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, operation and leasing of satellite telecommunication systems.

2. ADOPTION OF NEW STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, Statement of Standard Accounting Practice No. 34 "Employee Benefits" ("SSAP 34") issued by the Hong Kong Society of Accountants ("HKSA"). The standard introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any significant impact on the financial statements.

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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities at the date of acquisition of a subsidiary. Goodwill arising on consolidation is capitalised and amortised on a straight line basis over its estimated useful life less impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on the acquisitions of subsidiaries is presented separately in the balance sheet.

On the disposal of an investment in a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Interest 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.

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

Interest 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.

Interest in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 a straight line basis over the relevant 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.

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 accumulated depreciation and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation of property, plant and equipment is provided to write off the cost of the assets, over their estimated useful lives and after taking into account their estimated residual value, 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	18% – 20%
Motor vehicles	18% – 20%
Computer equipment	18% – 20%
Communication satellite equipment	$6^2/_3$% – 20%
Communication station	18%
Communication satellites	5.94% – 10.27%

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.

In previous years, communication satellites were depreciated at $6^1/_4$% – 20% per annum. With effect from 1 July 2002, communication satellites other than those where had been fully depreciated, are to be depreciated at 5.94% – 10.27% per annum, which reflects the Group's re-estimation of the remaining useful lives of the assets and their residual value. The change in depreciation rate has increased the depreciation charge for the year by approximately HK$9,764,000.

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.

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, unless the relevant asset is carried at a revalued amount under another accounting standard, in which the impairment loss is treated as revaluation decrease under that accounting standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (Continued)

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, unless the revaluation asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

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 20 years or less.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessees. 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 service income received and receivable in respect of satellite control and leasing of satellite transponders.

	2002 HK$'000	2001 HK$'000
Transponder lease income	**323,961**	359,482
Service income	**27,464**	14,676
	351,425	374,158

5. 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 directors of 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 cost of retrofitting the dishes. During the year, the directors of the Group reassessed the probability of the need to increase the dish size of affected customers of APSTAR IIR. Based on information from the independent third party, there are currently no FM/TV carrier services and this greatly alleviated the probability of retrofitting the dish. Through and including the date hereof, the independent third party and potentially affected customers have not requested the Group for retrofitting the dishes. Accordingly, the directors are of the opinion that the probability of retrofitting the dish is remote and hence, no provision on regulatory matters is considered necessary. An amount of HK$47,212,000 (2001: nil) has been written back.

6. OTHER OPERATING INCOME

	2002 HK$'000	2001 HK$'000
Other operating income includes the following:		
Interest income	**22,189**	70,221
Rental income in respect of properties	**448**	349

7. PROFIT FROM OPERATIONS

	2002 HK$'000	2001 HK$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration		
Current year	**515**	400
Underprovision in prior year	**–**	120
Amortisation of goodwill (included in administrative expenses)	**660**	–
Bad debt written off	**107**	–
Depreciation	**233,971**	217,021
Exchange loss	**16**	312
Loss on disposal of property, plant and equipment	**30**	37
Minimum lease payments of operating lease rentals in respect of land and buildings	**3,597**	3,259
Minimum lease payments of operating lease rentals in respect of satellite transponders	**1,474**	33
Allowance for (write back of allowance for) doubtful receivables	**5,207**	(5,182)
Staff costs (including directors' emoluments)		
Pension contributions	**1,294**	1,219
Less: Forfeited contributions	**(28)**	(252)
Net pension contributions	**1,266**	967
Wages, salaries and bonuses	**35,900**	38,444
	37,166	39,411
Less: Capitalised in construction in progress	**(1,108)**	–
	36,058	39,411

8. FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest on bank borrowings wholly repayable within five years	**117**	5,644
Other borrowing costs	**2,125**	–
Less: Amount capitalised in construction in progress	**(2,242)**	–
	–	5,644

Borrowing costs capitalised during the year arose on bank loans borrowed for the purpose of financing the construction and launching of satellites.

