For the year ended 31 December 2001

1. GENERAL

The Company is a public company incorporated in Bermuda and its shares are listed on both The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and New York Stock Exchange, Inc. The Company's ultimate holding company is APT Satellite International Company Limited, a private company incorporated in the British Virgin Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the maintenance and operation of satellite telecommunication systems.

2. ADOPTION OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA") which has led to the following changes in the Group's accounting policies:

- The Group has chosen to adopt SSAP 1 (Revised) "Presentation of Financial Statements" and SSAP 15 (Revised) "Cash Flow Statements" as regards reporting changes in equity and cash flow information in advance of the effective dates of these Standards. The presentation in the current year's financial statements has been modified in order to conform with the requirement of the revised standards. Comparative amounts have been restated in order to achieve a consistent presentation.

- In accordance with SSAP 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment. The proposed final dividend of HK$147,000,000 for 1999 has been reversed and recognised in the year ended 31 December 2000. The proposed final dividend of HK$61,920,000 included in the dividend payable in the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2000 have been reversed and the restated accumulated profits brought forward from 31 December 2000 of the Group is HK$612,467,000.

  As a result of the adoption of SSAP 9 (Revised), SSAP 18 "Revenue" has also been revised. Accordingly, the dividends proposed or declared after balance sheet date by the subsidiaries are not recognised by the Company at the balance sheet date. This change in accounting policy has also been applied retrospectively, resulting a prior period adjustment which has decreased the accumulated profits of the Company brought forward from 31 December 1999 and 31 December 2000 by HK$147,000,000 and HK$63,000,000 respectively. The restated accumulated losses brought forward from 31 December 2000 of the Company is HK$6,000.

2. ADOPTION OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)

- The adoption of SSAP 14 (Revised) "Leases" has not resulted in any significant changes to the accounting treatment adopted for leases and accordingly, no prior period adjustment has been required. Disclosures relating to the Group's leasing arrangements have been modified so as to comply with the new requirements of SSAP 14 (Revised). Comparative amounts have been restated to achieve a consistent presentation.

- SSAP 26 "Segment Reporting" has introduced new principles for reporting financial information by segment. Segment disclosures for the year ended 31 December 2001 have been presented to conform with the requirements of the standard.

- SSAP 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" has introduced a new definition of subsidiary, which is an enterprise that is controlled by the Company. In prior year, an investment in an enterprise was classified as a subsidiary because the Company indirectly held more than half of the issued share capital but was not consolidated because the Company did not control the composition of the board of the directors. As this enterprise is jointly controlled by the Company and the other shareholder, it is no longer classified as a subsidiary under SSAP 32. This has resulted in a reclassification of the investment from a subsidiary to a jointly controlled entity. Comparative amounts have been adjusted retrospectively. The reclassification has not had any impact on amounts reported because the investment has always been accounted for using equity accounting.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of an investment property, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from and up to their effective dates of acquisition and disposal respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

A subsidiary is an enterprise controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Investments in subsidiaries are stated at cost less any identified impairment loss.

Investments in jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of results of jointly controlled entities for the year is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred.

Club memberships

Club memberships are stated at cost less impairment in value.

Revenue recognition

Rental income from leasing of satellite transponders under operating leases is recognised on an accrual basis in accordance with the terms of the leases over the lease term.

Service income is recognised when services are provided.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation of communication satellites is provided on a straight line basis to write off the cost of the satellite over its estimated useful life or the warranty period provided to customers, where applicable. Depreciation of other property, plant and equipment is provided to write off the cost of the assets, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the lease terms
Leasehold buildings	2%
Leasehold improvements	Over the lease terms
Furniture and equipment	20%
Motor vehicles	20%
Computer equipment	20%
Communication satellite equipment	$6^{2}/_{3}\%$ – 20%
Communication satellites	$6^{1}/_{4}\%$ – 20%

Construction in progress is stated at cost. Cost includes all development expenditure and other direct costs attributable to such project. Construction in progress is not depreciated until completion of construction. On completion of construction, the assets are transferred to other categories of property, plant and equipment.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuation at each balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except which are held on leases with an unexpired term of the more than 20 years.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the leases. All other leases are classified as operating leases.

