

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 <i>(Executive Director and President)</i>	Personal	–	2,200,000
Cui Xinzheng <i>(Executive Director and Vice President)</i>	Personal	–	1,200,000
Lo Kin Hang, Brian <i>(Vice President and 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 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 <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
Leng Yi Shun <i>(Vice President)</i>	1,500,000	1,500,000 ^(a)	–	–
Lo Kin Hang, Brian <i>(Vice President and Company Secretary)</i>	800,000	–	–	800,000
	<u>5,700,000</u>	<u>1,500,000</u>	<u>–</u>	<u>4,200,000</u>

Employees in aggregate:

Employees under employment contracts	<u>13,410,000</u>	<u>3,010,000</u>	<u>730,000^(b)</u>	<u>9,670,000</u>
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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:

- 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.
- 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