APT SATELLITE HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Annual Report 2005

COMPANY PROFILE

APT SATELLITE HOLDINGS LIMITED ("APT Group") is a listed company on both The Stock Exchange of Hong Kong Limited and New York Stock Exchange, Inc. Having started its operation in 1992, APT Group mainly provides high quality services in satellite transponders, satellite communication and satellite TV broadcasting to the broadcasting and telecommunication sectors in Asia, Europe and the United States, and achieves remarkable results. APT Group currently operates five satellites namely APSTAR I, APSTAR IA, APSTAR IIR, APSTAR V and APSTAR VI ("APSTAR SYSTEMS") through its own satellite control centre in Tai Po, Hong Kong. APT Group has finished building its satellite TV broadcasting platform for the provision of "one-stop-shop" satellite TV broadcasting services, providing the best quality and reliable satellite TV uplink and broadcasting services to the customers. In addition, strengthened by APSTAR V and ARSTAR VI, and "one-stop-shop" services in broadcasting and telecommunications, APT Group would accommodate the needs of our customers and reinforce APT Group's competitive advantages.

APSTAR SYSTEMS

Satellites	Model	Orbital Slots	TRANSPONDERS			
			C-Band		Ku-Band	
			Number	Coverage	Number	Coverage
APSTAR-VI	Alcatel SB-4100 C1	134˚E	38	China, India, Southeast Asia, Australia, Hawaii, Guam, South Pacific Islands	12	China (including Hong Kong, Macau and Taiwan)
APSTAR-V	SS/L FS-1300	138˚E	38	China, India, Southeast Asia, Australia, Hawaii, Guam, South Pacific Islands	8 8	China (including Hong Kong, Macau and Taiwan) China and India
APSTAR-IIR	SS/L FS-1300	76.5˚E	28	Europe, Asia, Africa, Australia, about 75% of World's population	16	China (including Hong Kong, Macau and Taiwan) and Korea
APSTAR-IA	Boeing BSS-376	–	24	–	–	–
APSTAR-I	Boeing BSS-376	142˚E	24	–	–	–

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements, such as those that express with words "believes," "anticipates," "plans" and similar wordings. Such forward-looking statements involve inherent risks and uncertainties, and actual results could be materially different from those expressed or implied by them. As regards the factors, uncertainties as well as the risks, they are identified in the Company's most recently filed Form 20-F and reports on Form 6-K furnished to the US Securities and Exchange Commission.

CONTENTS

DIRECTORS

Executive directors

Ni Yifeng *(President)*
Tong Xudong *(Vice President)*

Non-executive directors

Liu Ji Yuan *(Chairman)*
Zhang Hainan *(Deputy Chairman)*
Lim Toon
Wu Zhen Mu
Yin Yen-liang
Ho Siaw Hong
Tseng Ta-mon
(alternate director to Yin Yen-liang)

Independent non-executive directors

Yuen Pak Yiu, Philip
Huan Guocang
Lui King Man

COMPANY SECRETARY

Lo Kin Hang, Brian

AUTHORISED REPRESENTATIVES

Ni Yifeng
Lo Kin Hang, Brian

MEMBERS OF AUDIT COMMITTEE

Yuen Pak Yiu, Philip *(Chairman)*
Huan Guocang
Lui King Man

MEMBERS OF NOMINATION COMMITTEE

Yuen Pak Yiu, Philip *(Chairman)*
Tong Xudong
Huan Guocang
Lui King Man

MEMBERS OF REMUNERATION COMMITTEE

Lui King Man *(Chairman)*
Tong Xudong
Yuen Pak Yiu, Philip
Huan Guocang

QUALIFIED ACCOUNTANT

Lau Mei Bik

AUDITORS

KPMG

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISORS

Richards Butler
Preston Gates & Ellis LLP

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building
No. 6, Front Street
Hamilton, HM 11
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Hong Kong

ADR DEPOSITARY

The Bank of New York
Depositary Receipt Division
101 Barclay Street 22 W
New York NY 10286
USA

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

22 Dai Kwai Street
Tai Po Industrial Estate
Tai Po
New Territories
Hong Kong
Tel: (852) 2600 2100
Fax: (852) 2522 0419
Web-site: www.apstar.com
e-mail: aptmk@apstar.com *(Marketing)*
investors@apstar.com *(Investor Relations)*

STOCK CODE

1045 (in Hong Kong)
ATS (in New York)

TURNOVER & PROFIT/(LOSS)

(HK$ Million)

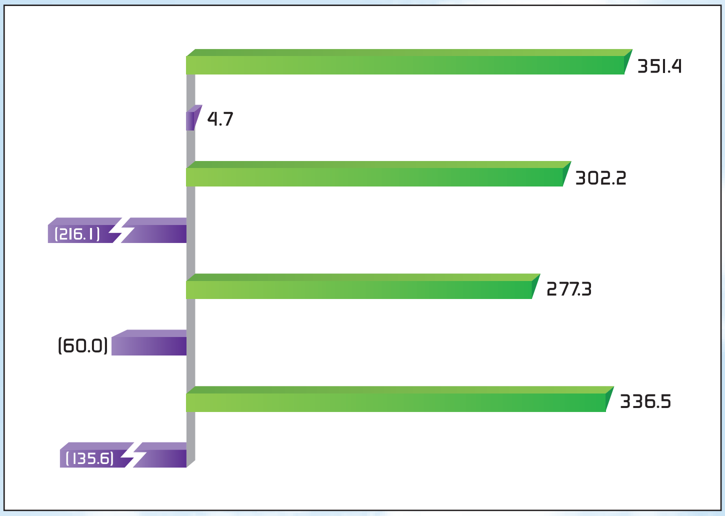
- Turnover
- Profit/(Loss) attributable to shareholders

2002 (restated)

2003 (restated)

2004 (restated)

2005



TURNOVER BREAKDOWN BY BUSINESS

(Percentage)

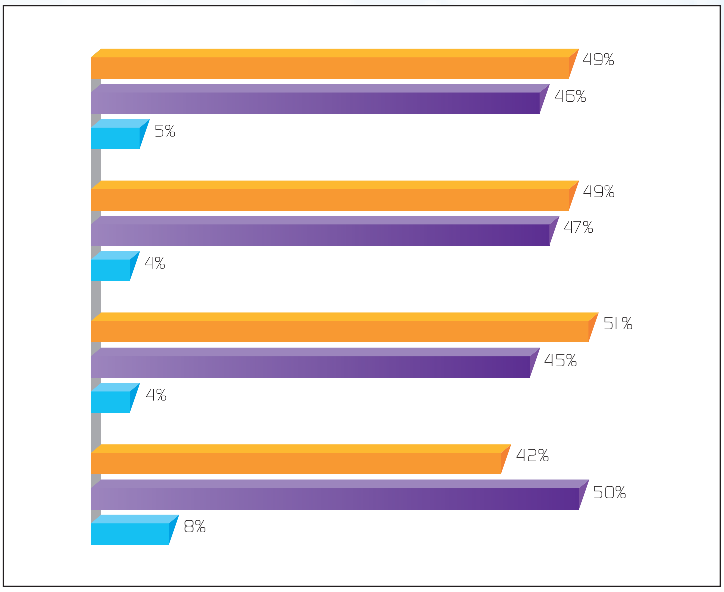
- Broadcasting Customers
- Telecommunication Customers
- Others

2002

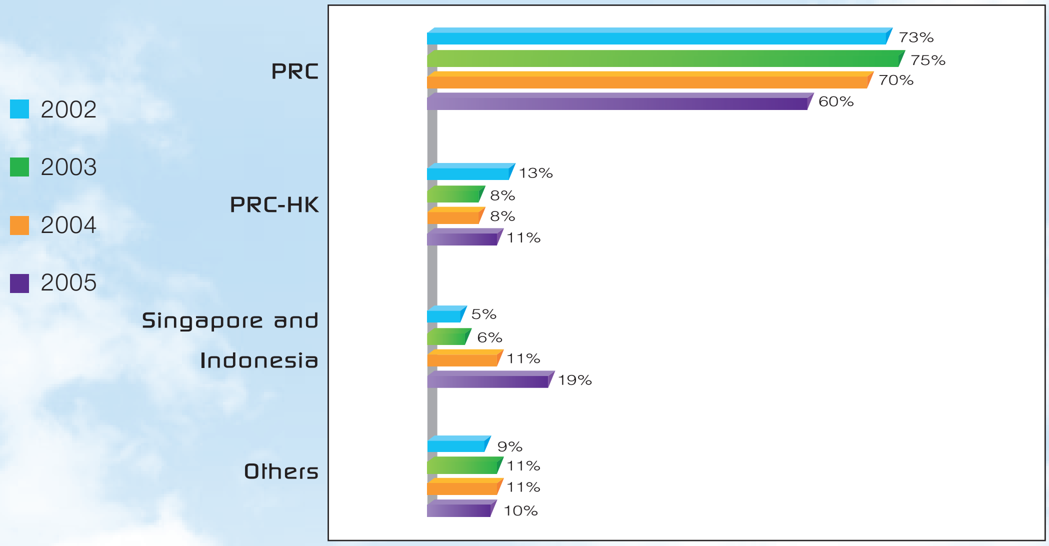
2003

2004

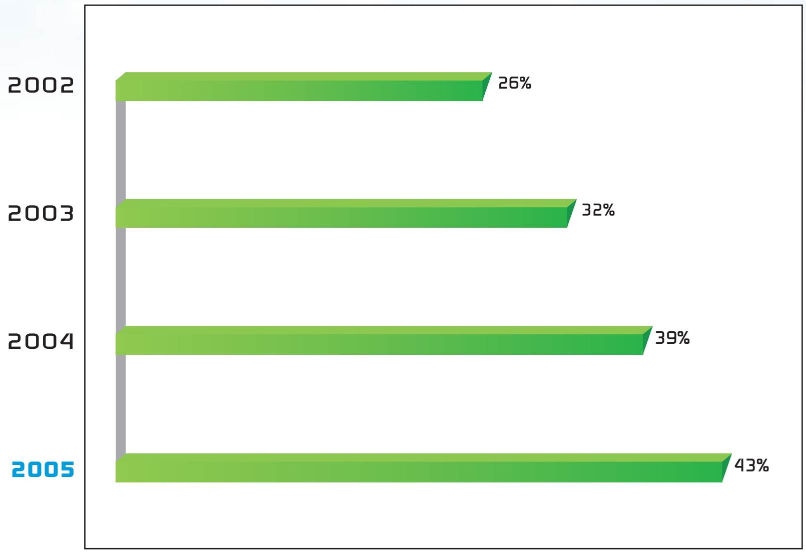
2005



TURNOVER BREAKDOWN BY REGION
(Percentage)



TOTAL LIABILITIES TO TOTAL ASSETS RATIO
(Percentage)



Mr. Liu Ji Yuan
Chairman

The Board of Directors (the "Board") of APT Satellite Holdings Limited (the "Company") hereby announces the audited results of the Company and its subsidiaries (the "Group") in respect of the financial year ended 31 December 2005, which had been prepared in accordance with the accounting principles generally accepted in Hong Kong.