Rental expenses under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Retirement benefits cost

Payments to defined contribution retirement benefits schemes are charged as expenses as they fall due.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

4. TURNOVER

Turnover represents rental income received and receivable from leasing of satellite transponders and the service income received and receivable in respect of satellite control and leasing of satellite transponders.

	2001 HK$'000	2000 HK$'000
Transponder lease income	359,482	329,976
Service income	14,676	11,520
	374,158	341,496

For the year ended 31 December 2001

5. OTHER REVENUE

	2001 HK$'000	2000 HK$'000
Other revenue includes the following:		
Exchange gain	–	10,407
Gain on disposal of property, plant and equipment	–	498
Gain on disposal of partial interest in a jointly controlled entity	–	2,500
Interest income	70,221	106,502
Rental income in respect of land and buildings	349	298
Write-back of provision on regulatory matters previously recognised in the life lease of transponders of APSTAR IIR	–	45,788

6. PROFIT FROM OPERATIONS

	2001 HK$'000	2000 HK$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration		
Current year	400	330
Underprovision in prior year	120	–
Depreciation	217,021	216,808
Exchange loss	312	–
Loss on disposal of property, plant and equipment	37	–
Minimum lease payments of operating lease rentals in respect of land and buildings	3,259	3,108
Minimum lease payments of operating lease rentals in respect of satellite transponder	33	–
Reversal of provision for doubtful receivables	(5,182)	–
Staff costs (including directors' emoluments)		
Pension contributions	1,219	980
Less: Forfeited contributions	(252)	(267)
Net pension contributions	967	713
Wages, salaries and bonuses	38,444	32,101
	39,411	32,814

For the year ended 31 December 2001

7. FINANCE COSTS

	2001 HK$'000	2000 HK$'000
Interest on bank and other borrowings wholly repayable within five years	5,644	15,338

8. DIRECTORS' AND EMPLOYEES' REMUNERATION

	2001 HK$'000	2000 HK$'000
Directors' remuneration		
Fees to independent non-executive directors	200	200
Fees to non-executive directors	550	510
Remuneration to executive directors:		
Fees	139	55
Salaries and other benefits	5,505	2,987
Retirement benefits contributions	153	78
Compensation paid for the loss of office	2,729	–
	8,526	3,120
	9,276	3,830

Emoluments of the directors were within the following bands:

	Number of directors	
	2001	2000
Nil to HK$1,000,000	17	18
HK$2,000,001 to HK$2,500,000	1	–
HK$2,500,001 to HK$3,000,000	1	–
HK$3,000,001 to HK$3,500,000	1	1

For the year ended 31 December 2001

8. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

Employees' remuneration

The five highest paid individuals of the Group included three directors (2000: one), details of whose remuneration are set out above. The emoluments of the remaining two (2000: four) highest paid employees are as follows:

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
Salaries and other benefits	6,919	7,405
Performance related incentive payments	203	1,860
Retirement benefits contributions	172	225
	7,294	9,490

Emoluments of these employees were within the following bands:

	Number of employee(s)	
	2001	2000
HK$1,000,001 to HK$1,500,000	–	2
HK$1,500,001 to HK$2,000,000	1	–
HK$2,500,001 to HK$3,000,000	–	1
HK$4,000,001 to HK$4,500,000	–	1
HK$5,500,001 to HK$6,000,000	1	–
	2	4

9. TAXATION

	2001	2000
	HK$'000	HK$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year		
Current year period	6,283	4,495
Underprovision in prior years	1,388	–
Overseas tax calculated at rates prevailing in respective jurisdictions	18,127	24,349
	25,798	28,844
Deferred taxation (note 26)	149	5,667
	25,947	34,511

9. TAXATION (Continued)

The deferred taxation (charge) credit for the year comprises:

	2001 HK$'000	2000 HK$'000
Tax effect of timing differences attributable to:		
Difference between depreciation allowances for tax purposes and depreciation charged in the financial statements	12,231	(3,300)
Tax loss utilized – net	(11,627)	–
Other timing differences	(162)	–
Certain leasing arrangements	(591)	(2,367)
	(149)	(5,667)

