

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2000

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 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. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention 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, other than a subsidiary excluded for the reasons referred to below (hereinafter collectively referred to as the "Group") made up to 31 December each year.

Where the Group holds more than half of the issued share capital of a subsidiary, but does not control the composition of the board of directors or equivalents governing body, the financial statements of that subsidiary are not consolidated because to do so would be misleading. Where the Group is in a position to exercise significant influence or joint control, such investments are dealt with as associates or jointly controlled entities as appropriate. Otherwise, they are accounted for in accordance with the Group's policy for investments in securities.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are stated at cost, as reduced by any decline in value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Investment 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. 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.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess over the purchase consideration of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary, is credited to reserves.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Any premium or discount arising on the acquisition of interests in associates or jointly controlled entities, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate or jointly controlled entity at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On the disposal of an investment in a subsidiary, an associate or jointly controlled entity, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation. 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.

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.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation of communication satellite 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, using the straight line method, over their estimated useful lives.

Property, plant and equipment are depreciated at the following rates:

| | |
|-----------------------------------|---------------------------------------|
| 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% |

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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.

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 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 income from operating leases is recognised on an accrual basis in accordance with the terms in the leases over the lease term.

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

Retirement benefits cost

The Group formerly operated a defined contribution retirement benefits scheme for those employees who were eligible and had elected to participate in the scheme. The assets of the scheme were held separately from those of the Group in an independently administered fund. Contributions were made based on a percentage of the participating employees' basic salaries and were charged to the income statement as they became payable in accordance with the rules of the scheme. When an employee left the scheme prior to his/her interest in the employer's contributions vesting fully, the contributions payable by the Group were reduced by the relevant amount of forfeited contributions.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits cost (Continued)

In December 2000, the Group changed its retirement benefits scheme to Mandatory Provident Fund (“MPF”). According to the MPF legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group is required to participate in MPF Scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions paid and payable by the Group to the schemes are charged to the income statement.

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.

3. 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.

| | 2000 HK\$'000 | 1999 HK\$'000 |
|--------------------------|------------------|------------------|
| Transponder lease income | 329,976 | 478,972 |
| Service income | 11,520 | 2,986 |
| | <u>341,496</u> | <u>481,958</u> |

4. OTHER REVENUE

| | 2000 | 1999 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Other revenue includes the followings: | | |
| Compensation income for early termination of lease agreements | 440 | 34,106 |
| Exchange gain | 10,407 | 89 |
| Gain arising from life lease of satellite transponders of APSTAR IIR | – | 389,744 |
| Gain on disposal of property, plant and equipment | 498 | – |
| Gain on disposal of partial interest in a jointly controlled entity | 2,500 | – |
| Interest income | 106,502 | 11,530 |
| Rental income in respect of land and buildings | 298 | 446 |
| Write-back of provision on regulatory matters previously recognised in the life lease of transponders of APSTAR IIR | 45,788 | – |

5. PROFIT FROM OPERATIONS

| | 2000 | 1999 |
|--|----------------------|----------------------|
| | HK\$'000 | HK\$'000 |
| Profit from operations has been arrived at after charging: | | |
| Auditors' remuneration | 330 | 420 |
| Depreciation | 216,808 | 300,548 |
| Loss on disposal of property, plant and equipment | – | 21 |
| Operating lease rentals in respect of land and buildings | 3,108 | 2,613 |
| Provision for doubtful receivables | – | 21,727 |
| Staff cost (including directors' emoluments): | | |
| Pension contributions | 980 | 1,081 |
| Less: Forfeited contributions | (267) | (198) |
| Net pension contributions* | 713 | 883 |
| Wages, salaries and bonus | 32,101 | 31,014 |
| | <u>32,814</u> | <u>31,897</u> |

* At 31 December 2000, there were no forfeited contributions available to the Group to reduce its contributions to the retirement benefits scheme in the future years (1999: Nil).