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

	2002 HK$'000	2001 HK$'000
Directors' remuneration		
Fees to independent non-executive directors	**165**	200
Fees to non-executive directors	**573**	550
Remuneration to executive directors:		
Fees	**125**	139
Salaries and other benefits	**6,312**	5,505
Retirement benefits contributions	**201**	153
Compensation paid for the loss of office	**–**	2,729
	6,638	8,526
	7,376	9,276

Mr. Wu Hongju, an non-executive director and Mr. Huan Guocang, an independent non-executive director, have waived their directors' fee from the date of appointment up to 31 December 2002. Save as afore-mentioned, none of the Directors has waived the rights to receive their remunerations.

9. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

Emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
Nil to HK$1,000,000	**19**	17
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	1

Employees' remuneration

The five highest paid individuals of the Group included two directors (2001: three), details of whose remuneration are set out above. The emoluments of the remaining three (2001: two) highest paid employees are as follows:

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Salaries and other benefits	**5,553**	6,919
Performance related incentive payments	**114**	203
Retirement benefits contributions	**266**	172
	5,933	7,294

Emoluments of these employees were within the following bands:

	Number of employee(s)	
	2002	2001
HK$1,500,001 to HK$2,000,000	**2**	1
HK$2,500,001 to HK$3,000,000	**1**	–
HK$5,500,001 to HK$6,000,000	**–**	1
	3	2

10. TAXATION

	2002 HK$'000	2001 HK$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year		
Current year	**7,744**	6,283
Underprovision in prior years	**–**	1,388
Overseas tax calculated at rates prevailing in respective jurisdictions		
Current year	**23,551**	18,127
Underprovision in prior year	**3,731**	–
	35,026	25,798
Deferred taxation (note 27)	**1,788**	149
	36,814	25,947

Overseas tax includes the withholding tax paid or payable in respect of Group's transponder lease income derived from the lessees which are located outside Hong Kong.

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

	2002 HK$'000	2001 HK$'000
Tax effect of timing differences attributable to:		
Difference between depreciation allowances for tax purposes and depreciation charged in the financial statements	**(10,862)**	(12,231)
Tax loss utilised – net	**13,758**	11,627
Other timing difference	**(162)**	162
Certain leasing arrangements	**(946)**	591
	1,788	149

11. DIVIDENDS

	2002 HK$'000	2001 HK$'000
Proposed final dividend of nil (2001: HK5 cents) per share	–	20,636

12. EARNINGS PER SHARE

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

	2002 HK$'000	2001 HK$'000
Earnings		
Earnings for the purposes of calculating basic and diluted earnings per share (net profit attributable to shareholders)	**24,435**	78,009

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**412,675**	412,773
Effect of dilutive share options	–	1,117
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**412,675**	413,890

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Communication satellite equipment HK$'000	Communication station HK$'000	Communication satellites HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP										
COST										
At 1 January 2002	49,419	5,523	18,520	4,708	1,940	73,816	–	2,100,129	288,514	2,542,569
Acquisition of a subsidiary	–	580	638	490	–	2,651	–	–	6,720	11,079
Additions	23	269	308	253	97	15,953	–	–	1,080,091	1,096,994
Disposals	–	–	(262)	(712)	(450)	–	–	–	–	(1,424)
Transfer	69,328	538	31,191	–	–	2,473	5,179	–	(108,709)	–
Exchange adjustments	–	–	–	–	–	(1)	–	–	(2)	(3)
At 31 December 2002	118,770	6,910	50,395	4,739	1,587	94,892	5,179	2,100,129	1,266,614	3,649,215
DEPRECIATION										
At 1 January 2002	5,412	3,982	17,844	4,009	1,105	44,139	–	1,316,051	–	1,392,542
Provided for the year	2,518	777	5,942	393	252	8,228	291	215,570	–	233,971
Impairment loss recognised	5,218	–	–	–	–	–	–	–	–	5,218
Disposals	–	–	(255)	(712)	(422)	–	–	–	–	(1,389)
At 31 December 2002	13,148	4,759	23,531	3,690	935	52,367	291	1,531,621	–	1,630,342
NET BOOK VALUE										
At 31 December 2002	105,622	2,151	26,864	1,049	652	42,525	4,888	568,508	1,266,614	2,018,873
At 31 December 2001	44,007	1,541	676	699	835	29,677	–	784,078	288,514	1,150,027