RESULTS

For the financial year ended 31 December 2005, the Group's turnover and loss attributable to shareholders amounted to HK$336,512,000 (2004: HK$277,260,000) and HK$135,564,000 (2004 (restated): HK$59,957,000) respectively. Basic loss per share was HK32.80 cents (2004 (restated): HK14.51 cents).

DIVIDENDS

In view of the loss recorded for the year of 2005 and the need of the Group's future development, the Board has resolved not to declare any payment of final dividend for the financial year ended 31 December 2005 (2004: Nil).

BUSINESS REVIEW

The Group's in-orbit satellites together with their corresponding telemetry, tracking and control systems, have been operating under normal condition during the period. The commencement of APSTAR VI in June 2005 further improved the competitive edge of the Group in market competition. Despite the fierce market competition due to supply over demand in transponder market in the Asia Pacific region, the Group still achieved significant growth in utilization rates. As of 31 December 2005, the utilization rates of APSTAR V and APSTAR VI were at 68.5% and 45% respectively.

Mr. Ni Yifeng
Executive Director and President

APSTAR VI

APSTAR VI satellite was successfully launched on 12 April 2005. It is a high power satellite with 38 C-band transponders and 12 Ku-band transponders, located at geostationary orbital slot 134 degrees East longitude as a replacement satellite to APSTAR IA. This satellite provides broad Asia Pacific footprints with its C-band transponders covering China, India, Southeast Asia, Australia, South Pacific Islands, Guam and Hawaii, while its Ku-band focusing China market. It has a strong neighborhood effect due to the presences of CCTV and other renowned Chinese broadcasters and will become one of the most popular multilingual and multicultural satellite platforms in the Asia Pacific Region. Its commercial operation started on 7 June 2005 and is expected to have an operation mission life over 15 years. The customers of APSTAR IA have been migrated to APSTAR VI successfully.

"APT Satellite 2005 Domestic Radio and Television User Meeting" was held in Xinjiang, China, July 2005.

APSTAR V

APSTAR V commenced commercial operation on 13 August 2004 at geostationary orbital slot 138 degrees East longitude with an estimated operation mission life of 15.3 years. APSTAR V is a high power satellite with 38 C-band and 16 Ku-band transponders. Its C-band transponders cover China, India, Southeast Asia, Australia, South Pacific Islands, Guam and Hawaii whereas its Ku-band transponders cover Mainland China, India, Taiwan and Hong Kong. APSTAR V supports various transponder services including Direct-to-home broadcasting, Internet and VSAT services within Asia while providing an inter-connection to the United States.

The commencements of APSTAR V and APSTAR VI have effectively strengthened the competitive edges of the Group in transponder services market by providing the latest advanced and comprehensive satellite communication and broadcasting services to our customers. Both satellites have been well received by our customers, and the Group has secured new customers or increased transponder utilizations in both China market and overseas market.

APSTAR I and APSTAR IA

Both APSTAR I and APSTAR IA have been utilized by the Group's customer and contribute to the Group's revenue.

Intelsat and APT Satellite signed a strategic cooperation agreement on 2 December 2005 to serve Asia-Pacific market.

Forming Strategic Alliance in Sales and Marketing with Intelsat

On 2 December 2005, Intelsat Limited ("Intelsat") and APT Satellite Company Limited, a subsidiary of the Group signed a strategic cooperation agreement to expand business using the combined satellite fleets of both parties and to market each other's satellite capacity and ground resources, as well as to provide broadcast and telecommunications services to the Asia Pacific region, including China.

This strategic move will allow Intelsat, as well as its media and corporate data customers, to access the Asia Pacific market through the Group's two newly launched satellites, APSTAR V and APSTAR VI. The Group will have access to Intelsat's capacity in other regions of the world via Intelsat's fleet of 28 satellites, thereby expanding the Group's reach and giving it the ability to seamlessly carry its customers' traffic wherever they may need service. As part of the alliance, the two companies have agreed to explore additional growth initiatives such as IPTV, uplink services in the Asia-Pacific region, including China.

Forming this strategic alliance will significantly strengthen the Group's sales and marketing functions in the region. The alliance will also enable the Group to provide more comprehensive services to its customers.

Satellite TV Broadcasting and Uplink Services

The Group provides satellite TV uplink and broadcasting services through its wholly-owned subsidiary, APT Satellite TV Development Limited ("APT TV") and successfully established the satellite TV broadcasting platform for the broadcasting and uplink services under the Satellite TV Uplink and Downlink Licence. As at 31 December 2005, APT TV uplinks and broadcasts up to 53 satellite TV channels for the broadcasters of the region.


The Delegation of Shenzhen Securities Communication Co., Ltd. visited APT Satellite in October 2005.

Satellite-based Telecommunications Services

APT Telecom Services Limited ("APTS"), a wholly-owned subsidiary of the Group, provides satellite-based external telecommunication services to telecommunication operators of the region under the Fixed Carrier Licence of Hong Kong. APTS continues to provide VSAT, wholesales voice services, facilities management services and teleport uplink services to Hong Kong and Asian based telecommunication users including satellite operators, telecommunication operators, ISPs, and wholesale voice players contributing to the Group's revenue.

Both uplink and broadcasting services and telecommunication services enable the Group to strengthen its competitive edge by offering "One-stop-shop Services" and expand to the customer base of the Group.

Data Centre Business

APT Satellite Telecommunications Limited ("APT Telecom"), a jointly controlled entity between the Group and Singapore Telecommunications Limited, is actively offering the Data Centre services to customers in the region. The Data Centre Services enable the Group to achieve synergic effect in expanding telecommunication or broadcasting services.

BUSINESS PROSPECTS

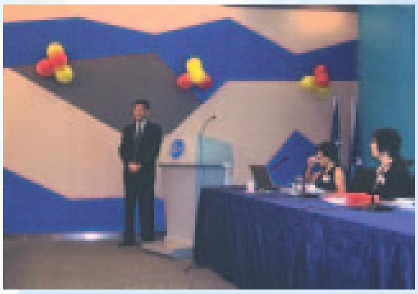
As a result of the economic growth in the Asia Pacific region and the continued rapid economic growth in China, the demand of transponders will grow steadily in 2006. There will be increases in customers and transponder utilizations, and the increase in telecommunications or broadcasting services. Meanwhile, the market competition will still be fierce due to supply over demand with keen price pressure. The Group expects APSTAR V and APSTAR VI will continue to increase in utilizations and expand our market shares further in 2006.

Finance

As at 31 December 2005, the Group's financial position remains sound with gearing of 43% (total liabilities/total assets). The Liquidity Ratio (current assets/current liabilities) is 1.63 times. The shareholders' equity attributable to the Group is HK$2,058,625,000. The Group has cash and cash equivalents amounting HK$326,440,000 and pledged bank deposits of HK$68,699,000. The capital expenditure for 2005 was approximately HK$524,464,000.

Corporate Governance

The Group is committed to high standard of corporate governance especially in internal control and compliance. For details, please refer to the Corporate Governance Report contained in this Annual Report.



APT Satellite held the 1st Workshop on Corporate Governance 5 August 2005.

CONCLUSION

The market competition will still be fierce and transponders in the region are still oversupply in 2006. However, as evidenced by the improved utilization rates in 2005, APSTAR V and APSTAR VI will help improve the Group's market competition thereby improving the Group's financial performance in the coming years.

NOTE OF APPRECIATION

I would like to take this opportunity to thank all our customers and friends for their support, as well as to all staff members of the Group for their contributions to the Group during the period.

Liu Ji Yuan
Chairman
Shenzhen, China, 10 April 2006

BUSINESS REVIEW

Details of the Business Review are contained in the Chairman's Statement on page 5.

BUSINESS PROSPECTS

Details of the Business Prospects are contained in the Chairman's Statement on page 9.

FINANCIAL REVIEW

The following discussion and analysis of the Group's financial position and results of operations should be read in conjunction with the financial statements and the related notes.

TURNOVER

The Group's turnover increased by 21.4% from HK$277,260,000 for the year 2004 to HK$336,512,000 for the year 2005, representing an increase of HK$59,252,000. The increase was mainly due to commencement of some new utilisation contracts for APSTAR V and APSTAR VI.

OTHER NET INCOME

Other net income increased by HK$21,499,000 from HK$9,332,000 in 2004 to HK$30,831,000 in 2005. The increase was mainly due to the inclusion of a lump sum payment of HK$15,600,000 in 2005 from a contractor for compensation income in respect of the late delivery of APSTAR VI, and also arising from the increase of interest income.

OPERATING EXPENSES

The Group's total cost of services increased by HK$56,438,000 or 23.1% from HK$244,755,000 in 2004 to HK$301,193,000 in 2005. The increase was primarily due to an increase in in-orbit insurance and depreciation of the additional satellite of APSTAR VI which commenced service at the beginning of June 2005 and an increase in costs of running the satellite-based external telecommunications business. Administrative expenses slightly decreased by 2% to HK$77,199,000 in 2005 as compared to 2004.

IMPAIRMENT LOSS

As at 31 December 2005, an impairment loss in respect of property, plant and equipment of HK$7,512,000 was recognised in 2005 due to the excess of carrying amount over the recoverable amount of the assets in respect of the communication satellite equipment. Details are set out in note 12 to the financial statements. Furthermore, the impairment loss in respect of prepayment of HK$59,904,000 for construction of a satellite was recognised in 2005. Details are set out in note 17 to the financial statements.

FINANCE COSTS

The Group's finance costs increased by HK$32,825,000 from HK$4,117,000 in 2004 to HK$36,942,000 in 2005. The increase was primarily due to no interest was capitalised upon the commencement of operation of APSTAR VI. Furthermore, the increase was also attributable to the increase of new bank borrowings during the year.

SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES

As at 31 December 2005, the Group's share of loss of jointly controlled entities was HK$7,995,000. The loss mainly represents the Group's share of loss on its interests in APT Satellite Telecommunications Limited ("APT Telecom"). As at 31 December 2005, APT Telecom incurred a loss. As compared with the same period last year, the increase of share of loss was mainly due to APT Telecom recognised a revaluation loss on investment property of HK$13,000,000, of which the Group shared HK$7,150,000.

LOSS FOR THE YEAR

As a result of the foregoing, the Group recorded a loss for the year of HK$136,574,000 for the year ended 31 December 2005, an increase of loss of HK$74,558,000, as compared to 2004.

CAPITAL EXPENDITURE, LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

During the year, the Group's principal use of capital was the capital expenditure related to the construction, launch service and launch insurance of APSTAR VI which had been funded by internally generated cash and bank loan. The capital expenditure incurred for the year ended 31 December 2005 amounted to HK$524,464,000.