10. NET PROFIT FOR THE YEAR

Of the net profit for the year of HK$78,009,000 (2000: HK$142,996,000), a profit of HK$123,832,000 (2000: HK$167,526,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	2001 HK$'000	2000 HK$'000
Interim dividend paid of HK Nil cents (2000: HK5 cents) per share	–	20,805
Proposed final dividend of HK5 cents (2000: HK15 cents) per share	20,636	61,920
	20,636	82,725

The proposed final dividend of HK5 cents (2000: HK15 cents) per share has been proposed by the Board and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

For the year ended 31 December 2001

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2001 HK$'000	2000 HK$'000
Earnings		
Earnings for the purposes of calculating basic and diluted earnings per share (net profit for the year)	78,009	142,996
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	412,773	417,433
Effect of dilutive share options	1,117	N/A
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	413,890	N/A

For the year ended 31 December 2001

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Commun-ication satellite equipment HK$'000	Commun-ication satellites HK$'000	Con-struction in progress HK$'000	Total HK$'000
THE GROUP									
COST									
At 1 January 2001	65,492	5,523	18,400	4,649	1,528	71,118	2,100,129	10,935	2,277,774
Additions	141	–	137	318	450	2,698	–	277,579	281,323
Disposals	–	–	(17)	(259)	(38)	–	–	–	(314)
Transfer to a jointly controlled entity	(13,657)	–	–	–	–	–	–	–	(13,657)
Transfer to investment property	(2,557)	–	–	–	–	–	–	–	(2,557)
At 31 December 2001	49,419	5,523	18,520	4,708	1,940	73,816	2,100,129	288,514	2,542,569
DEPRECIATION									
At 1 January 2001	4,611	3,242	17,434	4,038	850	38,138	1,107,593	–	1,175,906
Provided for the year	911	740	424	230	257	6,001	208,458	–	217,021
Disposals	–	–	(14)	(259)	(2)	–	–	–	(275)
Transfer to investment property	(110)	–	–	–	–	–	–	–	(110)
At 31 December 2001	5,412	3,982	17,844	4,009	1,105	44,139	1,316,051	–	1,392,542
NET BOOK VALUE									
At 31 December 2001	44,007	1,541	676	699	835	29,677	784,078	288,514	1,150,027
At 31 December 2000	60,881	2,281	966	611	678	32,980	992,536	10,935	1,101,868

For the year ended 31 December 2001

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Motor vehicle HK$'000
THE COMPANY	
COST	
At 1 January 2001 and 31 December 2001	411
DEPRECIATION	
At 1 January 2001	219
Provided for the year	82
At 31 December 2001	301
NET BOOK VALUE	
At 31 December 2001	110
At 31 December 2000	192

An analysis of the locations of land and buildings of the Group held as at 31 December 2001 is as follows:

	Land and buildings	
	2001 HK$'000	2000 HK$'000
Medium-term leases outside Hong Kong	4,277	6,834
Medium-term leases in Hong Kong	45,142	58,658
	49,419	65,492

14. INVESTMENT PROPERTY

The investment property was reclassified from land and buildings during the year at a carrying value of HK$2,447,000 and was valued at its open market value at 31 December 2001 of approximately HK$2,402,000 by Chesterton Petty Limited, an independent professional property valuer, on an open market value basis. This valuation gave rise to a revaluation deficit of HK$45,000 which has been charged to the income statement.

The investment property, which is situated in the People's Republic of China (the "PRC") under medium-term lease, is rented out under an operating lease and the rental income earned from the investment property during the year was HK$129,000.

For the year ended 31 December 2001

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK$'000	2000 HK$'000
Unlisted shares, at cost	615,862	615,862
Amounts due from subsidiaries	1,271,142	1,376,466
	1,887,004	1,992,328

Details of the subsidiaries of the Company as at 31 December 2001 are set out in note 32.

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2001 HK$'000	2000 HK$'000 (Restated)
Share of net assets	44,163	665
Amounts due from jointly controlled entities	28,805	12,823
Loans to a jointly controlled entity	7,440	55,440
	80,408	68,928
Less: Amount of loan due within one year included under current asset	–	(46,500)
	80,408	22,428

The Group has a 40% interest in the issued ordinary share capital of CTIA VSAT Network Limited ("CTIA"), a company incorporated in Hong Kong and engaged in investment holding. Its subsidiary is engaged in providing telecommunication services. CTIA is considered as a jointly controlled entity because the Group and the other shareholder, pursuant to a shareholders' resolution, exercise joint control over CTIA.