During the year, the directors of the Group conducted a review of the Group's land and buildings and determined that certain properties were impaired due to the recoverable amount of the assets is estimated to be less than its carrying amount. Accordingly, impairment loss of approximately HK$5,218,000 in respect of land and buildings has been recognised and charged to the income statement.

Included in construction in progress is net interest capitalised of approximately HK$117,000 (2001: Nil).

Included in the construction in progress is an amount of approximately HK$619,039,000 representing the costs incurred for constructing a new satellite that has 54 transponders. On 23 September 2002, a subsidiary of the Company has entered into a term-sheet (the "Term-sheet") with an independent third party. Under the Term-sheet, the third party agreed to participate in the development of APSTAR V through taking up 50% of the investment of the satellite project on an equal proportion basis in order to obtain 27 transponders at an estimated amount of approximately US$115 million. Details of the deal had been set out in the circular of 7 October 2002 to shareholders.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Motor vehicle HK$'000
THE COMPANY	
COST	
At 1 January 2002 and 31 December 2002	411
DEPRECIATION	
At 1 January 2002	301
Provided for the year	83
At 31 December 2002	384
NET BOOK VALUE	
At 31 December 2002	27
At 31 December 2001	110

The net book value of land and buildings held by the Group as at 31 December 2002 is analysed by locations as follows:

	Land and buildings 2002 HK$'000	2001 HK$'000
Medium-term leases outside Hong Kong	**2,718**	3,812
Medium-term leases in Hong Kong	**102,904**	40,195
	105,622	44,007

14. INVESTMENT PROPERTY

The investment property was valued at its open market value at 31 December 2002 of approximately HK$2,332,000 (2001: 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$70,000 (2001: 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$257,000 (2001: HK$129,000).

15. GOODWILL

	HK$'000
COST	
Arising on acquisition of interest in a subsidiary during the year and at 31 December 2002	4,036
AMORTISATION AND IMPAIRMENT	
Charge for the year	660
Impairment loss recognised during the year	3,376
At 31 December 2002	4,036
NET BOOK VALUE	
At 31 December 2002	–

The amortisation period adopted for goodwill is 55 months.

At the balance sheet date, the directors of the Group have reviewed the impairment of the goodwill by comparing the Group's share of the recoverable amount of the subsidiary concerned as a whole to the Group's share of the carrying value of assets together with the goodwill. In view of the net liabilities position of the subsidiary and based on the projected future operating cash flow, it is expected that the remaining unamortised balance will not be recovered and therefore, an impairment is recognised.

16. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**615,862**	615,862
Amounts due from subsidiaries	**1,272,295**	1,271,142
	1,888,157	1,887,004

Amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. The Company has agreed not to demand for repayment within the next twelve months from the balance sheet date and accordingly, the amounts are classified as non-current.

Details of the subsidiaries of the Company as at 31 December 2002 are set out in note 34.

17. INTEREST IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Share of net assets	**34,047**	44,163
Amounts due from jointly controlled entities	**52,216**	28,805
Loans to a jointly controlled entity	**–**	7,440
	86,263	80,408

Details of the jointly controlled entities of the Group as at 31 December 2002 are set out below:

Name of entity	Form of business structure	Place of incorporation/ registration	Nominal value of issued share capital	Proportion of nominal value of issued capital/ registered capital held by the Company	Nature of business
APT Satellite Telecommunications Limited ("APT Telecom")	Incorporated	Hong Kong	HK$88,300,100	55%	Provision of telecommunication services
北京中廣信達數據廣播技術有限公司 ("中廣信達")	Joint venture, Incorporated	PRC	Registered capital RMB11,000,000	35%	Provision of data transmission 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.

