

The Directors have pleasure in submitting to shareholders their annual report and the audited financial statements for the year ended 31st December, 2002.

#### **Principal activities**

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 13 to the financial statements.

The turnover and contribution to operating profit of the Company and its subsidiaries is attributable to the provision of satellite transponder capacity.

#### **Group results**

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 39. The Group achieved a consolidated profit for the year of HK\$554,689,000 (2001: HK\$562,983,000).

#### **Dividend**

An interim dividend of HK\$0.06 per share (2001: HK\$0.06) was paid to the shareholders on 19th November, 2002 and the Directors will recommend the payment of a final dividend of HK\$0.19 per share (2001: HK\$0.14) and a special dividend of HK\$0.25 per share (2001: Nil) payable on 20th May, 2003 to the shareholders on the register of members on 16th May, 2003.

#### **Reserves**

Movements during the year in the reserves of the Company and the Group are set out in note 20 to the financial statements.

#### **Property, plant and equipment**

During the year, the Group spent approximately HK\$397,310,000 on the construction of and additions to satellite and tracking facilities.

Details of this and other movements during the year in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

#### **Share capital**

Details of the share capital of the Company are set out in note 18 to the financial statements.

#### **Purchase, sale or redemption of shares**

During the year ended 31st December, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

**Major customers and suppliers**

For the year ended 31st December, 2002, the total revenue from the Group's five largest customers represented 43% of the Group's total revenue, and the total revenue from the Group's largest customer represented 23% of the Group's total revenue. The total amount of purchases attributable to the Group's five largest suppliers was less than 30% of the total purchases.

For the year ended 31st December, 2002, none of the Directors, their associates or, so far as the Directors are aware, any shareholder of the Company that, to the knowledge of the Directors, is interested in more than 5% of the issued share capital of the Company, had any interest in any of the Group's five largest customers.

**Directors**

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

*Chairman and Non-Executive Director:*

Mi Zengxin

*Deputy Chairman and Non-Executive Director:*

Romain Bausch

*Executive Directors:*

Peter Jackson (Chief Executive Officer)

William Wade (Deputy Chief Executive Officer)

*Non-Executive Directors:*

Ding Yu Cheng

Ju Weimin

Jürgen Schulte

Li Tong Zhou

Robert Bednarek

(appointed on 14th March, 2002)

Yves Elsen

(resigned on 14th March, 2002)

Vernon Smith

(resigned on 21st November, 2002)

*Independent Non-Executive Directors:*

Edward Chen

R. Donald Fullerton

Robert Sze

*Alternate Director:*

Ko Fai Wong

(appointed on 21st November, 2002)

(Alternate to Mi Zengxin, Li Tong Zhou, Ju Weimin and Ding Yu Cheng)

**Directors (continued)**

In accordance with Bye-law 110(A) of the Company's Bye-laws, Edward Chen, Li Tong Zhou, Peter Jackson and William Wade will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The term of office for each Independent Non-Executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

None of the Directors being proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries that is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The biographical details of the current Directors of the Company are set out on pages 26 and 27.

**Directors' interests**

As at 31st December, 2002, as recorded in the register required to be maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the following Directors have the following interests in the share capital of the Company:

(i) Ordinary shares

Peter Jackson and William Wade had a personal interest in 163,500 and 5,000 ordinary shares respectively in the Company.

(ii) Options to subscribe for ordinary shares under the Share Option Schemes

Particulars of the Company's share option scheme are set out in note 19 to the financial statements.

**Directors' interests (continued)**

The following table discloses movements in the Company's share options for the year ended 31st December, 2002:

	Share option scheme category	Option type	Outstanding at beginning of the year	Granted during the year	Cancelled/ lapsed during the year	Outstanding at end of the year
<b>Directors</b>						
Mi Zengxin	2002	C	—	100,000	—	100,000
Romain Bausch	2002	C	—	100,000	—	100,000
Edward Chen	2002	C	—	50,000	—	50,000
Ding Yu Cheng	2002	C	—	50,000	—	50,000
R. Donald Fullerton	2002	C	—	75,000	—	75,000
Ju Weimin	2002	C	—	50,000	—	50,000
Li Tong Zhou	2002	C	—	50,000	—	50,000
Jürgen Schulte	2002	C	—	50,000	—	50,000
Robert Sze	2002	C	—	75,000	—	75,000
Yves Elsen (Note 1)	2002	C	—	50,000	(50,000)	—
Vernon Smith (Note 2)	2002	C	—	75,000	(75,000)	—
Peter Jackson	1996	A	335,000	—	(335,000)	—
	1996	B	150,000	—	(150,000)	—
	2002	C	—	430,000	—	430,000
	2002	D	—	335,000	—	335,000
	2002	E	—	150,000	—	150,000
William Wade	1996	A	316,000	—	(316,000)	—
	1996	B	114,000	—	(114,000)	—
	2002	C	—	330,000	—	330,000
	2002	D	—	316,000	—	316,000
	2002	E	—	114,000	—	114,000
<b>Total Directors</b>			<b>915,000</b>	<b>2,400,000</b>	<b>(1,040,000)</b>	<b>2,275,000</b>
<b>Employees</b>						
	1996	A	1,067,500	—	(1,067,500)	—
	1996	B	1,574,000	—	(1,574,000)	—
	2002	C	—	2,233,000	—	2,233,000
	2002	D	—	1,067,500	—	1,067,500
	2002	E	—	1,574,000	—	1,574,000
<b>Total Employees</b>			<b>2,641,500</b>	<b>4,874,500</b>	<b>(2,641,500)</b>	<b>4,874,500</b>
<b>Grand Total</b>			<b>3,556,500</b>	<b>7,274,500</b>	<b>(3,681,500)</b>	<b>7,149,500</b>