6. FINANCE COSTS

| | 2000 | 1999 |
|---|------------------------|------------------------|
| | HK\$'000 | HK\$'000 |
| Interest on bank and other borrowings wholly repayable within five years | <u>(15,338)</u> | <u>(31,750)</u> |

7. DIRECTORS' AND EMPLOYEES' REMUNERATION

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|---------------------|---------------------|
| Directors' Remuneration | | |
| Fees to independent non-executive directors | <u>200</u> | <u>117</u> |
| Fees to non-executive directors | <u>510</u> | <u>550</u> |
| Remuneration to executive directors: | | |
| Fees | 55 | 150 |
| Salaries and other benefits | 2,987 | 4,755 |
| Retirement benefits contributions | <u>78</u> | <u>128</u> |
| | <u>3,120</u> | <u>5,033</u> |
| | <u>3,830</u> | <u>5,700</u> |

Emoluments of the directors were within the following bands:

| | Number of directors | |
|--------------------------------|----------------------------|----------|
| | 2000 | 1999 |
| Nil to HK\$1,000,000 | 18 | 16 |
| HK\$1,500,001 to HK\$2,000,000 | – | 1 |
| HK\$2,000,001 to HK\$2,500,000 | – | – |
| HK\$2,500,001 to HK\$3,000,000 | – | 1 |
| HK\$3,000,001 to HK\$3,500,000 | <u>1</u> | <u>–</u> |

7. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)
Employees' Remuneration

The five highest paid individuals of the Group included one director (1999: two), details of whose remuneration are set out above. The emoluments of the remaining four (1999: three) highest paid employees are as follows:

| | THE GROUP | |
|--|---------------------|--------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Salaries and other benefits | 7,405 | 6,802 |
| Performance related incentive payments | 1,860 | – |
| Retirement benefits contributions | 225 | 185 |
| | <u>9,490</u> | <u>6,987</u> |

Emoluments of these employees were within the following bands:

| | Number of employee(s) | |
|--------------------------------|------------------------------|----------|
| | 2000 | 1999 |
| HK\$1,000,001 to HK\$1,500,000 | 2 | – |
| HK\$1,500,001 to HK\$2,000,000 | – | 1 |
| HK\$2,000,001 to HK\$2,500,000 | – | 1 |
| HK\$2,500,001 to HK\$3,000,000 | 1 | 1 |
| HK\$4,000,001 to HK\$4,500,000 | 1 | – |
| | <u>4</u> | <u>3</u> |

8. TAXATION

| | 2000 HK\$'000 | 1999 HK\$'000 |
|--|------------------------|------------------------|
| The (charge) credit comprises: | | |
| Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year | (4,495) | (22,642) |
| Refund of Hong Kong Profits Tax in a prior year | – | 1,649 |
| Overseas tax calculated at rates prevailing in respective jurisdictions | <u>(24,349)</u> | <u>(44,831)</u> |
| | (28,844) | (65,824) |
| Deferred taxation (<i>note 24</i>) | <u>(5,667)</u> | <u>(5,940)</u> |
| | <u><u>(34,511)</u></u> | <u><u>(71,764)</u></u> |

The deferred taxation charge for the year comprises:

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|-----------------------|-----------------------|
| Tax effect of timing differences attributable to: | | |
| Excess of depreciation allowances for tax purposes over depreciation charged in the financial statements | (3,300) | (1,600) |
| Certain leasing arrangements | <u>(2,367)</u> | <u>(4,340)</u> |
| | <u><u>(5,667)</u></u> | <u><u>(5,940)</u></u> |

The deferred taxation charge relating to certain leasing arrangements of HK\$4,340,000 in 1999 was included as other operating expenses in the income statement in the prior year. The amount has been reclassified to taxation charge to better reflect the nature of the expense.

9. NET PROFIT FOR THE YEAR

Of the net profit for the year of HK\$142,996,000 (1999: HK\$374,539,000), a profit of HK\$83,526,000 (1999: HK\$146,424,000) has been dealt with in the financial statements of the Company.