The aggregate amount drawn under the secured term loan facilities agreement dated 16 December 2002 ("Bank Loan") was HK$1,205,100,000 (US$154,500,000). During the year, the Group repaid Bank Loan of HK$77,805,000 (US$9,975,000). As a result of the above repayments, total indebtedness outstanding was HK$1,127,295,000 (US$144,525,000). As at 31 December 2005, the Group complied with all the financial covenants over the past twelve-month period.

As at 31 December 2005, the Bank Loan was primarily denominated in United States dollars and was on floating-rate basis. The debt maturity profile (excluding the borrowing transaction cost) of the Group was as follows:

Year of Maturity	HK$
Repayable within 1 year or on demand	120,510,000
Repayable after one year but within five years	908,564,000
Repayable after five years	98,221,000
	1,127,295,000

As at 31 December 2005, the Group has approximately HK$326,440,000 (2004: HK$673,763,000) free cash and HK$68,699,000 (2004: HK$21,140,000) pledged deposit. Together with cash flow generated from operations, the Group could meet with ease all the debt repayment schedules in the coming year.

As at 31 December 2005, the Group's total liabilities were HK$1,552,737,000, an increase of HK$128,954,000 as compared to 2004, which was mainly due to the increase of new bank borrowings under the Bank Loan. As a result, the gearing ratio (total liabilities/total assets) has risen to 43%, representing a 4% increase as compared to 2004.

CAPITAL STRUCTURE

The Group continues to maintain a prudent treasury policy and manage currency and interest risks on a conservative basis. During the year, the Group made no hedging arrangement in respect of exchange rate fluctuation as majority of its business transactions was settled in United States dollars. Interest under Bank Loan was computed at the London Inter-Bank Offering Rate plus a margin. The Group would consider the fluctuation risk of the floating interest rate and would take appropriate measure in due course to hedge against interest rate fluctuation.

SEGMENT INFORMATION

The turnover of the Group, which is analyzed by business segments, is disclosed in note 11 to the financial statements.

Satellite Transponder Capacity and Related Services

Revenue from Satellite Transponder Capacity and Related Services for the year ended 31 December 2005 increased approximately 21% to HK$294,947,000. This primarily reflected the increase of revenue due to commencement of some new utilisation contracts for APSTAR V and APSTAR VI. Segmental loss of HK$29,021,000 was primarily due to inclusion of an impairment loss of HK$59,904,000 in respect of the prepayment for the construction of a satellite. Excluding the impairment loss, the segment result would be improved from loss to the profit of HK$30,883,000.

Satellite-based Broadcasting and Telecommunications Services

Revenue from Satellite-based Broadcasting and Telecommunications Services for the year ended 31 December 2005 increased approximately 19.6% to HK$46,272,000. This primarily reflected the increase of new customers in VSAT and increase of the traffic in wholesale voice services in the year 2005. Segmental loss of HK$3,697,000 was mainly due to inclusion of an impairment loss of HK$7,512,000 in respect of communication satellite equipment. Excluding the impairment loss, the segment result would be improved from loss to the profit of HK$3,815,000.

CHARGES ON GROUP ASSETS

The Bank Loan is secured by the assignment of APSTAR V and APSTAR VI and their related insurance claims proceeds, and the assignment of all their present and future agreements of transponder capacity. Any insurance claim proceeds must be deposited in a designated account and withdrawal of any amount from this designated account shall follow the terms of Bank Loan. At 31 December 2005, the assets under fixed charge were APSTAR V and APSTAR VI of approximately HK$2,752,162,000 (2004: HK$2,398,169,000) and bank deposit of approximately HK$68,699,000 (2004: HK$20,750,000).

In addition, certain of the Group's banking facilities were secured by the Group's properties with aggregate carrying value of approximately HK$4,771,000 (2004: HK$4,887,000).

CAPITAL COMMITMENTS

As at 31 December 2005, the Group has the outstanding capital commitments of HK$2,290,000 (2004: HK$626,599,000), which was contracted but not provided for in the Group's financial statements, mainly in respect of the purchases of equipment.

CONTINGENT LIABILITIES

The Group is in dispute with Hong Kong's Inland Revenue Department (the "IRD") regarding a claim of the disposal gain of HK$389,744,000 in 1999 in relation to the transfer of the entire business of APSTAR IIR and all of the satellite transponders of APSTAR IIR (except one transponder) as a non-taxable capital gain. On 23 January 2006, IRD raised a Profits Tax assessment for the year of assessment 2000/2001 to include that portion of the proceeds from sale of the satellite received during 2000/2001 as taxable income. The tax demanded for the year of assessment 2000/2001 is HK$212,846,000. An objection has been lodged against the IRD assessment on 20 February 2006. The Group has obtained external legal and tax advice, and the Group believes that the grounds for claiming the gain derived from the transaction as non-taxable are reasonable and therefore no provision for additional taxation has been made.

Apart from the above, details of contingent liabilities of the Group are set out in note 30 to the financial statements.

HUMAN RESOURCES

As at 31 December 2005, the Group had 161 employees (2004: 158). With regard to the emolument policy, the Group remunerates its employees in accordance with their respective responsibilities and current market trends. On 19 June 2001, the Company first granted share options under the share option scheme adopted at the annual general meeting on 22 May 2001 ("Scheme 2001") to its employees including executive directors. On 22 May 2002, the Group adopted a new share option scheme ("Scheme 2002") at the annual general meeting to comply with the requirements of the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). To further motivate employees for better contribution to the Group, the Group has also established an incentive bonus scheme.

The Group provides on the job training to employees to update and upgrade their knowledge on related job fields.

Pursuant to Appendix 23 of the rules ("Listing Rules") governing the listing of securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the board of directors ("Board") of APT Satellite Holdings Limited ("Company") presents this Corporate Governance Report for the accounting period covered by this annual report.

CORPORATE GOVERNANCE PRACTICES

The Board endeavors in maintaining high standard of corporate governance throughout the Company and its subsidiaries (altogether "Group") and is committed to follow the code provisions ("Code Provision") set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

To this end, the Board has set up the Nomination Committee and Remuneration Committee and has revised the Terms of Reference of its Audit Committee since 2004. The Board has also adopted a series of codes, including the Code of Ethics for the directors and officers of the Company; the Model Code for Securities Transactions by directors set out in Appendix 10 of the Listing Rules, aiming to promote honest and ethical business conduct.

As regards the aspect of internal controls, in 2005 the management has established the Internal Control and Compliance Committee and in the process of forming the Risk Management Committee. For check and balance, in addition to the establishments an array of measures including the Code of Ethics for employees; the Audit Committee's Procedures handling Confidential and Anonymous Complaint; and the Whistleblower Protection Policy, an internal audit team has also been set up since October 2004 and the team reports directly with the Audit Committee on its findings and recommendations.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year of 2005, the Company has met the Code Provisions save that the following Code Provisions A4.1 and A4.2 respectively:

- the non-executive directors of the Company are not appointed for a specific term given they shall retire from office by rotation once every three years except the Chairman of the Board and the President in accordance with the Bye-Laws of the Company; and

- the Chairman of the Board and the President are not subject to retirement by rotation given that would help the Company in maintaining its consistency of making business decisions.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code ("Model Code") contained in the Appendix 10 of the Listing Rules.

Having made specific enquiry of all directors, the Company's directors have confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the accounting period covered by this annual report of the Company.

For details of the Directors' interests in shares of the Company, please refer to the section headed "Directors' and Chief Executives' Interests in Shares" in the "Directors' Report" of this annual report.

BOARD OF DIRECTORS

Composition of the Board

The Board is responsible for determining the overall strategy; reviewing and approving the work plan of the Group; and overseeing the corporate governance of the Group. While the management of the Company is responsible for proposing and implementing the work plan of the Group, executing the day-to-day operation of the Group and undertaking any further responsibility as delegated by the Board from time to time.

The Board comprises of two executive directors, six non-executive directors and three independent non-executive directors ("INEDs"). Biographical details of them, including the relationships, if any, among members of the Board, is set out in the section headed "Directors' and Senior Management's Profiles" of this annual report.

In respect of the Listing Rules requirements regarding sufficient number of INEDs and one INED with appropriate qualifications, the Company has met these requirements. The Company has received from each of the INEDs an annual confirmation as regards independence pursuant to rule 3.13 of the Listing Rules and in the opinion of the Board having regard to the Company's Nomination Committee's assessment of their independence, they remain to be considered as independent.

The Board held four meetings in 2005 and the following table shows the individual attendance of each director in 2005:

Name of the director	Number of board meetings held during the director's term of office in 2005	Number of meeting(s) attended*
Executive Directors:		
Ni Yifeng *(President)* (appointed on 16 July 2005)	2	2
Tong Xudong *(Vice President)*	4	4
Chen Zhaobin *(President)* (resigned on 16 July 2005)	2	2
Non-Executive Directors:		
Liu Ji Yuan *(Chairman)*	4	3
Zhang Hainan *(Deputy Chairman)*	4	1
Lim Toon	4	4
Yin Yen-liang	4	2
Wu Zhen Mu	4	2
Lan Kwai-chu (appointed on 16 August 2005 and resigned on 27 March 2006)	2	2
Lim Wee Seng (resigned on 16 August 2005)	2	1
Independent Non-Executive Directors:		
Yuen Pak Yiu, Philip	4	3
Huan Guocang	4	1
Lui King Man	4	4

* *It includes the meeting attended by the director via telephone conference or attended by the director's alternate director.*

Chairman and Chief Executive Officer

Mr. Liu Ji Yuan is the Chairman of the Board and is a non-executive director of the Board, while Mr. Ni Yifeng is the President of the Company and is an executive director of the Board.

The roles of the Chairman and the President are segregated. The Chairman's main role is to lead the Board in discharging its powers and duties, while the President's main role is to lead the management of the Company for undertaking all the responsibilities delegated by the Board and managing the overall operation of the Group.

Appointment of Non-executive directors

The non-executive directors of the Company are not appointed for a specific term but shall retire from office by rotation once every three years (as referred to the Bye-Law 87 of the Company where provides that at each annual general meeting one-third of the directors of the Company shall retire from office by rotation).

Furthermore, to maintain the consistency of making business decisions of the Company, the Chairman (a non-executive director) shall not be subject to retirement by rotation, whilst holding such office, as provided in the Bye-Law 87 of the Company.

Nevertheless, all the appointment and re-appointment of directors of the Board are subject to be reviewed by the Company's Nomination Committee, while all the directors' remuneration is subject to be reviewed by the Company's Remuneration Committee. The Board believes that these check and balance, among others, are well in place ensuring good corporate governance of the Company. The Board as a whole will continue to oversee every aspect of the Company's corporate governance and endeavors maintaining high standard corporate governance throughout the Group.

Remuneration of directors

The Remuneration Committee comprises of four members, including three independent non-executive directors of the Company, namely Dr. Lui King Man (Chairman), Mr. Yuen Pak Yiu, Philip and Dr. Huan Guocang, and one executive director, Mr. Tong Xudong.