The Group also has a 55% interest in the issued ordinary share capital of APT Satellite Telecommunications Limited ("APT Telecom"), a company incorporated in Hong Kong which is engaged in the provision of telecommunication services. APT Telecom is considered as a jointly controlled entity as the Group and the other shareholder of APT Telecom both have the right to appoint an equal number of directors to the board of directors.

For the year ended 31 December 2001

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

The loans granted to a jointly controlled entity are unsecured. An outstanding loan balance of HK$1,240,000 is interest-free for the first six months from the date of the advance and thereafter bears interest at 6% per annum and is repayable in 2005. Another loan amounting to HK$6,200,000 is interest-free and is also repayable in 2005. Other loans at 31 December 2000 amounting to HK$1,500,000 and HK$46,500,000 bore interest at 6% and 8.25% per annum respectively and were fully repaid during the year.

The amounts due from jointly controlled entities are unsecured and interest-free. There are no fixed repayment terms.

17. TRADE RECEIVABLES

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
Due from third parties	14,408	59,928
Due from a shareholder of the company	11,098	–
	25,506	59,928

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:

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
Current	–	1,707
Overdue 0 - 30 days	15,887	37,370
Overdue 31 - 60 days	3,348	6,327
Overdue 61 - 90 days	1,719	747
Overdue 91 - 120 days	147	9,534
Overdue 120 days	4,405	4,243
	25,506	59,928

18. OTHER PAYABLES AND ACCRUED CHARGES

At balance sheet date, the balance includes a provision on regulatory matters in respect of the life lease of transponders of APSTAR IIR amounting to HK$47,212,000 (2000: HK$47,212,000).

Under the terms of a lease agreement made between an independent third party and the Group dated 18 August 1999 in relation to the leasing of substantially all of the transponder capacities of APSTAR IIR, the Group agreed to bear the cost of retrofitting the dishes of affected customers of APSTAR IIR as a result of increase in dish size. Provision was therefore made for the best estimate of the potential cash outflow under the agreement based on the estimated replacement cost of retrofitting the dishes. Up to the balance sheet date, the Group has not received any claims from the customers of APSTAR IIR. The directors of the Group are of the opinion that the payment will be made once claims received.

19. SECURED BANK BORROWINGS

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
Bank loans	379,668	554,988
Less: Amount due within one year included under current liabilities	(61,986)	(175,320)
Amount due after one year	317,682	379,668
Bank borrowings are repayable:		
On demand or within one year	61,986	175,320
In the second year	317,682	61,986
In the third to fifth years inclusive	–	317,682
	379,668	554,988

On 29 December 1994, the Company's subsidiaries entered into an arrangement for the leasing of a communication satellite with The 138 Leasing Partnership (the "Partnership"), which became a wholly-owned subsidiary of the Company in 1997. As at 31 December 2001, the bank loans borrowed by the Partnership of HK$379,668,000 (2000: HK$434,836,000) which are included above are secured by time deposits of an equivalent amount (see note 27). The amounts of bank loans and time deposits are separately presented in the balance sheet. The corresponding interest income and interest expense for the year amounted to HK$50,511,000 (2000: HK$56,734,000) is set-off in the consolidated income statement.

For the year ended 31 December 2001

20. AMOUNT DUE TO A RELATED COMPANY

The amount was unsecured, interest-free and repaid during the year.

21. SHARE CAPITAL

	Number of shares '000	Issued and fully paid share capital HK$'000
Ordinary shares of HK$0.10 each		
Balance at 1 January 2000	420,000	42,000
Repurchase of shares	(7,200)	(720)
Balance at 31 December 2000 and at 1 January 2001	412,800	41,280
Repurchase of shares	(80)	(8)
Balance at 31 December 2001	412,720	41,272

The Company's authorised share capital is 1,000,000,000 shares of HK$0.10 each. There were no changes in the Company's authorised share capital during either year.

During the year, the Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	Number of shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid HK$'000
September	80,000	2.425	2.300	192

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase was charged against share premium.

22. SHARE OPTIONS

On 22 May 2001, the Company adopted a new share option scheme ("Scheme 2001") and terminated the previous share option scheme which was adopted on 3 December 1996.