10. DIVIDENDS

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|------------------|------------------|
| Interim dividend paid of 5 cents (1999: nil) per share | 20,805 | – |
| Proposed final dividend of 15 cents (1999: 35 cents) per share | 61,920 | 147,000 |
| | <u>82,725</u> | <u>147,000</u> |

The proposed final dividend is based on 412,800,000 shares in issue as at the date of this report.

11. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the net profit for the year of HK\$142,996,000 (1999: HK\$374,539,000) and on the weighted average of 417,433,000 shares (1999: 420,000,000 shares) outstanding during the year.

No diluted earnings per share has been presented for both years as there is no dilutive potential shares.

12. PROPERTY, PLANT AND EQUIPMENT

| | Land buildings | Leasehold and improve- ments | Furniture and equipment | Motor vehicles | Computer equipment | Commun- ication satellite equipment | Commun- ication satellites | Commun- ication Construction in progress | Total |
|----------------------------|-------------------|------------------------------------|-------------------------------|-------------------|-----------------------|--|----------------------------------|---|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| THE GROUP | | | | | | | | | |
| COST | | | | | | | | | |
| At 1 January 2000 | 49,738 | 3,549 | 18,129 | 4,986 | 1,868 | 67,631 | 2,100,129 | - | 2,246,030 |
| Additions | 17,669 | 1,974 | 543 | 316 | 304 | 3,487 | - | 10,935 | 35,228 |
| Disposals | (1,915) | - | (272) | (653) | (644) | - | - | - | (3,484) |
| At 31 December 2000 | 65,492 | 5,523 | 18,400 | 4,649 | 1,528 | 71,118 | 2,100,129 | 10,935 | 2,277,774 |
| DEPRECIATION | | | | | | | | | |
| At 1 January 2000 | 3,914 | 2,699 | 17,290 | 4,354 | 1,282 | 32,279 | 899,136 | - | 960,954 |
| Provided for the year | 1,014 | 543 | 387 | 337 | 211 | 5,859 | 208,457 | - | 216,808 |
| Disposals | (317) | - | (243) | (653) | (643) | - | - | - | (1,856) |
| At 31 December 2000 | 4,611 | 3,242 | 17,434 | 4,038 | 850 | 38,138 | 1,107,593 | - | 1,175,906 |
| NET BOOK VALUE | | | | | | | | | |
| At 31 December 2000 | 60,881 | 2,281 | 966 | 611 | 678 | 32,980 | 992,536 | 10,935 | 1,101,868 |
| At 31 December 1999 | 45,824 | 850 | 839 | 632 | 586 | 35,352 | 1,200,993 | - | 1,285,076 |

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Motor vehicle HK\$'000 |
|--|---------------------------------------|
| THE COMPANY | |
| COST | |
| At 1 January 2000 and 31 December 2000 | 411 |
| DEPRECIATION | |
| At 1 January 2000 | 137 |
| Provided for the year | 82 |
| At 31 December 2000 | 219 |
| NET BOOK VALUE | |
| At 31 December 2000 | 192 |
| At 31 December 1999 | 274 |

An analysis of the locations of land and buildings of the Group held as at 31 December 2000 is as follows:

| | Land and buildings | |
|--------------------------------------|---------------------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Long leases outside Hong Kong | – | 1,915 |
| Medium term leases outside Hong Kong | 6,834 | 6,834 |
| Medium term leases in Hong Kong | 58,658 | 40,989 |
| | 65,492 | 49,738 |

13. INTEREST IN SUBSIDIARIES

| | THE COMPANY | |
|-------------------------------|------------------|------------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 615,862 | 615,862 |
| Amounts due from subsidiaries | 1,376,466 | 1,296,513 |
| | <u>1,992,328</u> | <u>1,912,375</u> |

Details of the subsidiaries of the Company as at 31 December 2000 are set out in note 32.