The Remuneration Committee is established by the Board and shall be accountable to the Board. Its duties are clearly set out in its written Terms of Reference (also known as Charter) and it is mainly responsible for making recommendations to the Board on policy for all remuneration of Directors and senior management on accounts of certain determining factors, including the Company's operation objective and development plan; the managerial organization structure; the financial budget of the Company; the performance and expectation of the relevant person; and the supply and demand situation of the human resources market.

For details of its Terms of Reference, please refer to the Company's website (www.apstar.com) under the section headed "Corporate Governance" and it is also available on request with the Company's Investor Relations.

The Remuneration Committee held three meetings in 2005 and the following table shows the individual attendance of each member in 2005:

Name of the member of the Remuneration Committee	Number of meetings held during the member's term of office in 2005	Number of meeting(s) attended*
Independent Non-Executive Directors:		
Lui King Man *(Chairman)*	3	3
Yuen Pak Yiu, Philip	3	3
Huan Guocang	3	1
Executive Director:		
Tong Xudong	3	3

* *It includes the meeting attended by the member via telephone conference.*

The works performed by the Remuneration Committee in 2005 are summarized as follows:

– making recommendation to the Board on policy and structure for all remuneration of Directors and senior management and on the establishment of a formal procedure for developing remuneration policy;

– approving the terms of service contracts of the newly appointed executive director and senior managements;

– reviewing the director's fees payable to Directors in 2005; and

– reviewing and approving the performance-based remuneration by reference to corporate goals and objectives resolved by the Board.

Nomination of directors

The Nomination Committee comprises of four members, including three independent non-executive directors of the Company, namely Mr. Yuen Pak Yiu, Philip (Chairman), Dr. Lui King Man and Dr. Huan Guocang, and one executive director, Mr. Tong Xudong.

The Nomination Committee is established by the Board and shall be accountable to the Board. Its duties are clearly set out in its written Terms of Reference (also known as Charter) and it is mainly responsible for making recommendations to the Board on matters relating to the appointment or re-appointments of Directors and succession planning for Directors in particular the Chairman and the President in accordance with its adopted nomination procedure and process and criteria. On receiving nominated candidate of director, the Remuneration Committee will review and approve assessment against the candidate before giving recommendation to the Board. The criteria of assessment includes the qualification and experience of the candidate; the development need of the Company; the expected candidate's contribution to the Company's performance; the mutual expectations between the candidate and the Company; compliance with relevant rules and requirements; and the candidate's capability of making independent decision in the Board.

For details of its Terms of Reference, please refer to the Company's website (www.apstar.com) under the section headed "Corporate Governance" and it is also available on request with the Company's Investor Relations.

The Nomination Committee held two meetings in 2005 and the following table shows the individual attendance of each member in 2005:

Name of the member of the Nomination Committee	Number of meetings held during the member's term of office in 2005	Number of meeting(s) attended*
Independent Non-Executive Directors:		
Yuen Pak Yiu, Philip *(Chairman)*	2	2
Lui King Man	2	2
Huan Guocang	2	0
Executive Director:		
Tong Xudong	2	2

* *It includes the meeting attended by the member via telephone conference.*

The works performed by the Nomination Committee in 2005 are summarized as follows:

– making recommendation to the Board on matters relating to the appointment of directors; and

– establishing the nomination procedure, process and criteria.

Auditors' Remuneration

The following information indicates the fees paid and the nature of the audit and non-audit services provided by the Company's auditors, KPMG, to the Group during 2005:

	HK$
Audit for the Group's financial statements including interim review	800,000
Non-audit services:	
– Review of the Group's continuing connected transactions	10,000
Audit for the financial statements of the following companies:	
– APT Satellite International Company Limited[1]	34,000
– APT Satellite Telecommunications Limited[2]	36,000
Total	880,000

1 It is the Company's substantial shareholder, holding 51.83% of the issued share capital of the Company.

2 It is a jointly controlled entity between a wholly owned subsidiary of the Company and one of the shareholders of APT Satellite International Company Limited.

Audit Committee

The Audit Committee comprises of three independent non-executive directors of the Company, including Mr. Yuen Pak Yiu, Philip (Chairman), Dr. Huan Guocang and Dr. Lui King Man.

The Audit Committee is established by the Board and shall be accountable to the Board. Its members shall be appointed by the Board from amongst the non-executive directors of the Company who are independent of the management of the Company and are free of any relationship that, in the opinion of the Board, would interfere with their exercise of independent judgment. Its duties are clearly set out in its written Terms of Reference (also known as Charter). For details, please refer to its Terms of Reference which is contained in the Company's website (www.apstar.com) under the section headed "Corporate Governance" and it is also available on request with the Company's Investor Relations.

The Audit Committee held four meetings in 2005 and the following table shows the individual attendance of each member in 2005:

Name of the member of the Audit Committee	Number of meetings held during the member's term of office in 2005	Number of meeting(s) attended*
Independent Non-Executive Directors:		
Yuen Pak Yiu, Philip *(Chairman)*	4	4
Huan Guocang	4	1
Lui King Man	4	4

* It includes the meeting attended by the member via telephone conference.

The works performed by the Audit Committee in 2005 are summarized as follows:

– making recommendation to the Board on the re-appointment of the external auditor, and to approve the remuneration and terms of engagement of the external auditor;

– monitoring integrity of and review significant financial reporting judgments of the half-year and annual financial statements of the Company;

– reviewing the Company's statement on financial controls, internal control system and risk management systems;

– reviewing the internal audit team's work progress; and

– adopting the Procedure handling confidential and anonymous complaints, the Policy Guidance in reviewing and monitoring external auditors' independence, and the Approval Policy on engagement of external auditors for provision of audit and non-audit services.

Accountability and Audit

Financial Reporting

The management reports to the Board the Group's financial situations on a regular basis, and this reporting regime extends to the annual and interim results announcement of the Company, thereby enabling the Board from time to time has a continued, balanced, clear and understandable assessment of the Group's situations for determining strategy and fulfilling relevant compliance requirements.

The Board acknowledges that it is the Board's responsibility for preparing the accounts of the Company. As at 31 December 2005, the directors of the Board do not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

For the responsibilities of the Company's auditors in respect of preparing the Company's financial statements, please refer to the section headed "Auditors' Report" of this annual report.

Internal Controls

It is the Board's responsibility to ensure the Company maintains sound and effective internal controls, whereby safeguarding its shareholders' investment and the Company's assets.

The Group aims at establishing and maintaining its internal control system based on the internal control framework as prescribed by Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework (1992).

In 2005, annual review of the effectiveness of the system of internal control of the Company and its subsidiaries was conducted by the Board through the Company's internal control committee, which is led by the top management of the Group and the Internal Audit team. The review covers all material controls, including financial, operational and compliance controls and risk management functions; and the results of the review has been reviewed by the Company's Audit Committee.

There was no significant incidence of control failings in respect of financial reporting, operation and compliance that has been identified or reported during the six months ended 31 December 2005. The top management, the internal control committee and the Internal Audit team will continue to monitor and review regularly the effectiveness of the internal control system of the Company and from time to time take action whenever there is any weakness in the process.

Significant differences in corporate governance between Hong Kong and U.S. practices

The Company is also listed on the New York Stock Exchange, Inc. ("NYSE") as a foreign issuer, pursuant to NYSE's requirement, a discussion on the significant differences in corporate governance being practiced by the Company in Hong Kong as compared with those practices applicable to U.S. domestic issuers listed on the NYSE is contained in the Company's website (www.apstar.com) under the section headed "Corporate Governance").

By Order of the Board
Liu Ji Yuan
Chairman

Shenzhen, China, 10 April 2006

EXECUTIVE DIRECTORS

Mr. NI Yifeng, aged 58, was appointed as the Executive Director and President of the Company in July 2005. He is responsible for the overall management of the Company. He is also the Director of APT Satellite Company Limited, APT Satellite Investment Company Limited, Acme Star Investment Limited, APT Satellite Telewell Limited, APT Satellite Vision Limited, APT Satellite TV Development Limited, Skywork Corporation, APT Telecom Services Limited, Ying Fai Realty (China) Limited, APT Satellite Global Company Limited, APT Satellite Enterprise Limited and APT Satellite Link Limited, subsidiaries of the Company. He is also the Chairman of the board of directors of APT Satellite Telecommunications Limited, a jointly controlled entity between a wholly-owned subsidiary of the Company and one of the shareholders of APT Satellite International Company Limited ("APT International"), the substantial shareholder of the Company. Mr. Ni is also the Director of APT International. Mr. Ni graduated from the Research Institute of Chinese Academy of Social Science and obtained a MBA degree from the Chinese University of Hong Kong and accredited as Senior Accountant in China. He is currently Vice President of China Satellite Communications Corporation, which is the holding company of one of the shareholders of APT International, the substantial shareholder of the Company. He also is the Chairman of a listed company in Shanghai, China, namely Chinasatcom Guomai Communications Co. Ltd.. He held the posts of Deputy Director of Planning Department, Deputy Director of Finance Department, and Deputy Director General of Directorate-General of Telecommunications of Ministry of Post and Telecommunications (presently known as Ministry of Information Industry). He was also President and Vice Chairman of Guoxin Paging Company Limited and Deputy General Manager of China Telecommunications Broadcast Satellite Corporation, which is one of the shareholders of APT International. Mr. Ni has over 30 years' experience in post and telecommunication fields and abundant experience in corporate management.

Mr. TONG Xudong, aged 42, was appointed as the Executive Director and Vice President of the Company in March and April 2004, respectively. Mr. Tong is also the member of the Nomination Committee and the Remuneration Committee of the Company. Mr. Tong is also the Director of APT Satellite Company Limited, APT Satellite Investment Company Limited, APT Satellite Vision Limited, APT Satellite TV Development Limited, APT Satellite Global Company Limited, APT Satellite Enterprise Limited, APT Satellite Link Limited, APT Communication Technology Development (Shenzhen) Company Limited, CTIA Vsat Network Limited and Beijing Asia Pacific East Communication Network Limited ("BAPECN Limited"), subsidiaries of the Company. He is also the chairman of BAPECN Limited. He is also the Director of APT Satellite International Company Limited, the substantial shareholder of the Company. Mr. Tong graduated from Nanjing Aeronautic Institute in 1985 and obtained a master degree from Beijing Institute of Space Mechanics and Electricity, Chinese Academy of Space Technology in 1988. Immediately after his graduation, he served for the Beijing Institute of Space Mechanics and Electricity. In 1993, he further pursued his studies in Samara University of Aeronautics and Astronautics, Russia. From May 1995 to June 2000, he served as the Vice-Director of Beijing Institute of Space Mechanics and Electricity and was appointed as professor in 1998. From June 2000 to December 2003, he was the Director of the same Institute. In 2003, he was appointed as the Vice-President of Chinese Academy of Space Technology. Mr. Tong is a standing committee member of Chinese Society of Space Research and Chairman of the Committee of Recovery and Reentry, Chinese Society of Astronautics.

