, the Group's total assets was HK\$3,244,000,000 (31 December 2003: HK\$3,305,000,000).

For the period ended 30 June 2004, 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.

As at 30 June 2004, the Group's share of loss of jointly controlled entities was HK\$160,000 (30 June 2003: HK\$54,345,000). The decrease was due to no impairment loss on fixed assets recognised in this period. APT Telecom has recognised an impairment loss of HK\$89,018,000 for the period ended 30 June 2003.

## **CONTINGENT LIABILITIES**

Details of contingent liabilities of the Group are set out in note 12 to the financial statements.

## **HUMAN RESOURCES**

As at 30 June 2004, the Group had 156 employees. The Group remunerates its employees in accordance with their respective responsibilities and the current market trends. On 19 June 2001, the Company first granted the share options under the share option scheme adopted at the annual general meeting of 22 May 2001 (the "Scheme 2001") to its employees including executive directors. In compliance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange Hong Kong Limited (the "Stock Exchange"), the Company adopted a new share option scheme (the "Scheme 2002") which was passed at the annual general meeting of 22 May 2002. The share options granted on 19 June 2001 in accordance with the Scheme 2001 remain valid.



## **CORPORATE GOVERNANCE**

The Group has established Disclosure Committee so as to strengthen the disclosure of the Group. The Group will also take appropriate measures to further improve the internal control of the Group.

The Group has also appointed one additional Independent Non-executive Director, who is a Certified Public Accountant. The Audit Committee of the Group has a total of three members, all of them are Independent Non-executive Directors and its Terms of Reference has been revised to comply with the latest requirements in the stock exchanges of Hong Kong and New York.

## **CONCLUSION**

The economic environment is yet to be improved in the coming year owing to uncertainties in the Asia Pacific region. The second half of this year will still be challenging due to sluggish external economic environment and supply over demand situation in transponder capacities in the region. The Company believes that competition in the satellite transponder services market will become increasingly intense. The Group's revenue will remain subject to price pressure.

The commencement of APSTAR V and the coming launch of APSTAR VI will help reinforce the Group's competitive advantages in the satellite transponder services market. The Group will endeavor for business growth by leveraging its additional transponder capacities and developing new satellite broadcasting and telecommunications businesses.

The Group will continue to maintain a prudent treasury policy and will endeavor to enhance internal control and disclosure in an effort to further strengthen the corporate governance.

## SUBSTANTIAL SHAREHOLDER

As at 30 June 2004, according to the register of interests in shares and short positions kept by the Company under section 336 of the Securities and Futures Ordinance ("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 30 June 2004, 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.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2004, 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 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 <sup>(1)</sup>
Chen Zhaobin <i>(Executive Director &amp; President)</i>	Personal	–	2,200,000
Cui Xinzheng <i>(Executive Director &amp; Vice President)</i>	Personal	–	1,200,000
Lo Kin Hang, Brian <i>(Vice President &amp; Company Secretary)</i>	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 30 June 2004, 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 pursuant to Part XV of the SFO and the Model Code for Securities Transaction by Directors of Listed Companies 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 period from 1 January 2004 to 30 June 2004, 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.

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 9,250,000, which represents 2.24% of the issued shares of the Company 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 shares). As at 30 June 2004, the shares of the Company in issue was 413,265,000 shares.

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

	<b>Options granted on 19 June 2001 and remain outstanding as at 1 January 2004</b>	<b>Options cancelled during the period</b>	<b>Options outstanding as at 30 June 2004</b>
<b>Name of director and chief executive:</b>			
Chen Zhaobin <i>(Executive Director and President)</i>	2,200,000	–	2,200,000
Cui Xinzheng <i>(Executive Director and Vice President)</i>	1,200,000	–	1,200,000
Lo Kin Hang, Brian <i>(Vice President and Company Secretary)</i>	800,000	–	800,000
	<hr/> 4,200,000	–	<hr/> 4,200,000
<b>Employees in aggregate:</b>			
Employees under continuous employment contracts	9,670,000	420,000	9,250,000

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.

No charge is recognised in the income statement in respect of the value of options granted.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-Laws of the Company.