The amounts due from jointly controlled entities are unsecured, interest-free and have no fixed repayment terms. The Group has agreed not to demand for repayment within the next twelve months from the balance sheet date and accordingly, the amounts are classified as non-current.

The loans granted to a jointly controlled entity in 2001 were unsecured. An outstanding loan balance of HK$1,240,000 was interest free for the first six months from the date of the advance and thereafter bears interest at 6% per annum. Another loan amounting to HK$6,200,000 was interest-free.

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

18. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Share of net asset	**–**	–

At the balance sheet date, the Group has a 35% interest in the issued ordinary shares capital of APT Eurosportnews Distribution Limited, a company incorporated in Hong Kong which is engaged in the provision of satellite television broadcasting services.

19. TRADE RECEIVABLES

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Due from third parties	**23,827**	14,408
Due from a shareholder of the Company	**53**	11,098
Due from a jointly control entity	**101**	–
	23,981	25,506

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	
	2002	2001
	HK$'000	HK$'000
0 – 30 days	**9,735**	15,887
31 – 60 days	**4,550**	3,348
61 – 90 days	**4,150**	1,719
91 – 120 days	**546**	147
120 days	**5,000**	4,405
	23,981	25,506

20. OTHER PAYABLES AND ACCRUED CHARGES

At 31 December 2001, the balance included a provision on regulatory matters in respect of the life lease of transponders of APSTAR IIR of HK$47,212,000. In current year, the provision has been written back. The details are set out in note 5.

21. SECURED BANK BORROWINGS

	THE GROUP 2002 HK$'000	2001 HK$'000
Bank loans	**481,482**	379,668
Less: Amount due within one year included under current liabilities	**(317,682)**	(61,986)
Amount due after one year	**163,800**	317,682
Bank borrowings are repayable:		
On demand or within one year	**317,682**	61,986
In the second year to fifth years inclusive	**163,800**	317,682
	481,482	379,668

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 2002, the bank loans borrowed by the Partnership of HK$317,682,000 (2001: HK$379,668,000) included above are secured by time deposits of an equivalent amount (see note 29). 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$43,685,000 (2001: HK$50,511,000) are set-off in the consolidated income statement.

22. 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 2001	412,800	41,280
Repurchase of shares	(80)	(8)
Balance at 31 December 2001 and at 1 January 2002	412,720	41,272
Repurchase of shares	(185)	(18)
Balance at 31 December 2002	412,535	41,254

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.

22. SHARE CAPITAL (Continued)

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

Month of repurchase in 2002	Number of shares	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
October	185,000	1.75	1.44	307

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.

23. SHARE OPTIONS

At the annual general meeting on 22 May 2001, the Company adopted a share option scheme ("Scheme 2001") and granted options to its employees on 19 June 2001. On 22 May 2002, the Company adopted a new share option scheme ("Scheme 2002") at its 2002 annual general meeting. Thereafter, no future options can be granted under the Scheme 2001. The options granted on 19 June 2001 shall continue to be valid until their expiry.

The total number of shares which may be issued upon exercise of all options to be granted under Scheme 2001 and Scheme 2002 shall not in aggregate exceed 10% of the total number of shares of the Company ("Shares") in issue on the adoption date of the Scheme 2002 (i.e. 412,720,000 shares). As at the date of report, the shares of the Company in issue was 412,535,000 shares.

Under Scheme 2002, the total number of Shares to be issued upon exercise of the options granted to each eligible person (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. The exercise price (subscription price) shall be such price as determined by the Board of Directors in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be lower than the highest of (i) the closing price of the Shares as stated in the 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 as stated in the Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share.

During the year, no options had been granted under the Scheme 2002.