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | THE GROUP | |
|--|-----------------|--------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Share of net assets | 1,899 | 2,500 |
| Due from the jointly controlled entity | 22 | 22 |
| Loans to the jointly controlled entity | 55,440 | 3,100 |
| | <u>57,361</u> | <u>5,622</u> |
| Less: Amount of loan due within one year included under current asset | <u>(46,500)</u> | <u>—</u> |
| | <u>10,861</u> | <u>5,622</u> |

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 is engaged in investment holding. Its subsidiary is engaged in providing telecommunication services. CTIA is considered as a jointly controlled entity due to the Group and the other shareholder, pursuant to a shareholders’ resolution, has joint control over the board of directors.

14. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

The loans granted to the 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 amounting to HK\$1,500,000 and HK\$46,500,000 bear interest at 6% and 8.25% per annum, and are repayable in 2002 and 2001, respectively.

15. INTEREST IN A SUBSIDIARY NOT CONSOLIDATED

| | THE GROUP | |
|---|---------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Share of net deficit | (1,234) | – |
| Amount due from the subsidiary not consolidated | 12,801 | – |
| | <u>11,567</u> | <u>–</u> |

The Group 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 not consolidated as the Group’s ability to appoint the majority of the board of directors is limited. 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. APT Telecom is accounted for in the Group’s financial statements using the equity method of accounting. The Group’s share of results of a subsidiary not consolidated for the year represented the Group’s share of the subsidiary’s net loss for the period amounted to HK\$1,234,000 (1999: Nil) and is included in the consolidated income statement.

16. TRADE RECEIVABLES

| | THE GROUP | |
|--------------------------|------------------|---------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Due from third parties | 59,928 | 23,820 |
| Due from related parties | – | 38,486 |
| | <u>59,928</u> | <u>62,306</u> |

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 | |
|-----------------------|------------------|---------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Not yet due | 1,707 | 871 |
| Overdue 0 – 30 days | 37,370 | 16,479 |
| Overdue 31 – 60 days | 6,327 | 2,196 |
| Overdue 61 – 90 days | 747 | 161 |
| Overdue 91 – 120 days | 9,534 | 10,098 |
| Overdue 120 days | 4,243 | 32,501 |
| | <u>59,928</u> | <u>62,306</u> |

17. BANK BORROWINGS

| | THE GROUP | | THE COMPANY | |
|---|-----------------------|----------------|-------------|---------------|
| | 2000 | 1999 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Bank loans | 554,988 | 784,928 | – | 77,500 |
| Less: Amount due within one year included under current liabilities | (175,320) | (230,710) | – | (77,500) |
| Amount due after one year | <u>379,668</u> | <u>554,218</u> | <u>–</u> | <u>–</u> |
| Bank borrowings are repayable: | | | | |
| On demand or within one year | 175,320 | 230,710 | – | 77,500 |
| In the second year | 61,986 | 174,550 | – | – |
| In the third to fifth years, inclusive | 317,682 | 379,668 | – | – |
| | <u>554,988</u> | <u>784,928</u> | <u>–</u> | <u>77,500</u> |
| Secured | 554,988 | 707,428 | – | – |
| Unsecured | – | 77,500 | – | 77,500 |
| | <u>554,988</u> | <u>784,928</u> | <u>–</u> | <u>77,500</u> |

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 2000, the bank loans borrowed by the Partnership of HK\$434,836,000 (1999: HK\$483,785,000) which are included above are secured by time deposits of an equivalent amount (see note 27). The amounts of bank loans and time deposits, which were netted off in the balance sheet in the previous year, have been separately presented in the balance sheet to better reflect the assets and liabilities position of the Group. Comparative figures have also been restated accordingly. The corresponding interest income and interest expense for the year amounted to HK\$56,734,000 (1999: HK\$61,975,000) has been set-off in the consolidated income statement.

18. AMOUNT DUE TO A RELATED COMPANY

The amount is unsecured, interest-free and repayable on demand.