The movement of the share options granted under the Scheme 2001 during the year is as follows:

	Number of options '000
Granted on 19 June 2001	14,650
Cancelled during the year	(1,200)
Outstanding at 31 December 2001	13,450

All the above 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.

23. CONTRIBUTED SURPLUS/OTHER RESERVE/ACCUMULATED PROFITS

The contributed surplus of the Group arose as a result of the Group reorganisation in 1996 and represented the excess of the par value of the shares of the subsidiaries which the Company acquired over the par value of the Company's shares issued in consideration thereof.

The contributed surplus of the Company also arose as a result of the Group reorganisation in 1996 and represented the excess of the value of the subsidiaries acquired over the par value of the Company's shares issued for their acquisition. Under the Companies Act (1981) of Bermuda (as amended), the Company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

Other reserve represents Enterprise Expansion Fund and General Reserve Fund set aside by a subsidiary in accordance with the relevant laws and regulations of the PRC, which are not available for distribution.

At 31 December 2001, the Company's reserves available for distribution amounted to HK$646,264,000 (2000: HK$584,352,000 – as restated) as computed in accordance with the Companies Act 1981 of Bermuda (as amended).

For the year ended 31 December 2001

24. DEPOSITS RECEIVED

The amount represents deposits received in respect of leasing of satellite transponders.

25. DEFERRED INCOME

Deferred income represents unrecognised revenue received in respect of transponder leases under which customers have obtained the right to use the transponder capacity for future periods.

26. DEFERRED TAXATION

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
Balance at beginning of year	123,526	117,859
Charge for the year (note 9)	149	5,667
Balance at end of the year	123,675	123,526

The principal components of the provision for deferred taxation (asset) liability are as follows:

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
Tax effect of timing differences attributable to:		
Excess of depreciation allowances for tax purposes over depreciation charged in the financial statements	77,499	89,730
Tax losses	(64,873)	(76,500)
Other timing differences	162	–
Certain leasing arrangements	110,887	110,296
	123,675	123,526

26. DEFERRED TAXATION (Continued)

At the balance sheet date, the components of the cumulative balance of the net potential deferred tax (asset) liability not provided for in the financial statements are as follows:

	THE GROUP AND THE COMPANY	
	2001	2000
	HK$'000	HK$'000
Tax effect of timing differences attributable to:		
Excess of depreciation allowances for tax purposes over depreciation charged in the financial statements	11	22
Unutilised tax losses carried forward	(1,539)	(1,099)
	(1,528)	(1,077)

Certain leasing arrangements provide the Group with an initial cash inflow in return for being responsible for the future obligations to make payments of taxation under the lease arrangements. Any differences between the initial benefit and the eventual tax liability are provided for over the lives of the relevant leases.

Deferred tax has not been provided on the deficit arising on the revaluation of the Group's investment property because gain/loss on the disposal of this asset would not be subject to taxation. Accordingly, the deficit arising on revaluation does not constitute a timing difference.

27. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's banking facilities are secured by the Group's land and buildings with a net book value of HK$8,035,000 (2000: HK$8,214,000).

Furthermore, at 31 December 2001, the Group had outstanding bank loans of approximately HK$379,668,000 (2000: HK$434,836,000) arranged under certain lease arrangements which are secured by time deposits of an equivalent amount. Of this amount HK$61,986,000 (2000: HK$55,168,000) is included as part of current pledged bank deposits.

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27. PLEDGE OF ASSETS (Continued)

The Group had assigned, by way of legal charge in favour of the lenders of the bank loans, certain bank accounts and portion of the transponder receipts. The amount of cash from transponder receipts withheld by the banks as at 31 December 2000 was HK$10,473,000. During the year, these loans were repaid and the assignment was released.

28. CONTINGENT LIABILITIES

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, 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 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 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 HK$75,864,000.

29. CAPITAL COMMITMENTS

At 31 December 2001, the Group had authorised but not contracted capital commitments of HK$295,937,000 (2000: HK$1,781,598,000) and contracted but not provided for capital commitments of HK$2,230,257,000 (2000: HK$1,560,000) in respect of the procurement and launch of new satellites, APSTAR V and APSTAR VB.