23. SHARE OPTIONS (Continued)

Under the Scheme 2001, the maximum entitlement of each eligible person was that the total number of shares issued or issuable under all options granted to such eligible person (including both exercised and outstanding options) upon such grant being made shall not exceed 25% of the total number of the Shares for the time being issued and issuable under the Scheme 2001. In addition, the subscription price was determined by the Board of Directors on a case-by-case basis and would not be less than the nominal value of the Shares nor at a discount of more than 20% below the average closing price of the Shares as stated in the Exchange's daily quotation sheets on the five dealing days immediately preceding the date on which the invitation to apply for an option under Scheme 2001.

The particulars of the share options granted under the Scheme 2001 outstanding during the year are as follows:

	Number of share options
Outstanding as at 1 January 2002	13,450,000
Cancelled during the year	(40,000)
Outstanding as at 31 December 2002	13,410,000

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.

The financial impact of share options granted is not recorded in the financial statements until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

24. CONTRIBUTED SURPLUS/OTHER RESERVES/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 reserves represent 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 2002, the Company's reserves available for distribution amounted to HK$625,997,000 (2001: HK$646,264,000) as computed in accordance with the Companies Act 1981 of Bermuda (as amended).

25. DEPOSITS RECEIVED

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

26. 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.

27. DEFERRED TAXATION

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Balance at beginning of year	**123,675**	123,526
Charge for the year (note 10)	**1,788**	149
Balance at end of the year	**125,463**	123,675

27. DEFERRED TAXATION (Continued)

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

	THE GROUP	
	2002	2001
	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	**66,637**	77,499
Tax losses	**(51,115)**	(64,873)
Other timing differences	**–**	162
Certain leasing arrangements	**109,941**	110,887
	125,463	123,675

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 leasing arrangements. Any differences between the initial benefit and the eventual tax liability are provided for over the lives of the relevant leases.

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	
	2002	2001
	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
Unutilised tax losses carried forward	**(1,679)**	(1,539)
	(1,679)	(1,528)

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

27. DEFERRED TAXATION (Continued)

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

28. ACQUISITION OF A SUBSIDIARY

On 11 April 2002, the Group had completed the acquisition of an additional 20% interest in CTIA such that CTIA became a subsidiary of the Company thereafter. The transaction has been accounted for by the acquisition method of accounting.

	HK$'000
Net assets acquired:	
Property, plant and equipment	11,079
Interest in jointly controlled entity	509
Trade receivables	848
Deposits, prepayments and other receivables	13,473
Bank balances and cash	2,759
Other payables and accrued charges	(3,135)
Amount due to shareholders	(16,902)
Minority interests	(9,231)
	(600)
Shareholders' loan acquired	3,744
Goodwill	4,036
Total consideration	7,180
Satisfied by:	
Cash consideration	7,180
Net cash outflow arising on acquisition:	
Cash consideration	7,180
Bank balances and cash acquired	(2,759)
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	4,421

The subsidiary acquired during the year contributed approximately HK$3,896,000 to the Group's turnover and approximately a loss of HK$4,800,000 to the Group's result from operations.

29. 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$5,120,000 (2001: HK$8,035,000).

Furthermore, at 31 December 2002, the Group had outstanding bank loans of approximately HK$317,682,000 (2001: HK$379,668,000) arranged under certain lease arrangements which are secured by time deposits of an equivalent amount. Of this amount HK$317,682,000 (2001: HK$61,986,000) is included as part of current pledged bank deposits.

In December 2002, the Group entered into a US$240 million secured term loan facility, which is secured by the assignment of the construction, launching and related equipment contracts relating to satellites under construction and their related insurance claim proceeds, assignment of all present and future lease agreements of their transponders of satellites under construction, first fixed charge over certain bank accounts which will hold receipts of the transponder income and the termination payments under construction, launching and related equipment contracts. At 31 December 2002, the assets under fixed charge are the satellites under construction with carrying value of approximately HK$1,259,513,000 (2001: N/A) and bank deposit of approximately HK$4,000 (2001: N/A).

30. 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.

