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 Contribution to loss from operations**	2003 Contribution to loss from operations
	Turnover $'000	Turnover $'000	**$'000**	$'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
	130,623	151,261	**(3,978)**	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			**(40,084)**	(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 $'000	2003 $'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:

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

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

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

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

	At 30 June 2004 $'000	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:

	Six months ended 30 June	
	2004	2003
	$'000	$'000
Income from leasing of transponder capacities to certain shareholders of the Company (note i)	**20,955**	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)	**10,070**	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)	**87,603**	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)	**1,135**	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.