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

	THE GROUP	
	2001 HK$'000	2000 HK$'000
Authorised but not contracted	138,075	6,274
Contracted but not provided for in the financial statements	40,789	21,157
Total commitments	178,864	27,431

30. LEASING ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP	
	2001	2000
	HK$'000	HK$'000
		(Restated)
Within one year	3,440	3,093
After one but within five year	4,064	7,366
	7,504	10,459

Operating lease payments represent rental payable by the Group for its office properties. Leases are negotiated for an average term of 3 years and rentals are fixed for an average term of 3 years.

The Group as lessor

Property rental income earned during the year was HK$349,000 (2000: HK$298,000). At the balance sheet date, properties with an aggregate carrying value of HK$9,109,000 (2000: HK$10,380,000) were held for rental purpose. Depreciation charged for the year in respect of these properties was HK$149,000 (2000: HK$241,000). The Group had contracted with tenants for the future minimum lease payments under non-cancellable operating leases which fall due within one year amounting to HK$404,000 (2000: HK$159,000) and after one but within five years amounting to HK$129,000 (2000: Nil).

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30. LEASING ARRANGEMENTS (Continued)

The Group as lessor (Continued)

At the balance sheet date, the Group also contracted with a jointly controlled entity which will be commenced from 2002 for the following future minimum lease payments under non-cancellable operating leases.

	2001 HK$'000	2000 HK$'000
Within one year	8,110	–
After one but within five years	35,275	–
Over five years	44,854	–
	88,239	–

Rental income in respect of leasing of satellite transponders earned during the year was HK$359,482,000 (2000: HK$329,976,000). Depreciation charged for the year in respect of these satellites was HK$208,458,000 (2000: HK$208,457,000). At the balance sheet date, communication satellites with an aggregated net book value of HK$784,078,000 (2000: HK$992,536,000) were held for the purpose of transponder leasing and the Group had contracted with customers for the following future minimum lease payments under non-cancellable operating leases:

	2001 HK$'000	2000 HK$'000
Within one year	268,970	221,716
After one but within five years	277,991	179,740
	546,961	401,456

The Company did not have any leasing arrangements at the balance sheet date.

31. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The Group also joins the retirement insurance scheme operated by the local government under the law of the PRC for all employees in the PRC. Under the law of the PRC scheme, both the Group and employees are required to contribute 8% and 5% of the monthly salary respectively to the retirement insurance scheme.

The only obligation of the Group with respect to the Mandatory Provident Fund Scheme and the retirement insurance scheme is to make the specific contributions.

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32. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries, which are all wholly-owned, as at 31 December 2001 are as follows:

Name of Company	Place of incorporation/ establishment/ operation*	Nominal value of issued share capital**	Principal activities
APT Satellite Investment Company Limited	British Virgin Islands	US$1,400	Investment holding
APT Satellite Company Limited	Hong Kong	– Ordinary Class 'A' HK$100 – Non-voting Deferred Class 'B' HK$542,500,000	Satellite transponder leasing
Acme Star Investment Limited	Hong Kong	HK$2	Investment holding
APT Satellite Enterprise Limited	Cayman Islands	US$2	Satellite transponder leasing
APT Satellite Global Company Limited	Cayman Islands	US$2	Investment holding
APT Satellite TV Development Limited (formerly known as APT Satellite Glory Limited)	Hong Kong	HK$2	Provision of satellite television uplink and downlink services
APT Satellite Link Limited	Cayman Islands	US$2	Satellite transponder leasing
APT Satellite Vision Limited	Hong Kong	HK$2	Satellite leasing
Haslett Investments Limited	British Virgin Islands	US$1	Investment
Telewell Investment Limited	Hong Kong	HK$2	Investment holding

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32. PARTICULARS OF SUBSIDIARIES (Continued)

Name of Company	Place of incorporation/ establishment/ operation*	Nominal value of issued share capital**	Principal activities
The 138 Leasing Partnership	Hong Kong	Partners' capital HK$329,128,857	Satellite leasing
Ying Fai Realty (China) Limited	Hong Kong/ The People's Republic of China	HK$20	Property holding
亞訊通信技術開發(深圳)有限公司 (APT Communication Technology Development (Shenzhen) Co., Ltd.)	The People's Republic of China	Registered capital HK$5,000,000	Satellite transponder leasing

* The place of operations is the place of incorporation/establishment unless otherwise stated.