Mr. CHEN Zhaobin, aged 50, was appointed as the Executive Director and President of the Company in February 2001. He was responsible for the overall management of the Company. He graduated with a Bachelor's Degree in Engineering from the Beijing University of Posts and Telecommunications in 1982 and accredited as a Senior Engineer. He held the posts of Deputy General Manager of China Telecommunications Broadcast Satellite Corporation, one of the shareholders of APT Satellite International Company Limited, the substantial shareholder of the Company, Vice-Chairman and President of China Telecom (Hong Kong) Limited (presently known as China Mobile (Hong Kong) Limited) and China Telecom (Hong Kong) Group Limited, Director and Deputy President of Telpo Communications (Group) Limited, and the Deputy Director of the Office of Coordination Production of the Ministry of Posts and Telecommunications of the PRC (presently known as Ministry of Information Industry). Mr. Chen has many years' of experience in post and telecommunication fields and in corporate management. Mr. Chen resigned as Executive Director and President of the Company on 16 July 2005.

NON-EXECUTIVE DIRECTORS

Mr. LIU Ji Yuan, aged 72, was appointed as the Chairman of the Company in June 1998. Mr. Liu is also the Director of APT Satellite Company Limited and APT Satellite Investment Company Limited, subsidiaries of the Company. He is also the Director of APT Satellite International Company Limited, the substantial shareholder of the Company. Mr. Liu graduated from Bowman Polytechnic University, Moscow, USSR (presently known as Russia) majoring in automatic and remote control, and obtained a Master's degree in 1960. After graduation, he was appointed consecutively as a Deputy Director and Director of the Twelfth Research Institute of the Seventh Ministry of Machinery Industry, Vice President of the China Academy of Launch Vehicle Technology under the Ministry of Astronautics and accredited as a Senior Engineer from May 1983 to March 1984, the Vice Minister of the Ministry of Astronautics and accredited as a Research Fellow from April 1984 to March 1988, and the Vice Minister of the PRC Ministry of Aerospace Industry (later known as China Aerospace Corporation) from April 1988 to April 1993. In April 1993, Mr. Liu was appointed as the Administrator (Ministerial) of China National Space Administration (CNSA), as well as the President of China Aerospace Corporation. In 1988, Mr. Liu was granted the award of National Outstanding Young and Middle-aged Expert in the PRC. In the same year, he was appointed as a visiting professor of Harbin Institute of Technology, Beijing University of Aeronautics and Astronautics, and Beijing Information Control Institute. After 1993, Mr. Liu was also appointed as the President of the Chinese Society of Astronautics, Member of International Academy of Astronautics, President (third-term) of China Automatic Measurement and Control Association, and Honorary Chairman of China Aerospace Industrial and Entrepreneurial Management Association.

Mr. ZHANG Hainan, aged 61, was appointed as the Non-Executive Director and Deputy Chairman of the Company in March 2004. Mr. Zhang is also the Director of APT Satellite Company Limited and APT Satellite Investment Company Limited, subsidiaries of the Company. He is also the Director of APT Satellite International Company Limited, the substantial shareholder of the Company. Mr. Zhang graduated from the Northwestern Polytechnical University in 1968 and was accredited as a senior engineer. Since 1984, he has been deputy director of Factory Number 782 and 762, the Ministry of Electronics Industry of China; deputy head and head of the Bureau of Electronics Industry, Shanxi Province; deputy head and head of Shanxi Economic and Trade Commission; and assistant to the governor of the Shanxi Province government, among others. In 2001, he was transferred to China Satellite Communications Corporation, the holding company of one of the shareholders of APT Satellite International Company Limited, as deputy general manager and general manager. Mr. Zhang has many years' experience in government and corporate management.

Mr. LIM Toon, aged 63, has been a Director of APT Satellite Company Limited since February 1993 and was appointed as the Non-Executive Director of the Company in October 1996. Mr. Lim is also the Director of APT Satellite Company Limited and APT Satellite Investment Company Limited, subsidiaries of the Company. He is also the Director of APT Satellite Telecommunications Limited, a jointly controlled entity between a wholly-owned subsidiary of the Company and one of the shareholders of APT Satellite International Company Limited, the substantial shareholder of the Company. Mr. Lim is also the Director of APT Satellite International Company Limited. In 1966, Mr. Lim graduated from the University of Canterbury in New Zealand, with a first class honours degree in Engineering. In 1975, Mr. Lim obtained a Postgraduate Diploma in Business Administration from the University of Singapore. He attended the Advanced Management Programme at Harvard Business School in 1992. He has been the Chief Operating Officer of SingTel, the holding company of one of the shareholders of APT Satellite International Company Limited, since April 1999 and has worked for Singapore Telecom since 1970, serving in various appointments of engineering, radio services, traffic operations, personnel & training and information systems departments. He was appointed Executive Vice President of Network Services in April 1989 and Executive Vice President of International Services in April 1994. He was awarded the Efficiency Medal in 1978 and the Public Administration Medal (Gold) in 1991 by the Singapore government. He is presently a Director of a number of overseas companies. Mr. Lim has retired from SingTel on 26 February 2006.

Mr. WU Zhen Mu, aged 60, was appointed as the Non-Executive Director of the Company in June 1998. Mr. Wu is also the Director of APT Satellite Company Limited and APT Satellite Investment Company Limited, subsidiaries of the Company. Mr. Wu is also the Director of APT Satellite International Company Limited, the substantial shareholder of the Company. Mr. Wu graduated in Manufacturing Engineering of the Beijing Institute of Aeronautics in 1969 and obtained a Master's degree in Electro-Mechanical Automation in the same institute in 1981. He was a lecturer in Zhengzhou Institute of Aeronautics from 1970 and 1979 and had been a lecturer, associate Professor and Professor in Beijing University of Aeronautics and Aerospace from 1982 to 1993. Since then, he has been appointed as a Professor of the Commission of Science and Technology of China Aerospace Corporation.

Dr. YIN Yen-liang, aged 55, was appointed as the Non-Executive Director of the Company in January 2003. Dr. Yin is also the Director of APT Satellite Company Limited and APT Satellite Investment Company Limited, subsidiaries of the Company. Dr. Yin is also the Director of APT Satellite International Company Limited, the substantial shareholder of the Company. Dr. Yin graduated with an MBA Degree from National Taiwan University in 1983 and received the PhD Degree in Business Administration from National Chengchi University in 1987. He has been President of the Ruentex Group, the holding company of one of the shareholders of APT Satellite International Company Limited, since 1994 and concurrently holding the position of Executive Director of SinoPac Holdings Co., Ltd., Executive Director of Bank SinoPac, Director of Acer Incorporate, Chairman of Aetna SinoPac Credit Card Company Limited.

Mr. HO Siaw Hong, aged 57, was appointed as the Non-Executive Director of the Company on 27 March 2006. He had been an Alternate Director to Mr. Wong Hung Khim and Mr. Lim Toon, the non-executive director of the Company, from October 1996 to July 1999. Mr. Ho is also the Director of APT Satellite Company Limited and APT Satellite Investment Company Limited, subsidiaries of the Company. He is also the Director of APT Satellite Telecommunications Limited, a jointly controlled entity between a wholly owned subsidiary of the Company and a shareholder of APT Satellite International Company Limited ("APT International"), the substantial shareholder of the Company. Mr. Ho is also the Director of APT International. Mr. Ho joined Singapore Telecommunications Limited ("SingTel"), the holding company of one of the shareholders of APT International, the substantial shareholder of the Company, in August 1972 after graduating from the then University of Singapore, now known as the National University of Singapore, with a Bachelor of Engineering (Electrical) degree. He has held managerial positions in areas including planning and operations of transmission network, radio network, mobile network, telephone exchange equipment, switch software management, etc. Mr. Ho is currently the Vice President for Fixed Networks Engineering of SingTel and SingTel Optus Pty Limited ("Optus") responsible for the engineering and planning of the fixed core networks for both SingTel and Optus. Before this appointment, he was seconded to SingTel's Joint Venture company in Indonesia, PT Bukaka SingTel International ("BSI") as its President Director from February 1999 to January 2001. He continued to oversee the operations of BSI upon his return from Indonesia while concurrently holding the post of Vice President for Network Support in the Networks directorate. He was also Assistant Vice President for Satellite Services of SingTel between 1997 and 1999. Mr. Ho is also a board member of the BSI's Board of Commissioner.

Mr. TSENG Ta-mon, aged 48, was appointed as an Alternate Director to Dr. Yin Yen-liang, the Non-Executive Director of the Company, on 8 September 2004. He had been the Non-Executive Director of the Company from July 2003 to September 2004. Mr. Tseng is also the Alternate Director to Dr. Yin Yen-liang, the director of APT Satellite Company Limited and APT Satellite Investment Company Limited, subsidiaries of the Company. Mr. Tseng is also the Alternate Director to Dr. Yin Yen-liang, the director of APT Satellite International Company Limited, a substantial shareholder of the Company. Mr. Tseng graduated with an LL.B. Degree from National Chengchi University in 1980 and subsequently received the LL.M. Degree from University College London in 1982 and the LL.B. Degree from B.A. at University of Cambridge in 1984 respectively. He also graduated from the Inns of Court School of Law of Middle Temple in 1985 and became Barrister-at-Law in the same year. He was the Specialist of the Board of International Trade from 1985 to 1987. He was also the Partner of Dong & Lee from 1987 to 1992. He has been the Counsel of the Ruentex Group, the holding company of one of the shareholders of APT Satellite International Company Limited, since 1992.

Mr. LIM Wee Seng, aged 52, was appointed as the Non-Executive Director of the Company on 20 December 2004. Mr. Lim had been an Alternate Director to Mr. Lim Toon and Mr. Tay Chek Khoon, the non-executive directors of the Company, from September to December in 2004. He also had been an Alternate Director to Mr. Lim Shyong, the non-executive director of the Company, from September 2003 to September 2004. Mr. Lim graduated from the University of Singapore with a First Class Honours Degree in Bachelor of Engineering (Electrical and Electronics) in 1979 and subsequently obtained a Master of Science (Electrical Engineering) Degree in 1985. He has been with Singapore Telecommunications Limited ("SingTel"), the holding company of one of the shareholders of APT Satellite International Company Limited, since 1979 and has held management positions in various areas including engineering, radio services, network, carrier wholesale business and strategic investment. From 1998 to 2000, he was the Managing Director of SingTel's subsidiary company in UK, responsible for the setting up and running of SingTel's voice and data business in Europe. He was also a member of the Singapore ST-1 satellite planning team in 1991 to 1993. Mr. Lim is currently Director of Strategic Investment in SingTel and is responsible for mergers, acquisitions and monitoring of SingTel's joint venture companies. Mr. Lim resigned as the Non-Executive Director of the Company on 16 August 2005.

