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 Society of Accountants ("HKSA").

This interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company and by the auditors, KPMG, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the HKSA. KPMG's independent review report to the Board of Directors is included on page 22.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2002 are available from the Company's registered office. The former auditors of the Company, Deloitte Touche Tohmatsu, have expressed an unqualified opinion on those accounts in their report dated 7 April 2003. Deloitte Touche Tohmatsu resigned on 15 July 2003 and KPMG was appointed by the Board of Directors to fill the vacancy in the office of the auditors created by such resignation on the same date.

2. PRINCIPAL ACCOUNTING POLICIES

The same accounting policies adopted in the 2002 annual accounts have been applied to the interim financial report except that the Group have adopted Statement of Standard Accounting Practice 12 (revised) "Income taxes" issued by the HKSA which became effective for accounting periods commencing on or after 1 January 2003. The adoption of Statement of Standard Accounting Practice 12 (revised) has no material effect on the Group's results for the current or prior accounting period.

3. SEGMENTAL INFORMATION

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

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

	Group turnover Six months ended 30 June		Contribution to profit from operations Six months ended 30 June	
	2003 $'000	2002 $'000	**2003 $'000**	2002 $'000
Hong Kong	**17,794**	24,739	**1,116**	6,217
Other regions in the People's Republic of China	**112,116**	125,174	**7,036**	31,455
Others	**21,351**	26,731	**1,340**	6,717
	151,261	176,644	**9,492**	44,389
Write-back of provision on regulatory matters			**–**	23,400
Other operating income			**5,026**	15,586
Impairment loss on fixed assets			**(92,438)**	–
Unallocated corporate expenses			**(31,584)**	(31,394)
(Loss)/profit from operations			**(109,504)**	51,981

4. 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.

5. IMPAIRMENT LOSS ON FIXED ASSETS

The Group has reviewed the carrying value of APSTAR I and APSTAR IA at 30 June 2003. Based on the estimated recoverable value of these assets, an impairment loss of $92,438,000 has been made during the six months ended 30 June 2003.

6. **(LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION**

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

	Six months ended 30 June	
	2003	2002
	$'000	$'000
Amortisation of goodwill	**–**	110
Depreciation	**123,483**	110,652
Net loss on sale of fixed assets	**1**	–

7. **TAXATION**

	Six months ended 30 June	
	2003	2002
	$'000	$'000
Hong Kong taxation	**4,918**	3,719
Overseas taxation	**10,072**	11,425
Deferred taxation	**(15,612)**	1,825
	(622)	16,969

The provision for Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the six months ended 30 June 2003. Overseas taxation is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

8. **DIVIDENDS**

On 26 June 2002, a dividend of $0.05 per share was paid to shareholders as the final dividend for 2001.

In line with the need of Group's future development, the Board has resolved not to declare an interim dividend for the six months ended 30 June 2003 (2002: Nil).

9. **(LOSS)/EARNINGS PER SHARE**

(a) **Basic (loss)/earnings per share**

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to shareholders of $(162,743,000) (2002: $30,632,000) and the weighted average of 412,535,000 ordinary shares (2002: 412,720,000 shares) in issue during the six months ended 30 June 2003.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the (loss)/profit attributable to ordinary shareholders of $(162,743,000) (2002: $30,632,000) and the weighted average number of ordinary shares of 412,535,000 shares (2002: 414,092,000 shares) after adjusting for the effects of all dilutive potential ordinary shares.

	Six months ended 30 June	
	2003	2002
	'000	'000
Number of shares		
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share	**412,535**	412,720
Deemed issue of ordinary shares for no consideration	**–**	1,372
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	**412,535**	414,092

10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group has acquired property, plant and equipment amounting to $514,101,000 (2002: $534,467,000).

Included in property, plant and equipment was the cost of APSTAR V in the amount of $945,064,000 which will be delivered and launched in late 2003. Space Systems/Loral, Inc. is the manufacturer of APSTAR V and it has filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code on 15 July 2003. Based on information available up to the date of this report, the Directors of the Group have no reason to believe that APSTAR V cannot be delivered in accordance with the schedule.