The Company has given guarantee to banks in respect of the secured term loan facility granted to its subsidiary. The extent of such facility utilised by the subsidiary at 31 December 2002 amounted to HK$163,800,000 (2001: Nil).

31. CAPITAL COMMITMENTS

At 31 December 2002, the Group had authorised but not contracted capital commitments of HK$868,997,000 (2001: HK$295,937,000) and contracted but not provided for capital commitments of HK$1,095,129,000 (2001: HK$2,230,257,000) mainly in respect of the procurement and launch of new satellites, APSTAR V and APSTAR VI.

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

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Authorised but not contracted	–	48,975
Contracted but not provided for in the financial statements	**69,407**	40,252
Total commitments	**69,407**	89,227

32. 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 which fall due as follows:

Land and buildings:

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Within one year	**3,452**	3,440
After one but within five years	**670**	4,064
	4,122	7,504

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

32. LEASING ARRANGEMENTS (Continued)

The Group as lessee (Continued)

Satellite transponders:

	THE GROUP	
	2002	2001
	HK$'000	HK$'000
Within one year	**3,037**	402
In the second to fifth year inclusive	**4,565**	1,206
	7,602	1,608

Operating lease payments represent rental payable by the Group for leasing of satellite transponders for a term of 3 years and rentals are fixed for the whole lease term.

The Group as lessor

Rental income in respect of leasing of satellite transponders earned during the year was HK$323,961,000 (2001: HK$359,482,000). Depreciation charged for the year in respect of these satellites was HK$215,570,000 (2001: HK$208,458,000). At the balance sheet date, communication satellites with an aggregated net book value of HK$568,508,000 (2001: HK$784,078,000) 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:

	2002	2001
	HK$'000	HK$'000
Within one year	**196,242**	268,970
After one but within five years	**143,980**	277,991
	340,222	546,961

32. LEASING ARRANGEMENTS (Continued)

The Group as lessor (Continued)

At the balance sheet date, the Group contracted with a jointly controlled entity in respect of rented premises and facilities management services under non-cancellable operating leases. The future minimum lease payments are calculated based on the terms of the respective operating lease agreement that have been revised subsequently after the balance sheet date and are fall due as follows:

	2002 HK$'000	2001 HK$'000
Within one year	**4,330**	8,110
After one but within five years	**16,440**	35,275
Over five years	**16,794**	44,854
	37,564	88,239

Property rental income earned during the year was HK$448,000 (2001: HK$349,000). At the balance sheet date, certain properties with an aggregate carrying value of HK$6,327,000 (2001: HK$9,109,000) were held for rental purpose and 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$291,000 (2001: HK$404,000) and after one but within five years amounting to HK$129,000 (2001: HK$129,000). Depreciation charged for the year in respect of these properties was HK$149,000 (2001: HK$149,000).

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

33. 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 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.

34. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2002 are as follows:

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

34. PARTICULARS OF SUBSIDIARIES (Continued)

Name of Company	Place of incorporation/ establishment/ operation*	Nominal value of issued share capital**	Principal activities	Percentage of issued equity share capital held by the Company
Indirect (Continued)				
APT Satellite (Apstar V) Limited	Hong Kong	HK$2	Not yet commence business	100%
Haslett Investments Limited	British Virgin Islands	US$1	Investment	100%
Telewell Investment Limited	Hong Kong	HK$2	Investment holding	100%
The 138 Leasing Partnership	Hong Kong	Partners' capital HK$329,128,857	Satellite leasing	N/A
Ying Fai Realty (China) Limited	Hong Kong/PRC	HK$20	Property holding	100%
亞訊通信技術開發(深圳)有限公司 (APT Communication Technology Development (Shenzhen) Co., Ltd.)	Wholly owned foreign enterprises, PRC	Registered capital HK$5,000,000	Satellite transponder leasing	100%
CTIA VSAT Network Limited	Hong Kong	HK$5,000,000	Investment holding	60%
北京亞太東方通信網絡有限公司	Joint venture, PRC	Registered capital US$4,000,000	Provision of data transmission services	60%