Notes:

1. Yves Elsen resigned as a Non-Executive Director of the Company on 14th March, 2002.
2. Vernon Smith resigned as a Non-Executive Director of the Company on 21st November, 2002.

**Directors' interests (continued)**

For details of specific option types, please refer to note 19.

The closing price of the Company's shares immediately before the date of grant on 4th February, 2002 was HK\$14.85.

The fair values of the options granted for the year ended 31st December, 2002 measured as at the date of grant on 4th February, 2002 for option types C, D & E as defined below were HK\$8.16, HK\$6.00 and HK\$6.90 per option respectively. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Option type	C	D	E
Expected life of options	10 years	4 <sup>5</sup> / <sub>6</sub> years	7 <sup>2</sup> / <sub>3</sub> years
Expected volatility based on historical volatility of share prices	51%	56%	51%
Hong Kong Exchange Fund Notes rate	5.99%	5.08%	5.47%
Expected annual dividend yield	1.62%	1.62%	1.62%

For the purpose of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

**Arrangement to purchase shares or debentures**

Other than as disclosed above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the Chief Executive, nor any of their spouse or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised such right.

**Directors' interests in contracts of significance**

No contract of significance, to which the Company or a subsidiary was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**Substantial shareholder**

As at 31st December, 2002, the register required to be kept under Section 16(1) of the SDI Ordinance shows that the Company had been notified that the following company held an interest of 10% or more in the issued share capital of the Company:

Name	No. of shares	%
Bowenvale Limited	268,905,000	68.9

Notes:

1. The interest of Bowenvale Limited ("Bowenvale") in 268,905,000 shares in the Company is attributed to Able Star Associates Limited ("Able Star") and SES Finance S.A. ("SES Finance").
2. Able Star is a wholly-owned subsidiary of CITIC Asia Limited ("CITIC Asia"), which in turn is a wholly-owned subsidiary of CITIC International Holdings Limited ("CITIC International"), which is a wholly-owned subsidiary of China International Trust and Investment Corporation ("CITIC"). Able Star, CITIC Asia, CITIC International and CITIC are each taken to be interested in such shares under Sections 8(2) and (3) of the SDI Ordinance.
3. SES Finance is a wholly-owned subsidiary of SES GLOBAL S.A. ("SES GLOBAL"). SES Finance and SES GLOBAL are each taken to be interested in such shares under Sections 8(2) and (3) of the SDI Ordinance.
4. CITIC controls 50.5% of the economic interest and 50% of voting rights of Bowenvale whilst SES GLOBAL controls 49.5% and 50%, respectively.

**Connected transactions**

The Group has entered into an agreement to lease transponder capacity to CITIC Guoan Information Industry Company Limited, a subsidiary of CITIC. CITIC was a major shareholder of the Company throughout the year. The total amount of revenue recognised by the Group for the year under this agreement was approximately HK\$4,095,000. In addition, during the year, an agency fee of approximately HK\$1,611,000 was paid to CITIC Technology Company Limited, a subsidiary of CITIC, for collecting money from China customers on behalf of the Company. In addition to the above, the Group made payments to SES GLOBAL and a subsidiary of CITIC, amounting to HK\$400,000 (2001: HK\$550,000) and HK\$400,000 (2001: HK\$400,000) respectively, for certain Non-Executive Directors representing SES GLOBAL and CITIC.

The Independent Non-Executive Directors confirmed that the transactions were entered into by the Group in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions.

**Practice note 19 of the listing rules**

Pursuant to paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the Company discloses that the covenants relating to the loan facility of US\$250 million for a term of five years started from November 2000 require (a) CITIC and SES GLOBAL between them to maintain beneficial ownership of more than 75% of the ordinary issued share capital of Bowenvale, which is a substantial shareholder of the Company; and (b) Bowenvale to maintain beneficial ownership of at least 51% of the issued share capital of the Company.

**Code of Best Practice**

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**Pre-emptive rights**

No pre-emptive rights exist in Bermuda, being the jurisdiction in which the Company is incorporated.

**Auditors**

The financial statements have been audited by Messrs. Deloitte Touche Tohmatsu, who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

**Denis Lau**

*Company Secretary*

Hong Kong, 14th March, 2003