19. SHARE CAPITAL

| | Number of shares | Issued and fully paid share capital HK\$'000 |
|---|---------------------------|---|
| Ordinary shares of HK\$0.10 each | | |
| Balance at 1 January 1999 and at 1 January 2000 | 420,000,000 | 42,000 |
| Repurchase of shares | (7,200,000) | (720) |
| | <u>412,800,000</u> | <u>41,280</u> |
| Balance at 31 December 2000 | <u>412,800,000</u> | <u>41,280</u> |

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 both years.

During the year, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

| Month of repurchase | Number of shares | Price per share | | Aggregate consideration paid HK\$'000 |
|---------------------|---------------------|-----------------|--------|--|
| | | Highest | Lowest | |
| July | 1,400,000 | 4.900 | 4.675 | 6,680 |
| August | 2,500,000 | 4.875 | 4.750 | 12,100 |
| October | 3,300,000 | 4.400 | 3.600 | 13,469 |
| | <u>7,200,000</u> | | | <u>32,249</u> |

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.

20. SHARE OPTIONS

Pursuant to the Company's share option scheme adopted on 3 December 1996 (the "Scheme"), the Directors of the Company may, at any time within ten years after the date on which the Scheme was adopted, invite any full-time employee, including any executive Director or officer, of the Company or any its subsidiaries to apply for options to subscribe for shares of the Company. The subscription price for the options is to be determined by the Directors on a case-by-case basis and may not be less than the nominal value of the shares, nor will the price be at a discount of more than 20% of the average of the closing price of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), as stated in the Stock Exchange's daily quotation sheets, on the five dealing days immediately preceding the date on which the invitation to apply for an opinion under the Scheme is resolved by the Directors to be given.

The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued capital of the Company, excluding any shares issued pursuant to the Scheme from time to time. An option may be exercised in accordance with the terms of the Scheme at any time or times as determined by the Directors, being not later than 10 years after the date on which the option is granted or the tenth anniversary of the date of adoption of the Scheme, whichever is the earlier.

No share options were granted during the year and there were no share options outstanding at the beginning and end of the year.

Subsequent to the balance sheet date, the Company has proposed a resolution in the coming annual general meeting to adopt a new share option scheme.

21. RESERVES

| | Share Contributed Accumulated | | | |
|--|-------------------------------|-----------------------|-----------------------|-------------------------|
| | premium | surplus | profits | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| THE GROUP | | | | |
| At 1 January 1999 | 1,315,522 | 511,000 | 262,737 | 2,089,259 |
| Profit for the year | – | – | 374,539 | 374,539 |
| Dividends | – | – | (147,000) | (147,000) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 1999 and at 1 January 2000 | 1,315,522 | 511,000 | 490,276 | 2,316,798 |
| Premium and cost on repurchase of shares | (31,529) | – | – | (31,529) |
| Profit for the year | – | – | 142,996 | 142,996 |
| Dividends | – | – | (82,725) | (82,725) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2000 | <u>1,283,993</u> | <u>511,000</u> | <u>550,547</u> | <u>2,345,540</u> |
| THE COMPANY | | | | |
| At 1 January 1999 | 1,315,522 | 584,358 | 849 | 1,900,729 |
| Profit for the year | – | – | 146,424 | 146,424 |
| Dividends | – | – | (147,000) | (147,000) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 1999 and at 1 January 2000 | 1,315,522 | 584,358 | 273 | 1,900,153 |
| Premium and cost on repurchase of shares | (31,529) | – | – | (31,529) |
| Profit for the year | – | – | 83,526 | 83,526 |
| Dividends | – | – | (82,725) | (82,725) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2000 | <u>1,283,993</u> | <u>584,358</u> | <u>1,074</u> | <u>1,869,425</u> |

21. RESERVES (Continued)

The contributed surplus of the Company 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.

The contributed surplus of the Group also 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.

At 31 December 2000, the Company's reserves available for distribution amounted to HK\$585,432,000 (1999: HK\$584,631,000) as computed in accordance with the Companies Act 1981 of Bermuda (as amended).

22. DEPOSITS RECEIVED

The amount represents deposits received from lessees for satellite transponders booked.

23. 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 the future periods.