## AUDIT COMMITTEE

On 18 August 2004, Dr. Lui King Man was appointed as an independent non-executive director of the Company and a member of the audit committee of the Company (the "Audit Committee").

The unaudited Interim Financial Report of the Group for the six months ended 30 June 2004 had been reviewed by the Audit Committee in the meeting on 30 August 2004. The Audit Committee comprises of three independent non-executive directors including Mr. Yuen Pak Yiu, Philip, Dr. Huan Guocang and Dr. Lui King Man.

## APPRECIATION

On behalf of the Board, I would like to offer my sincere thanks to Mr. Cui Xinzhen, who resigned as the Executive Director; Messrs. Wu Hongju, Wu Jinfeng, Wong Hung Khim, Lim Shyong and Tseng Ta-mon, who resigned as the Non-Executive Directors; Mr. Chen Chichuan, who resigned as Alternate Director, of the Company, for their contributions to the development of the Group.

On behalf of the Board, I would like also warmly welcome Mr. Lim Wee Seng and Mr. Tseng Ta-mon joining the Board as Alternate Directors of the Company. Last but not least, I would like to take this opportunity to thank all our staff for their hardworking and commitment contributed to the Group.

**Liu Ji Yuan**  
*Chairman*

Dongguan, PRC, 8 September 2004



## INDEPENDENT REVIEW REPORT

**TO THE BOARD OF DIRECTORS OF APT SATELLITE HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

### INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 1 to 10.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

**KPMG**

*Certified Public Accountants*

Hong Kong, 8 September 2004

## SUPPLEMENTARY INFORMATION FOR ADS HOLDERS

The above unaudited financial information has been prepared in accordance with the generally accepted accounting principles applicable in Hong Kong (“HK GAAP”), which differ in certain significant respects from those applicable in the United States (“US GAAP”). The significant differences between HK GAAP and US GAAP that affect the Group’s results for the six months ended 30 June 2004 and shareholders’ equity at 30 June 2004 are substantially the same as those disclosed in the Company’s 2003 annual report. The effect of the significant differences between HK GAAP and US GAAP on the Group’s unaudited consolidated net loss for the six months ended 30 June 2004 and shareholders’ equity at 30 June 2004 are set out below. The US GAAP adjustments shown below have been prepared by management and have not been subject to independent audit.

	Six months ended 30 June		
	2004 US\$'000	2004 HK\$'000	2003 HK\$'000
Net loss as reported under HK GAAP	(6,537)	(50,992)	(162,743)
Adjustments:			
Investment properties	(117)	(917)	(42)
Stock option compensation	58	456	(701)
Approximate net loss as reported under US GAAP	(6,596)	(51,453)	(163,486)
Approximate basic net loss per share in accordance with US GAAP	US\$(1.60 cents)	HK\$(12.45 cents)	HK\$(39.63 cents)
Approximate diluted net loss per share in accordance with US GAAP	US\$(1.60 cents)	HK\$(12.45 cents)	HK\$(39.63 cents)
Approximate basic net loss per ADS in accordance with US GAAP*	US\$(12.77 cents)	HK\$(99.60 cents)	HK\$(317.04 cents)
Approximate diluted net loss per ADS in accordance with US GAAP*	US\$(12.77 cents)	HK\$(99.60 cents)	HK\$(317.04 cents)

\* Based on a ratio of 8 ordinary shares of the Company to one American depository share (“ADS”).

## SUPPLEMENTARY INFORMATION FOR ADS HOLDERS (continued)

	At 30 June		At 31 December
	2004	2004	2003
	US\$'000	HK\$'000	HK\$'000
Shareholders' equity as reported under HK GAAP	<b>282,318</b>	<b>2,202,080</b>	2,253,030
Adjustments:			
Accumulated depreciation on investment properties	(184)	(1,437)	(520)
Revaluation reserve	(987)	(7,700)	(7,700)
Shareholders' equity as reported under US GAAP	<b>281,147</b>	<b>2,192,943</b>	2,244,810

Solely for the convenience of the reader, amounts in Hong Kong dollars included in this Interim Report have been translated into United States dollars at the rate of 7.8. No representation is made that the Hong Kong dollars amounts could have been, or could be, converted into United States dollars at that rate or at any other rate on 30 June 2004 or on any other date.