** All share capital consists of ordinary shares unless otherwise stated.

All subsidiaries are indirectly held by the Company with the exception of APT Satellite Investment Company Limited which is directly held by the Company.

No loan capital has been issued by any of the subsidiaries.

33. RELATED PARTY TRANSACTIONS

	2001 HK$'000	2000 HK$'000
Income from leasing of transponders to certain shareholders of the Company (note i)	20,809	6,558
Income from leasing of transponders to a holding company of a shareholder of the Company (note i)	19,500	6,431
Income from leasing of transponders to a jointly controlled entity (note i)	6,282	1,808
Management fee income from a jointly controlled entity (note ii)	1,500	500
Interest income from jointly controlled entities (note iii)	2,820	277
Interest income from certain shareholders of the Company (note iv)	–	6,099
Interest income from a subsidiary of a shareholder (note v)	995	1,790
Rental expenses in connection with the leasing of transponders from a shareholder of the Company (note vi)	3,510	819
Technical support services expenses to a shareholder of the Company (note vii)	4,490	–
Management fee expenses to a holding company of a shareholder (note viii)	1,802	–
Land and buildings transferred to a jointly controlled entity (note ix)	13,657	–
Payments in connection with the APSTAR V project to a shareholder of the Company (note x)		
– service fee	1,560	2,340
– deposit	–	7,800
Payments in connection with the APSTAR V project to a fellow subsidiary of a shareholder of the Company (note x)		
– service fee	140,166	–

In addition, at 31 December 2001, the Group had outstanding commitment to pay an additional service fee to a shareholder of the Company amounting to HK$Nil (2000: HK$1,560,000), and to a fellow subsidiary of a shareholder of the Company amounting to HK$330,174,000 (2000: HK$Nil).

33. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(i) The terms and conditions of these transponder lease agreements are similar to those contracted with other customers of the Group.

(ii) Management fee income arose from a reimbursement of cost of service provided to a jointly controlled entity under the agreement.

(iii) The interest income from jointly controlled entities arose from loans made to the entity, further details of which are disclosed in note 16.

(iv) The interest income arose from interest charged on overdue trade receivable under terms and conditions of transponder lease agreements which are similar to those contracted with other customers of the Group.

(v) The interest income is calculated at 4.25% per annum on the outstanding principal.

(vi) The directors consider that the rental expenses in connection with the leasing of transponders is charged according to the terms and conditions similar to those offered to other customers.

(vii) The directors consider that the technical support services expenses were charged according to prices and conditions similar to those offered to other customers by the service provider.

(viii) Management fee expenses arose from a reimbursement of cost of service provided from a shareholder of the Company.

(ix) The land and buildings were transferred at the net book value at the date of transfer.

(x) 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.

34. SEGMENTAL INFORMATION

The Group only has one business segment, namely the maintenance and operation 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:

	2001		2000	
	Turnover HK$'000	Contribution to profit from operations HK$'000	Turnover HK$'000	Contribution to profit from operations HK$'000
Hong Kong	40,459	11,694	20,347	4,765
Other regions in the PRC	270,009	78,041	264,247	61,886
Others	63,690	18,408	56,902	13,327
	374,158	108,143	341,496	79,978
Other revenue		78,491		179,742
Unallocated corporate expenses		(71,967)		(65,540)
Profit from operations		114,667		194,180

34. SEGMENTAL INFORMATION (Continued)

The Group's analysis of the total carrying amount of segment assets and segment liabilities by location of customers is as follows:

	2001		2000	
	Segment assets HK$'000	Segment liabilities HK$'000	Segment assets HK$'000	Segment liabilities HK$'000
Hong Kong	23	27,028	616	31,482
Other regions in the PRC	23,646	92,543	53,476	114,558
Others	1,837	39,663	5,836	14,035
	25,506	159,234	59,928	160,075
Unallocated corporate assets/ liabilities	3,255,192	656,827	3,361,223	812,336
	3,280,698	816,061	3,421,151	972,411

The Group's operating assets consist primarily of its satellites which are used, or are intended for use, for transmission to multiple countries but not located at a specific geographical area. Accordingly, no segment analysis of the carrying amount of segment assets by location of assets presented.