11. TRADE RECEIVABLES

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

	At 30 June	At 31 December
	2003	2002
	$'000	$'000
0 – 30 days	**8,530**	9,735
31 – 60 days	**1,658**	4,550
61 – 90 days	**18,669**	4,150
91 – 120 days	**2,631**	546
More than 120 days	**18,275**	5,000
	49,763	23,981

12. BANK BORROWINGS

During the current period, the Group repaid bank loans of approximately $33,858,000 (2002: $30,149,000).

13. SHARE CAPITAL

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

14. 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 onwards, 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 a guarantee to banks in respect of a secured term loan facility granted to its subsidiary. The extent of such facility utilised by the subsidiary at 30 June 2003 amounted to $163,800,000 (at 31 December 2002: $163,800,000).

(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 at the same time has proposed to treat the proceeds received as taxable income to this subsidiary with a corresponding entitlement to statutory depreciation allowances 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 the deferred taxation that may arise in the event that the Company is unsuccessful, estimated at $57,000,000, has been recognised in the financial statements.

15. CAPITAL COMMITMENTS

At 30 June 2003, the Group has the following outstanding capital commitments not provided for in the Group's accounts, mainly in respect of the procurement and launch of new satellites, APSTAR V and APSTAR VI:

	At 30 June 2003 $'000	At 31 December 2002 $'000
Contracted for	**1,078,613**	1,095,129
Authorised but not contracted for	**372,860**	868,997
	1,451,473	1,964,126

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

	At 30 June 2003 $'000	At 31 December 2002 $'000
Contracted but not provided for in the financial statements	**–**	69,407

16. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2003 $'000	2002 $'000
Income from leasing of transponders to certain shareholders of the Company *(note (i))*	**17,352**	17,699
Income from leasing of transponders to a holding company of a shareholder of the Company *(note (i))*	**8,385**	9,750
Income from leasing of transponders to a jointly controlled entity *(note (i))*	**4,213**	4,268
Service fee in connection with the satellite project to a fellow subsidiary of a shareholder of the Company *(note (ii))*	**70,083**	3,120
Facilities management services income from a jointly controlled entity *(note (iii))*	**2,187**	3,769

In addition, at 30 June 2003, the Group had an outstanding commitment to pay launch service fee to a fellow subsidiary of a shareholder of the Company amounting to $247,767,000 (at 31 December 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) The Directors consider that the service fee was charged according to prices and conditions similar to those offered to other customers by the launch service provider.

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

17. MATERIAL POST BALANCE SHEET EVENTS

(i) In view of the continuous downturn in the telecommunication market, especially the submarine cable business, the directors of APT Satellite Telecommunications Limited ("APT Telecom"), a jointly controlled entity, decided to reorganise the business of APT Telecom by transferring the Fixed Carrier Business to the Group for a cash consideration of $6,800,000 and transferring the Cable Interests related to the Fixed Telecommunication Network Services Licence to other shareholder of APT Telecom for a cash consideration of $5,560,000. Upon the completion of the reorganisation, APT Telecom will continue to operate the Telepark Data Center. Details of the deal had been set out in a press announcement on 10 September 2003.

(ii) On 26 August 2003, a wholly owned subsidiary of the group ("the Subsidiary") has entered into a Satellite Procurement Amendment Agreement, a Satellite Transponder Agreement and a Satellite Agreement ("the Agreements") which each make provision in relation to Space System/Loral, Inc. ("the Contractor") being unable to obtain United States Government export licenses for the transfer of title of APSTAR V to the Subsidiary. Under the Agreements, title of APSTAR V will be transferred to Loral Orion, Inc. ("Loral Orion") upon intentional ignition rather than the Subsidiary and simultaneously therewith the Subsidiary will have an irrevocable lease of forty-one and one-half (41 and 1/2) transponders for the lease term commencing upon transfer of title from the Contractor to Loral Orion until the end of operational life of APSTAR V. Under the Satellite Agreement, the Subsidiary will release the leasehold interest of twelve and one-half (12 and 1/2) transponders to Loral Orion in stages over a 5 year period from the in-service date of APSTAR V subject to payment of installments ranging from approximately US$6,800,000 to approximately US$18,130,000. This will result in the Subsidiary having 29 transponders. The total cost for joint acquisition of APSTAR V are still estimated to be approximately US$115,000,000 for each of the Subsidiary and Loral Orion. Details of the deal had been set out in a press announcement on 28 August 2003 and in a circular to the shareholders.