Ms. LAN Kwai-chu, aged 42, was appointed as the Non-Executive Director of the Company in August 2005. Ms. Lan is currently the head of the Mergers & Acquisition Unit of Singapore Telecommunications Limited ("SingTel"), the holding company of one of the shareholders of APT Satellite International Company Limited, the substantial shareholder of the Company. Ms. Lan's experience includes corporate planning and strategy, and management of SingTel's sales and representative offices around the world. Ms. Lan holds a Bachelor of Economics and a Master in Business Administration. Ms. Lan is also a Chartered Accountant. Ms. Lan resigned as the Non-Executive Director of the Company on 27 March 2006.

Mr. KWOK Kah Wai Victor, aged 50, was appointed as an Alternate Director to Mr. Lim Toon and Ms. Lan Kwai-chu, Non-Executive Directors of the Company, in December 2004 and August 2005, respectively. Mr. Kwok had been the Alternate Director to Mr. Lim Wee Seng, Non-Executive Director of the Company, from December 2004 to August 2005. He had also been the Vice President of the Company from March 2001 to June 2004 responsible for Marketing and Sales division of the Company. Prior to joining the Company, Mr. Kwok was the Managing Director of Global Services Development in Singapore Telecommunications Limited ("SingTel"), the holding company of one of the shareholders of APT Satellite International Company Limited, the substantial shareholder of the Company. Mr. Kwok has been with SingTel for the last twenty years and has held management positions in Corporate Product Marketing and Corporate Account Management. Mr. Kwok is currently the Director of Partnership and Strategic Planning of Corporate Business Marketing of SingTel. Mr. Kwok graduated from National University of Singapore with an Honors Degree in Electrical Engineering and an MBA degree in 1981 and 1987, respectively. Mr. Kwok also attended the Harvard Business School's International Senior Management Program in May, 1993. Mr. Kwok resigned as the Alternate Director to Mr. Lim Toon and Ms. Lan Kwai-chu, the Non-Executive Directors of the Company, on 27 March 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. YUEN Pak Yiu, Philip, aged 70, was appointed as an Independent Non-executive Director of the Company in October 1996. Mr. Yuen is the Chairman of the Audit Committee and the Nomination Committee of the Company and also is the member of the Remuneration Committee of the Company. He graduated from Law School in England in 1961 and commenced the practice of law in Hong Kong in 1962. In 1965, he established his solicitors' firm, Yung, Yu, Yuen & Co., and now is the principal partner in the firm. Mr. Yuen has over 30 years' experience in the legal field and has been a Director of a number of listed companies including Henderson Investment Limited, Henderson China Holdings Limited and Melbourne Enterprises Limited. He is a member of the China Appointed Attesting Officers Association in Hong Kong, a Member of the National Committee of Chinese Peoples' Political Consultative Conference and an Arbitrator at the China International Economic & Trade Arbitration Commission.

Dr. HUAN Guocang, aged 56, was appointed as an Independent Non-executive Director of the Company in August 2002. Dr. Huan is the member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is the Managing Partner of Primus Pacific Partners Limited ("Primus"). Before joining Primus, he was the Head of Investment Banking, Asia Pacific of The Hongkong and Shanghai Banking Corporation Limited and was the Managing Director and Co-Head of Investment Banking, Asia Pacific of Salomon Smith Barney. Dr. Huan has been joining investment banking sector since 1987 and has held senior positions at the Brookings Institution, the Atlantic Council of the U.S., J.P. Morgan & Co., BZW Asia Limited, and Columbia University. Dr. Huan holds a Ph.D. degree from Princeton University, Master of Arts from Columbia University and Master of Arts from the University of Denver.

Dr. LUI King Man, aged 51, was appointed as an Independent Non-Executive Director of the Company in August 2004. Dr. Lui is the Chairman of the Remuneration Committee of the Company and also is the member of the Audit Committee and the Nomination Committee of the Company. Dr. Lui has been a practising Certified Public Accountant in Hong Kong since 1989, and established his accounting firm K.M. LUI & CO in the same year. Before commencing his own practising, Dr. Lui had worked with an international accounting firm and a listed commercial bank. Dr. Lui received the accountancy education in United Kingdom in 1980 and attained professional accountant qualification in 1985. He is a Fellow of The Chartered Association Of Certified Accountants and Associate member of The Hong Kong Society Of Accountants. Dr. Lui obtained an MBA Degree from Heriot-Watt University in 1997 and received a Doctoral Degree in Business Administration from The University of Hull in 2004. Dr. Lui has over 23 years experience in accounting, finance, business acquisition and auditing fields. He has been a consultant of a number of commercial and non-commercial organizations.

Details of directorships of the Directors of the Company in the company which has an interest in the share capital of the Company as disclosed pursuant to the provisions of the Securities and Futures Ordinance are set out in the Directors' Report.

SENIOR MANAGEMENT

Mr. DONG Gang, aged 52, has been the Vice President of the Company since July 2005. He is also the Director of Acme Star Investment Limited, APT Satellite Telewell Limited, Skywork Corporation, Haslett Investments Limited, APT Telecom Services Limited and APT Communication Technology Development (Shenzhen) Company Limited ("APT Shenzhen"), subsidiaries of the Company. He is also the chairman and the general manager of APT Shenzhen. He is also the Director of APT Satellite Telecommunications Limited, a jointly controlled entity between a wholly-owned subsidiary of the Company and one of the shareholders of APT Satellite International Company Limited, the substantial shareholder of the Company. Mr. Dong graduated with a Bachelor's degree in Beijing Post and Telecommunications Institute (presently known as Beijing University of Post and Telecommunications). He is accredited as Senior Engineer. He held the posts as Deputy Director of Microwave Station, Deputy Director of Technical Department, Vice Chief Engineer, and Chief Engineer of Beijing Wireless communication Bureau. He has been appointed as Vice President of China Space Mobile Satellite Telecommunications Company Limited since May 1995. He has plentiful experience in telecommunication operation and management.

Dr. LO Kin Hang, Brian, aged 49, has been the Vice President of the Group since April 2002 and Company Secretary (since October 1996) of the Company. Dr. Lo joined the Company in September 1996 and had been the Assistant to the President from December 1997 to April 2002. Dr. Lo is also the Director of Acme Star Investment Limited, APT Satellite Telewell Limited and Ying Fai Realty (China) Limited, subsidiaries of the Company. He is also the Chief Executive Officer of APT Satellite Telecommunications Limited, a jointly controlled entity between a wholly-owned subsidiary of the Company and one of the shareholders of APT Satellite International Company Limited, the substantial shareholder of the Company. He graduated with an Associateship in Production and Industrial Engineering and an M.Sc. Degree in Information Technology from Hong Kong Polytechnic University, and a MBA Degree from the University of Wales, UK and a Doctorate Degree in Business Administration in University of Hull, UK. He has attained several professional qualifications including Chartered Engineer, Member of the Institute of Electrical Engineers and is a Fellow of the Institute of Chartered Secretaries and Administrators in the United Kingdom and a Fellow of the Hong Kong Institute of Company Secretaries. Prior to joining the Group, he was a Director and senior management executive responsible for financial and investment management and the company secretary of a publicly listed company in Hong Kong. Dr. Lo has about 18 years of experience in corporate and project management.

Mr. CHEN Xun, aged 35, has been the Assistant President of the Company since July 2004. He joined the Company in 2000 and had worked as the Director of Engineering and Technical Operations Department and the Deputy Chief Engineer of the Group. Mr. Chen graduated from the Department of Computer and Telecommunications of Chongqing Institute of Post & Telecommunications. He had been working for China Telecommunications Broadcast Satellite Corporation, one of the shareholders of APT Satellite International Company Limited, the substantial shareholder of the Company, from 1992 to 1999 before joining the Group.

Mr. YANG Qing, aged 42, has been the Assistant President of the Company since July 2004. He joined the Company in 2000. He had worked as the Deputy Director of the Engineering and Technical Operations Department of the Group. Mr. Yang graduated from the Department of Flight Vehicle Engineering of Beijing Institute of Technology in June 1985. During the period from July 1985 to December 1999, he had been working for CALT (China Academy of Launch Vehicle Technology) and was designated as Senior Engineer and the Deputy Director of systems designer of LM-2C launch vehicle by CALT before joining the Group.

Mr. CUI Xinzheng, aged 52, was appointed as the Executive Director and Vice President of the Company in February 2001. He had served as the Director of General Office, Deputy Director of China Telecommunications Broadcast Satellite Corporation, one of the shareholders of APT Satellite International Company Limited, the substantial shareholder of the Company; the Deputy Director of Research Division of Beijing Micro-Electronics Technology Institute. He graduated from Graduate School of Chinese of Social Sciences Academy. He has 30-year experience in economics management and has much experience of the operation of satellite telecommunication. Mr. Cui resigned as the Executive Director and Vice President of the Company on 8 September 2004 and 31 July 2005, respectively.

The directors ("Directors") of the Company present their report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the maintenance, operation, provision of satellite transponder capacity and satellite-based broadcasting and telecommunications services and other service.

SEGMENTAL INFORMATION

Details of the segmental information are set out in note 11 to the financial statements.

RESULTS AND APPROPRIATIONS

Details of the results of the Group and appropriations of the Company for the year ended 31 December 2005 are set out in the consolidated income statement on page 40 and the accompanying notes to the financial statements.

The Directors do not recommend any payment of final dividend for the year ended 31 December 2005

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 107.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company for the year ended 31 December 2005 are set out in note 12 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2005 are set out in note 15 to the financial statements.

JOINTLY CONTROLLED ENTITIES

Details of the Group's interest in jointly controlled entities are set out in note 16 to the financial statements.

SHARE CAPITAL

During the year, no share was issued.

Details of movement of the share capital are set out in note 25 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

RESERVES

Details of movements during the year in the reserves of the Group and of the Company are set out in the consolidated statement of changes in equity and the statement of changes in equity on page 44 and 45 respectively.

DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company are set out in note 27 to the financial statements.

BORROWINGS

Details of the Group's bank borrowings are set out in note 21 to the financial statements.

FIXED CHARGE

Details of the Group's fixed charge are set out in note 29 to the financial statements.

DIRECTORS

Biographical details of the Directors and senior management of the Company are set out in the "Directors' and Senior Management's Profiles" under this annual report.

The Directors of the Company during the year and up to the date of this report were:

Executive directors

Ni Yifeng *(President)*	*(appointed as executive director and President on 16 July 2005)*
Tong Xudong *(Vice President)*	
Chen Zhaobin *(President)*	*(resigned as executive director and President on 16 July 2005)*

Non-executive directors

Liu Ji Yuan *(Chairman)*	
Zhang Hainan *(Deputy Chairman)*	
Lim Toon	
Wu Zhen Mu	
Yin Yen-liang	
Ho Siaw Hong	*(appointed as non-executive director on 27 March 2006)*
Tseng Ta-mon *(alternate director to Yin Yen-liang)*	
Lim Wee Seng	*(resigned as non-executive director on 16 August 2005)*
Lan Kwai-chu	*(resigned as non-executive director on 27 March 2006 and appointed as non-executive director on 16 August 2005)*
Kwok Kah Wai Victor	*(resigned as alternate director to Lim Toon and Lan Kwai-chu on 27 March 2006; and ceased as alternate director to Lim Wee Seng and appointed as alternate director to Lan Kwai-chu on 16 August 2005)*

Independent non-executive directors

Yuen Pak Yiu, Philip
Huan Guocang
Lui King Man

In accordance with Article 86(2) and Article 87 of the Company's Bye-Laws, Messrs. Ni Yifeng and Ho Siaw Hong will retire; and Messrs. Tong Xudong, Wu Zhen Mu and Huan Guocang will retire by rotation, at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The remaining Directors of the Company continue in office.