24. DEFERRED TAXATION

| | THE GROUP | |
|---------------------------------------|----------------|----------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Balance at beginning of year | 117,859 | 111,919 |
| Charge for the year (<i>note 8</i>) | 5,667 | 5,940 |
| Balance at end of the year | <u>123,526</u> | <u>117,859</u> |

24. DEFERRED TAXATION (Continued)

The principal components of the provision for deferred taxation are as follows:

| | THE GROUP | |
|--|-----------------------|----------------|
| | 2000 | 1999 |
| | 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 | 13,230 | 9,930 |
| Certain leasing arrangements | 110,296 | 107,929 |
| | <u>123,526</u> | <u>117,859</u> |

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

| | THE GROUP AND THE COMPANY | |
|--|--------------------------------------|--------------|
| | 2000 | 1999 |
| | 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 | 22 | 31 |
| Unutilised tax losses carried forward | (1,099) | (614) |
| | <u>(1,077)</u> | <u>(583)</u> |

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.

25. RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|-------------------------|-----------------------|
| Profit before tax | 177,507 | 446,303 |
| Share of results of a jointly controlled entity | 101 | – |
| Share of results of a subsidiary not consolidated | 1,234 | – |
| Interest income | (106,502) | (11,530) |
| Interest expense | 15,338 | 31,750 |
| Depreciation | 216,808 | 300,548 |
| Write-back of provision on regulatory matters previously recognised in the life lease of transponders of APSTAR IIR | (45,788) | – |
| Net book value of the transponders of APSTAR IIR | – | 1,539,713 |
| (Gain) loss on disposal of property, plant and equipment | (498) | 21 |
| Gain on disposal of partial interest in a jointly controlled entity | (2,500) | – |
| Decrease (increase) in trade receivables | 2,378 | (40,521) |
| Decrease (increase) in deposits, prepayments and other receivables | 1,407,904 | (1,415,902) |
| (Decrease) increase in other payables and accrued charges | (3,051) | 102,527 |
| Decrease in rentals received in advance | (1,159) | (31,283) |
| Decrease in amount due to a related company | (140) | (301) |
| Increase (decrease) in deposits received | 779 | (34,788) |
| Decrease in deferred income | (20,682) | (109,127) |
| Net cash inflow from operating activities | <u><u>1,641,729</u></u> | <u><u>777,410</u></u> |

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

| | Share capital and premium HK\$'000 | Bank loans HK\$'000 | Other loans HK\$'000 | Loans from shareholders HK\$'000 |
|--|--|------------------------|-------------------------|--|
| Balance at 1 January 1999 | 1,357,522 | 1,157,381 | – | 137,000 |
| New borrowings raised during the year | – | 38,750 | 10,352 | – |
| Repayments during the year | | | | |
| – loan portion | – | (411,203) | (10,352) | (120,125) |
| – interest portion | – | – | – | (10,580) |
| Accrued interest expense | – | – | – | 3,968 |
| Balance at 31 December 1999 and at 1 January 2000 | 1,357,522 | 784,928 | – | 10,263 |
| Par value of shares repurchased | (720) | – | – | – |
| Premium and cost arising on repurchase | (31,529) | – | – | – |
| Repayments during the year | | | | |
| – loan portion | – | (229,940) | – | (3,875) |
| – interest portion | – | – | – | (6,399) |
| Accrued interest expense | – | – | – | 11 |
| Balance at 31 December 2000 | <u>1,325,273</u> | <u>554,988</u> | <u>–</u> | <u>–</u> |

27. PLEDGE OF ASSETS

The Group has 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 (1999: HK\$9,770,000).

In addition, certain of the Group's banking facilities are secured by the Group's land and buildings with a net book value of HK\$8,214,000 (1999: HK\$11,996,000) as at 31 December 2000. As at 31 December 1999, the Group had also pledged certain time deposits with a carrying value of HK\$1,807,000 to secure the banking facilities.