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

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

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

35. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

	2002 HK$'000	2001 HK$'000
Income from leasing of transponders to certain shareholders of the Company (note i)	**34,551**	20,809
Income from leasing of transponders to a holding company of a shareholder of the Company (note i)	**18,594**	19,500
Income from leasing of transponders to a jointly controlled entity (note i)	**8,245**	6,282
Management fee income from a jointly controlled entity (note ii)	**1,500**	1,500
Management fee income from an associate (note iii)	**189**	–
Interest income from jointly controlled entities (note iv)	**–**	2,820
Interest income from a subsidiary of a shareholder (note v)	**–**	995
Facilities management services income from a jointly controlled entity (note vi)	**8,311**	–
Rental expenses in connection with the leasing of transponders from a shareholder of the Company (note vii)	**2,574**	3,510
Technical support services expenses to a shareholder of the Company (note viii)	**–**	4,490
Management fee expenses to a holding company of a shareholder of the Company (note ix)	**2,280**	1,802
Land and buildings transferred to a jointly controlled entity (note x)	**–**	13,657
Payments in connection with the satellite project to a shareholder of the Company (note xi)		
– service fee	**–**	1,560
Payments in connection with the satellite project to a fellow subsidiary of a shareholder of the Company (note xi)		
– service fee	**12,324**	140,166

35. RELATED PARTY TRANSACTIONS (Continued)

(b) At the balance sheet date, the Group had the following amounts included in the balance sheet in respect of amounts owing by and to related parties:

	Trade receivables		Deposits, prepayments and other receivables		Other payables and accrued charges		Rentals received in advance and deferred income	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Jointly controlled entities	**101**	–	**52,215**	36,471	**1,590**	3,329	**–**	–
Certain shareholders of the Company	**53**	11,098	**–**	956	**4,665**	4,594	**12,638**	21,309
Holding company of a shareholder of the Company	**–**	–	**–**	–	**31,862**	35,112	**1,113**	–
Shareholder of a jointly controlled entity	**–**	–	**4,673**	4,673	**–**	–	**–**	–

(c) In addition, at 31 December 2002, the Group had outstanding commitment to pay launch service fee to a fellow subsidiary of a shareholder of the Company amounting to HK$317,850,000 (2001: HK$330,174,000).

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) Management fee income from an associate arose from the reimbursement of expenses paid on behalf of an associate.

(iv) The interest income from a jointly controlled entity arose from loans made to the entity, further details of which are disclosed in note 17.

35. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

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

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

(vii) The directors consider that the terms and conditions of these transponders lease agreements are similar to those offered to other customers by the lessor.

(viii) 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.

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

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

(xi) 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.

36. SEGMENTAL INFORMATION

The Group only has 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:

	2002		2001	
	Turnover HK$'000	Contribution to profit from operations HK$'000	Turnover HK$'000	Contribution to profit from operations HK$'000
Hong Kong	**47,178**	**10,164**	40,459	11,694
Other regions in the PRC	**254,901**	**54,914**	270,009	78,041
Others	**49,346**	**10,630**	63,690	18,408
	351,425	**75,708**	374,158	108,143
Other operating income		**72,327**		78,491
Unallocated corporate expenses		**(78,550)**		(71,967)
Profit from operations		**69,485**		114,667

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 is presented.

36. 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:

	2002		2001	
	Segment assets HK$'000	Segment liabilities HK$'000	Segment assets HK$'000	Segment liabilities HK$'000
Hong Kong	**206**	**17,970**	23	27,028
Other regions in the PRC	**42,077**	**69,935**	23,646	92,543
Others	**934**	**38,347**	1,837	39,663
	43,217	**126,252**	25,506	159,234
Unallocated corporate assets/liabilities	**3,296,152**	**737,968**	3,255,192	656,827
	3,339,369	**864,220**	3,280,698	816,061