DIRECTOR'S SERVICE CONTRACT

No service contract was entered into between the Director and the Company or any of its subsidiaries that is exempt under rule 13.69 of the rules governing the listing of securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Save as disclosed below, no Director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation):

– Mr. Tong Xudong (Executive Director and Vice President) entered into a service contract with the Company for an initial term of three years, commencing on 20 April 2004; and

– Mr. Ni Yifeng (Executive Director and President) entered into a service contract with the Company for an initial term of three years, commencing on 16 July 2005,

and continuing thereafter until terminated by either party giving to the other not less than six months' notice but not more than one year or to pay compensation or make other payments equivalent to more than one year's emoluments (other than statutory compensation).

DIRECTORS' EMOLUMENTS

The emoluments of the Directors on a named basis are set out in note 7 to the financial statements.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-Executive Directors an annual confirmation as regards independence pursuant to rule 3.13 of the Listing Rules and in the opinion of the Directors having regard to the Company's Nomination Committee's assessment of their independence, they remain to be considered as independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2005, the interests of each Director and the chief executive of the Company are interested, or are deemed to be interested in the long and short positions in the shares and underlying shares of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company under section 352 of the SFO are as follows:

Name of Director and chief executive	Nature of interests	Number of shares held	Number of share options[1]
Lo Kin Hang, Brian *(Vice President and Company Secretary)*	Personal	5,000	800,000

[1] The share options were granted on 19 June 2001 under the share option scheme adopted at the annual general meeting of the Company held on 22 May 2001 and all the above share 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.

Save as disclosed above, as at 31 December 2005, none of the Directors or the chief executives of the Company had or was interested, or were deemed to be interested in the long and short positions in the shares and underlying shares of the Company nor any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies respectively.

SHARE OPTION SCHEMES

Owing to the enforcement of the new requirements of the Listing Rules in September 2001, the Company adopted a new share option scheme (the "Scheme 2002") at its annual general meeting on 22 May 2002, whereupon the Board of Directors of the Company shall only grant new options under the Scheme 2002.

During the year, no options were granted under the Scheme 2002, which will expire on 21 May 2012.

On 19 June 2001, the Company had granted options to its employees under a previous share option scheme (the "Scheme 2001"), which was adopted at the annual general meeting on 22 May 2001, details of which are set out below. Since then, no further options were granted under the Scheme 2001 and, all the options granted under the Scheme 2001 shall however remain valid until their expiry.

With the adoption of the Scheme 2002, the Company can provide incentives or rewards to its employees including non-executive directors and independent non-executive directors for their contribution to the Group and/or enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

The total number of shares available for issue under the existing share option schemes (Scheme 2001 and Scheme 2002) is upon exercise of all share options granted and yet to be exercised 4,230,000, (2004: 8,450,000) which represents 1.03% (2004: 2.05%) of the issued shares of the Company for the time being and not exceeding 10% of the shares of the Company in issue on the adoption date of the Scheme 2002 (i.e. 412,720,000). As at the date of this report, the total number of shares of the Company in issue was 413,265,000 (2004: 413,265,000).

Save for a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates according to the Listing Rules, the total number of shares of the Company issued and which may fall to be issued upon exercise of the options granted under the Scheme 2002 and any other share option schemes of the Company (including outstanding options) to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options to any participant in excess of the 1% limit must be subject to shareholders' approval in general meeting of the Company.

The exercise price (subscription price) will be determined by the Directors in its absolute discretion but shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock 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 of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares of the Company.

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

	Options granted on 19 June 2001 and remain outstanding as at 1 January 2005	Options cancelled during the year	Options exercised during the year	Options remain outstanding as at 31 December 2005
Name of director and chief executive				
Chen Zhaobin *(Executive Director and President)*	2,200,000	2,200,000	–	–
Cui Xinzheng *(Vice President)*	1,200,000	1,200,000	–	–
Lo Kin Hang, Brian *(Vice President and Company Secretary)*	800,000	–	–	800,000
	4,200,000	3,400,000	–	800,000
Employees in aggregate:				
Employees under employment contracts	8,450,000	4,220,000	–	4,230,000

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, whilst there is no minimum period nor any amount payable on application required before exercising the options. The closing price of the shares immediately before the date on which these options were granted was HK$3.85.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

INTERESTS IN COMPETING BUSINESS DISCLOSURES

As at 31 December 2005, the following directors of the Company are also directors in other businesses, which compete or are likely to compete, either directly or indirectly, with the Group's business:

Name of Director	Name of the Companies	Principal Activities
Lim Toon	SingTelSat Pte Ltd	Provision of satellite capacity for telecommunication and video broadcasting services
	Singapore Telecom Hong Kong Limited INS Holdings Pte Ltd	Investment holding and provision of telecommunications services
	SingTel Services Australia Pty Limited SingTel (Philippines), Inc. Singapore Telecom Taiwan Limited	Provision of customer services for telecommunications related activities
	Singapore Telecom Japan Co Ltd Singapore Telecom Korea Limited	Provision of telecommunications services and all related activities
	Bharti Tele-Ventures Limited	Provision of cellular, fixed line, national long distance and international telecommunication services
	Singapore Telecom USA, Inc.	Provision of telecommunication services and engineering and marketing services for telecommunications networks in USA
	New Century Infocomm Tech Co. Ltd.	Provision of fixed line telecommunication services
Lim Wee Seng	C2C Pte Ltd	Operation and provision of telecommunications facilities and services utilising a network of submarine cable systems and associated terrestrial capacity

SUBSTANTIAL SHAREHOLDER

As at 31 December 2005, according to the register of interests in shares and short positions kept by the Company under section 336 of the SFO, the following companies are directly and indirectly interested in 5 per cent or more of the issued share capital of the Company:

Name	*Note*	Number of shares interested	% of issued share capital
APT Satellite International Company Limited		214,200,000	51.83
China Aerospace Science & Technology Corporation	1	37,200,000	9.00
China Aerospace International Holdings Limited	1	31,200,000	7.55
Sinolike Investments Limited	1	31,200,000	7.55
Temasek Holdings (Private) Limited	2	22,800,000	5.52
Singapore Telecommunications Limited	2	22,800,000	5.52
Singasat Private Limited	2	22,800,000	5.52

Note:

1. China Aerospace Science & Technology Corporation was deemed to be interested in the shares of the Company by virtue of its 41.86% shareholding in China Aerospace International Holdings Limited, which was deemed to be interested in the shares of the Company by virtue of its 100% shareholding in Sinolike Investments Limited, which was deemed to be interested in the shares of the Company by virtue of its 100% shareholding in CASIL Satellite Holdings Limited which holds 14,400,000 shares of the Company.

2. Temasek Holdings (Private) Limited was deemed to be interested in the shares of the Company by virtue of its 67.16% shareholding in Singapore Telecommunications Limited, which was deemed to be interested in the shares of the Company by virtue of its 100% shareholding in Singasat Private Limited.

Save as disclosed above, as at 31 December 2005, no other party has an interest or a short position in the issued share capital of the Company, as recorded in the register required to be kept by the Company under section 336 of the SFO.

As at the date of this report, Messrs. Ni Yifeng, Tong Xudong, Liu Ji Yuan, Zhang Hainan, Lim Toon, Yin Yen-liang, Wu Zhen Mu, Ho Siaw Hong and Tseng Ta-mon (alternate director to Yin Yen-liang), directors of the Company, are also directors of APT Satellite International Company Limited.

Save as disclosed above, the Company has not been notified of any other interest representing 5% or more of the Company's issued share capital at 31 December 2005.

MAJOR CUSTOMERS AND SUPPLIERS

In 2005, the largest customer accounted for 9% (2004: 13%) of the Group's turnover. Turnover attributable to the Group's five largest customers accounted for 34% (2004: 40%) of the turnover for the year. Aggregate purchases attributable to the Group's five largest suppliers were less than 30% of total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers.

CONTINUING CONNECTED TRANSACTIONS

Certain transactions also constituted related party transaction in accordance with the Hong Kong accounting principles, details are set out in note 34 to the financial statements. During the year ended 31 December 2005, the Group had the following continuing connected transactions, details of which are set out below:

As announced on 2 December 2004, for the purposes of governing the continuing connected transactions (the "Continuing Connected Transactions") and ensuring the compliance with Chapter 14A of the Listing Rules, on 1 December 2004 two Master Agreements were entered into between the Company and Singapore Telecommunications Limited ("SingTel") in relation to the provision of satellite transponder and any other satellite related services by the Group to SingTel and Singapore Telecom Hong Kong Limited (an associate of SingTel), or vice versa ("Transponder Transactions"); and between the Company and C2C Pte Limited (an associate of SingTel) in relation to the provision of telecommunications related services by the Group to C2C Pte Limited and its subsidiary, or vice versa ("Telecom Transactions"). The duration of the Master Agreements shall remain in force until 31 December 2006.

SingTel was a connected person because it was the holding company of Singasat Private Limited ("SingaSat"), which was a substantial shareholder of APT Satellite Telecommunications Limited, which is owned as to 55% indirectly by the Company and 45% by SingaSat. The entering into the Transponder Transactions, the Telecom Transactions and the Master Agreements constituted connected transactions.

As approved by the independent shareholders of the Company on 30 December 2004, for the three years ending 31 December 2004, 31 December 2005 and 31 December 2006, the annual aggregate value of the Transponder Transactions will not exceed HK$15 million, HK$18 million and HK$32 million, respectively, and in the case of Telecom Transactions, their annual aggregate value will not exceed HK$2 million, HK$9 million and HK$11 million, respectively.