27. PLEDGE OF ASSETS (Continued)

Furthermore, at 31 December 2000, the Group had outstanding bank loans of approximately HK\$434,836,000 (1999: HK\$483,785,000) arranged under certain lease arrangements which was secured by time deposits of an equivalent amount. Of this amount, HK\$55,168,000 is included as part of current pledged bank deposits.

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 discussing with the relevant tax authority on whether the transponder lease income of the Group earned before 1999 is subject to the new withholding tax rule. 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\$65,198,000.

29. CAPITAL COMMITMENTS

At 31 December 2000, the Group had authorised but not contracted capital commitments of HK\$1,781,598,000 and contracted but not provided for capital commitments of HK\$1,560,000 in respect of the procurement and launch of a new satellite, APSTAR V.

At 31 December 1999, the Group had capital commitments in connection with the acquisition of property, plant and equipment contracted but not provided for in the financial statements amounted to HK\$2,095,000.

29. CAPITAL COMMITMENTS (Continued)

Also, the Group's share of the capital commitments of the subsidiary not consolidated and a jointly controlled entity not included in the above are as follows:

| | THE GROUP | |
|---|------------------|-------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Authorised but not contracted | | |
| – subsidiary not consolidated | 6,274 | – |
| – jointly controlled entity | – | – |
| | <hr/> | <hr/> |
| | 6,274 | – |
| | <hr/> | <hr/> |
| Contracted but not provided for in the financial statements | | |
| – subsidiary not consolidated | 19,961 | – |
| – jointly controlled entity | 1,196 | 138 |
| | <hr/> | <hr/> |
| | 21,157 | 138 |
| | <hr/> | <hr/> |
| Total commitments | 27,431 | 138 |
| | <hr/> <hr/> | <hr/> <hr/> |

30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings are as follows:

| | THE GROUP | |
|---|------------------|-------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Operating leases which expire: | | |
| – in the next year | 80 | 80 |
| – in the second to fifth year inclusive | 3,181 | 1,891 |
| | <hr/> | <hr/> |
| | 3,261 | 1,971 |
| | <hr/> <hr/> | <hr/> <hr/> |

The Company did not have any operating lease commitment at the balance sheet date.

31. POST BALANCE SHEET EVENTS

Subsequent to balance sheet date, APT Satellite Company Limited (“APT”), a subsidiary of the Company, had entered into a procurement agreement with Space Systems/Loral Inc. for the commissioning of APSTAR V, a satellite based on a FS1300 model satellite with 38 C-band and 16 Ku-band transponders. In addition, APT entered into a launch agreement with China Great Wall Industry Corporation that will launch APSTAR V in the first quarter of 2003 at the Xichang Satellite Launch Centre in the People’s Republic of China. The Directors estimate that the total cost of the project, including the contract price and the costs of the launch insurance, ground facilities for telemetry, tracking and control, related expenses and capitalized interest, will be approximately US\$230 million.

Furthermore, a lease agreement was entered into between APT and Singapore Telecommunications Limited for the lease of 15 C-band transponders of APSTAR V for the rest of its useful life for an aggregate present value of the lease price of approximately US\$112 million upon commercial operation.

32. PARTICULARS OF SUBSIDIARIES

Details of the Company’s subsidiaries as at 31 December 2000 are as follows:

| Name of Company | Place of incorporation/ operation * | Nominal value of issued share capital ** | Proportion of nominal value of issued capital held by the Group | Principal activities |
|--|--|--|--|-------------------------------|
| APT Satellite Investment Company Limited | British Virgin Islands | US\$1,400 | 100% | Investment holding |
| APT Satellite Company Limited | Hong Kong | Ordinary Class ‘A’ HK\$100 Non-voting Deferred Class ‘B’ HK\$542,500,000 | 100% | Satellite transponder leasing |
| Acme Star Investment Limited | Hong Kong | HK\$2 | 100% | Investment holding |

