NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2002

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants (the "HKSA") and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties.

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 2001, except as described below.

In the current period, the Group has adopted, for the first time, the new SSAP 34 "Employee Benefits" issued by HKSA. The adoption of this SSAP has had no significant impact on the Group's financial statements.

3. 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:

	For the six months ended 30 June			
	2002		2001	
	Turnover HK$'000	**Contribution to profit from operations HK$'000**	Turnover HK$'000	Contribution to profit from operations HK$'000
Hong Kong	**24,739**	**6,217**	18,016	5,636
Other regions in the People's Republic of China	**125,174**	**31,455**	137,064	42,881
Others	**26,731**	**6,717**	32,751	10,246
	176,644	**44,389**	187,831	58,763
Write-back of provision on regulatory matters		**23,400**		–
Other operating income		**15,586**		48,049
Unallocated corporate expenses		**(31,394)**		(29,481)
Profit from operations		**51,981**		77,331

4. WRITE-BACK OF PROVISION ON REGULATORY MATTERS

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, 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. During the period, the Group reassessed the circumstances of affected customers and found that less dishes are likely to be required for retrofitting than the previous estimate. The directors of the Group are of the opinion that the potential cost of retrofitting the dishes, if any, will be reduced. Based on the revised estimate for the replacement cost of retrofitting the dishes, an amount of HK$23,400,000 is written back.

5. DEPRECIATION AND AMORTISATION

During the period, depreciation of HK$110,652,000 (2001: HK$108,460,000) was charged in respect of the Group's property, plant and equipment and amortisation of HK$110,000 (2001: Nil) was charged in respect of Group's goodwill on acquisition of additional interest in a jointly controlled entity.

6. TAXATION

	For the six months ended 30 June	
	2002	2001
	HK$'000	HK$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the period	**3,719**	2,934
Overseas tax calculated at rates prevailing in respective jurisdictions	**11,425**	12,833
Deferred taxation	**1,825**	1,146
	16,969	16,913

7. DIVIDENDS

On 26 June, 2002, a dividend of HK5 cents 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 2002 (2001: Nil).

8. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2002	2001
	HK$'000	HK$'000
Earnings		
Earnings for the purposes of calculating basic and diluted earnings per share (net profit for the period)	**30,632**	52,882

	For the six months ended 30 June	
	2002	2001
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**412,720**	412,800
Effect of dilutive share options	**1,372**	282
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**414,092**	413,082

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group has acquired property, plant and equipment amounting to HK$534,467,000 (2001: HK$88,632,000).

10. 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:

	30 June 2002 HK$'000	31 December 2001 HK$'000
Overdue 0 – 30 days	**5,292**	15,887
Overdue 31 – 60 days	**7,586**	3,348
Overdue 61 – 90 days	**11,590**	1,719
Overdue 91 – 120 days	**827**	147
Overdue more than 120 days	**5,479**	4,405
	30,774	25,506

11. BANK BORROWINGS

During the current period, the Group repaid bank loans of approximately HK$30,149,000 (2001: HK$147,000,000).

12. SHARE CAPITAL

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

13. ACQUISITION OF ADDITIONAL INTEREST IN A JOINTLY CONTROLLED ENTITY

During the period, the Group has acquired an additional 20% interest in CTIA VSAT Network Limited ("CTIA"), previously was a 40% owned jointly controlled entity, with a consideration of HK$7,180,000. CTIA became a subsidiary and its assets and liabilities have been consolidated after the acquisition.

14. 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.

15. CAPITAL COMMITMENTS

At 30 June 2002, the Group had authorised but not contracted capital commitments of HK$283,574,000 and contracted but not provided for capital commitments of HK$1,721,073,000 mainly 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 the jointly controlled entities not included in the above are as follows:

	30 June 2002 HK$'000	31 December 2001 HK$'000
Authorised but not contracted	**–**	138,075
Contracted but not provided for in the financial statements	**112,356**	40,789
Total commitments	**112,356**	178,864

16. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 June	
	2002	2001
	HK$'000	HK$'000
Income from leasing of transponders to a shareholder of the Company *(note i)*	**17,699**	4,048
Income from leasing of transponders to a holding company of a shareholder of the Company *(note i)*	**9,750**	9,750
Income from leasing of transponders to a jointly controlled entity *(note i)*	**4,268**	2,730
Service fee in connection with the APSTAR V project to a fellow subsidiary of a shareholder of the Company *(note ii)*	**3,120**	46,722

In addition, at 30 June 2002, the Group had outstanding commitment to pay service fee to a fellow subsidiary of a shareholder of the Company amounting to HK$327,054,000 (at 31 December 2001: HK$330,174,000).

Note:

(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.