32. PARTICULARS OF SUBSIDIARIES (Continued)

| Name of Company | Place of incorporation/ operation * | Nominal value of issued share capital ** | Proportion of nominal value of issued capital held by the Group | Principal activities |
|--------------------------------------|--|--|---|--|
| APT Satellite Enterprise Limited | Cayman Islands | US\$2 | 100% | Satellite transponder leasing |
| APT Satellite Global Company Limited | Cayman Islands | US\$2 | 100% | Investment holding |
| APT Satellite Glory Limited | Hong Kong | HK\$2 | 100% | Provision of satellite television uplink and downlink services |
| APT Satellite Link Limited | Cayman Islands | US\$2 | 100% | Satellite transponder leasing |
| APT Satellite Vision Limited | Hong Kong | HK\$2 | 100% | Satellite leasing |
| Haslett Investments Limited | British Virgin Islands | US\$1 | 100% | Investment |
| Telewell Investment Limited | Hong Kong | HK\$2 | 100% | Investment holding |
| The 138 Leasing Partnership | Hong Kong | Partners' capital HK\$329,128,857 | N/A | Satellite leasing |
| Ying Fai Realty (China) Limited | Hong Kong/ The People's Republic of China | HK\$20 | 100% | Property holding |

32. PARTICULARS OF SUBSIDIARIES (Continued)

| Name of Company | Place of incorporation/ operation * | Nominal value of issued share capital ** | Proportion of nominal value of issued capital held by the Group | Principal activities |
|--|--|--|---|---|
| APT Satellite Telecommunications Limited | Hong Kong | HK\$100 | 55% <i>(see note 15)</i> | Provision of telecommunication services |

* The place of operations is the place of incorporation 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

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|-------------------|-------------------|
| Income from leasing of transponders to certain shareholders of the Company (<i>note i</i>) | 6,558 | 81,851 |
| Income from leasing of transponders to a company which is a fellow subsidiary of a shareholder of the Company (<i>note i</i>) | – | 9,203 |
| Income from leasing of transponders to a holding company of a shareholder of the Company (<i>note i</i>) | 6,431 | – |
| Income from leasing of transponders to a subsidiary of the Company not consolidated (<i>note i</i>) | 1,808 | – |
| Management fee income from a subsidiary of the Company not consolidated (<i>note ii</i>) | 500 | – |
| Compensation income from early termination of a transponder lease agreement with a company which is a fellow subsidiary of a shareholder of the Company | – | 26,470 |
| Interest income from a jointly controlled entity (<i>note iii</i>) | 277 | – |
| Interest income from certain shareholders of the Company (<i>note iv</i>) | 6,099 | – |
| Interest income from a subsidiary of a shareholder (<i>note v</i>) | 1,790 | – |
| Rental expenses in connection with the leasing of transponders from a shareholder of the Company (<i>note vi</i>) | 819 | – |
| Interest expenses on loans from shareholders of the Company (<i>note vii</i>) | 11 | 3,968 |
| Payments in connection with the APSTAR V project to a shareholder of the Company (<i>note viii</i>) | | |
| – services fees | 2,340 | – |
| – deposit | 7,800 | – |
| | <u> </u> | <u> </u> |

In addition, at 31 December 2000, the Group had outstanding commitment to pay an additional services fee amounting to HK\$1,560,000.

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 subsidiary under the agreement.
- (iii) The interest income from a jointly controlled entity arose from loans made to the entity, further details of which are disclosed in note 14.
- (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 arose from a loan made to a subsidiary of a shareholder and is calculated at 8.25% per annum.
- (vi) 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 interest expenses on loans from shareholders is calculated at six months LIBOR.
- (viii) 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 turnover analysed by geographical market, is as follows:

| | 2000 | 1999 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Hong Kong | 20,347 | 30,632 |
| Other regions in the People's Republic of China | 264,247 | 277,981 |
| United States of America | 22,768 | 68,963 |
| Taiwan | 12,688 | 37,987 |
| Others | 21,446 | 66,395 |
| | 341,496 | 481,958 |

34. SEGMENTAL INFORMATION (Continued)

Contribution to profit from operation by geographical market has not been presented as the contribution to profit from each market is substantially in line with the overall Group ratio of profit to turnover.