During the year ended 31 December 2005, the annual aggregate values were as follows:

(i)	Transponder Transactions	HK$1,405,000
(ii)	Telecom Transactions	HK$2,052,000

The Independent Non-Executive Directors of the Company have reviewed the Continuing Connected Transactions and confirmed that:

(i) the annual aggregate values of the Transponder Transactions and the Telecom Transactions for the year ended 31 December 2005 did not exceed HK$18 million and HK$9 million, respectively;

(ii) the Continuing Connected Transactions have been and will continue to be entered into the usual and ordinary course of business of the Group;

(iii) the Continuing Connected Transactions have been and will continue to be conducted either (1) on normal commercial terms; or (2) if there is no available comparison, on terms no less favorable to the Group than terms available from independent third parties; and

(iv) the Continuing Connected Transactions have been and will continue to be entered into in accordance with the Master Agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

RETIREMENT BENEFIT SCHEMES

Details of the Company's retirement benefit schemes are set out in note 33 to the financial statements.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" under this annual report.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

KPMG have been appointed as auditors of the Company since 2003 upon the resignation of Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

Ni Yifeng
Director

Tong Xudong
Director

Shenzhen, China, 10 April 2006

KPMG

Auditors' report to the shareholders of
APT Satellite Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 40 to 106 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, 10 April 2006

For the year ended 31 December 2005 (Expressed in Hong Kong dollars)

	Note	2005 $'000	2004 (restated) $'000
Turnover	3 & 11	**336,512**	277,260
Cost of services		**(301,193)**	(244,755)
Gross profit		**35,319**	32,505
Other net income	4	**30,831**	9,332
Administrative expenses		**(77,199)**	(78,680)
Revaluation gain on investment property	14	**–**	78
Impairment loss recognised in respect of property, plant and equipment	12(a)	**(7,512)**	(1,800)
Impairment loss recognised in respect of prepayment for construction of a satellite	17	**(59,904)**	–
Loss from operations		**(78,465)**	(38,565)
Finance costs	5(a)	**(36,942)**	(4,117)
Share of results of jointly controlled entities	16	**(7,995)**	(2,709)
Loss before taxation	5	**(123,402)**	(45,391)
Income tax	6(a)	**(13,172)**	(16,625)
Loss for the year		**(136,574)**	(62,016)
Attributable to:			
Equity shareholders of the Company		**(135,564)**	(59,957)
Minority interests		**(1,010)**	(2,059)
Loss for the year	9	**(136,574)**	(62,016)
Loss per share	10		
– Basic		**(32.80 cents)**	(14.51 cents)
– Diluted		**(32.80 cents)**	(14.51 cents)

The notes on pages 48 to 106 form part of these financial statements.

At 31 December 2005 (Expressed in Hong Kong dollars)

	Note	2005 $'000	2004 (restated) $'000
Non-current assets			
Property, plant and equipment	12(a)	**2,999,402**	2,680,330
Interest in leasehold land held for own use under an operating lease	13	**15,570**	15,945
Investment property	14	**2,340**	2,340
Interest in jointly controlled entities	16	**2,241**	10,226
Amounts due from a jointly controlled entity	16	**67,476**	67,914
Prepayment for construction of a satellite	17	**–**	38,454
Club memberships		**5,537**	5,537
Prepaid expenses	18	**32,227**	23,365
Deferred tax assets	24(b)	**3,609**	10,134
		3,128,402	2,854,245
Current assets			
Trade receivables	19	**49,730**	45,753
Deposits, prepayments and other receivables	18	**35,918**	23,191
Amount due from a jointly controlled entity	16	**5,100**	2,700
Pledged bank deposits	29	**68,699**	21,140
Cash and cash equivalents	20	**326,440**	673,763
		485,887	766,547
Current liabilities			
Payables and accrued charges		**51,593**	45,139
Rentals received in advance		**31,414**	30,652
Loan from a minority shareholder		**7,488**	7,488
Secured bank borrowings due within one year	21	**117,757**	64,778
Current taxation	24(a)	**89,186**	84,768
		297,438	232,825
Net current assets		**188,449**	533,722
Total assets less current liabilities carried forward		**3,316,851**	3,387,967

At 31 December 2005 (Expressed in Hong Kong dollars)

	Note	2005 $'000	2004 (restated) $'000
Total assets less current liabilities brought forward		**3,316,851**	3,387,967
Non-current liabilities			
Secured bank borrowings due after one year	21	**1,000,302**	904,762
Deposits received	22	**15,986**	12,607
Deferred income	23	**239,011**	261,380
Deferred tax liabilities	24(b)	**–**	12,209
		1,255,299	1,190,958
Net assets		**2,061,552**	2,197,009
Capital and reserves			
Share capital	25	**41,327**	41,327
Share premium		**1,287,536**	1,287,536
Contributed surplus	27	**511,000**	511,000
Capital reserve		**11,996**	23,964
Exchange reserve		**1,347**	(20)
Other reserves	27	**104**	102
Accumulated profits	27	**205,315**	329,244
		2,058,625	2,193,153
Minority interests		**2,927**	3,856
Total equity		**2,061,552**	2,197,009

Approved and authorised for issue by the Board of Directors on 10 April 2006.

Ni Yifeng
DIRECTOR

Tong Xudong
DIRECTOR

The notes on pages 48 to 106 form part of these financial statements.

BALANCE SHEET

At 31 December 2005 (Expressed in Hong Kong dollars)

	Note	2005 $'000	2004 (restated) $'000
Non-current assets			
Property, plant and equipment	12(b)	**–**	–
Interest in subsidiaries	15(a)	**615,862**	615,862
Loans to subsidiaries	15(b)	**–**	1,201,712
Amounts due from subsidiaries	15(b)	**–**	90,076
		615,862	1,907,650
Current assets			
Other receivables and prepayments		**354**	288
Loans to subsidiaries	15(c)	**1,201,712**	–
Amounts due from subsidiaries	15(c)	**133,396**	39,640
Cash and cash equivalents	20	**3,286**	7,799
		1,338,748	47,727
Current liabilities			
Payables and accrued charges		**1,539**	2,053
Net current assets		**1,337,209**	45,674
		1,953,071	1,953,324
Capital and reserves			
Share capital	25	**41,327**	41,327
Share premium		**1,287,536**	1,287,536
Contributed surplus	27	**584,358**	584,358
Capital reserve		**11,996**	23,964
Accumulated profits	27	**27,854**	16,139
		1,953,071	1,953,324

Approved and authorised for issue by the Board of Directors on 10 April 2006.

Ni Yifeng	**Tong Xudong**
DIRECTOR	*DIRECTOR*

The notes on pages 48 to 106 form part of these financial statements.

For the year ended 31 December 2005 (Expressed in Hong Kong dollars)

		Attributable to equity holders of the parent										
	Note	Share capital $'000	Share premium $'000	Contributed surplus $'000	Capital reserve $'000	Revaluation reserve $'000	Exchange reserve $'000	Other reserves $'000	Accumulated profits/ (losses) $'000	Total $'000	Minority interests $'000	Total equity $'000
At 1 January 2004 as previously reported		41,327	1,285,466	511,000	–	7,700	(100)	102	407,535	2,253,030	–	2,253,030
Minority interests (as previously presented separately from liabilities and equity at 31 December)	2(d)	–	–	–	–	–	–	–	–	–	5,915	5,915
Prior period adjustments arising from changes in accounting policies under:												
– HKAS 40 investment properties	2(b)	–	–	–	–	(7,700)	–	–	7,700	–	–	–
– HKFRS 2 share-based payment	2(a)	–	2,070	–	27,424	–	–	–	(29,494)	–	–	–
At 1 January 2004 (Restated)		41,327	1,287,536	511,000	27,424	–	(100)	102	385,741	2,253,030	5,915	2,258,945
Exchange differences		–	–	–	–	–	80	–	–	80	–	80
Cancellation of share options		–	–	–	(3,460)	–	–	–	3,460	–	–	–
Net loss for the year		–	–	–	–	–	–	–	(59,957)	(59,957)	(2,059)	(62,016)
Balance at 31 December 2004 (Restated)		41,327	1,287,536	511,000	23,964	–	(20)	102	329,244	2,193,153	3,856	2,197,009
At 1 January 2005 as previously reported		41,327	1,285,466	511,000	–	5,500	(20)	102	349,778	2,193,153	–	2,193,153
Minority interests (as previously presented separately from liabilities and equity at 31 December)	2(d)	–	–	–	–	–	–	–	–	–	3,856	3,856
Prior period adjustments arising from changes in accounting policies under:												
– HKAS 39 financial instruments	2(e)	–	–	–	–	–	–	–	(333)	(333)	–	(333)
– HKAS 40 investment properties	2(b)	–	–	–	–	(5,500)	–	–	5,500	–	–	–
– HKFRS 2 share-based payment	2(a)	–	2,070	–	23,964	–	–	–	(26,034)	–	–	–
At 1 January 2005 (Restated)		41,327	1,287,536	511,000	23,964	–	(20)	102	328,911	2,192,820	3,856	2,196,676
Exchange differences		–	–	–	–	–	1,367	2	–	1,369	81	1,450
Cancellation of share options		–	–	–	(11,968)	–	–	–	11,968	–	–	–
Net loss for the year		–	–	–	–	–	–	–	(135,564)	(135,564)	(1,010)	(136,574)
Balance at 31 December 2005		41,327	1,287,536	511,000	11,996	–	1,347	104	205,315	2,058,625	2,927	2,061,552

For the year ended 31 December 2005 (Expressed in Hong Kong dollars)

	Note	Share capital $'000	Share premium $'000	Contributed surplus $'000	Capital reserve $'000	Accumulated profits $'000	Total $'000
The Company							
Balance at 1 January 2004 as previously reported		41,327	1,285,466	584,358	–	42,775	1,953,926
Prior period adjustments arising from changes in accounting policies under:							
– HKFRS 2 share-based payment	2(a)	–	2,070	–	27,424	(29,494)	–
At 1 January 2004 (Restated)		41,327	1,287,536	584,358	27,424	13,281	1,953,926
Cancellation of share options		–	–	–	(3,460)	3,460	–
Net loss for the year		–	–	–	–	(602)	(602)
Balance at 31 December 2004 (Restated)		41,327	1,287,536	584,358	23,964	16,139	1,953,324
Balance at 1 January 2005 as previously reported		41,327	1,285,466	584,358	–	42,173	1,953,324
Prior period adjustments arising from changes in accounting policies under:							
– HKFRS 2 share-based payment	2(a)	–	2,070	–	23,964	(26,034)	–
At 1 January 2005 (Restated)		41,327	1,287,536	584,358	23,964	16,139	1,953,324
Cancellation of share options		–	–	–	(11,968)	11,968	–
Net loss for the year		–	–	–	–	(253)	(253)
Balance at 31 December 2005		41,327	1,287,536	584,358	11,996	27,854	1,953,071

The notes on pages 48 to 106 form part of these financial statements.

For the year ended 31 December 2005 (Expressed in Hong Kong dollars)

	2005	2004 (restated)
	$'000	$'000
Operating activities		
Loss before taxation	**(123,402)**	(45,391)
Adjustments for:		
Depreciation	**197,806**	177,617
Amortisation of leasehold land held for own use	**375**	375
Impairment loss recognised in respect of property, plant and equipment	**7,512**	1,800
Impairment loss recognised in respect of prepayment for construction of a satellite	**59,904**	–
Interest income	**(12,916)**	(7,312)
(Gain)/Loss on disposal of property, plant and equipment	**(109)**	32
Finance costs	**36,942**	4,117
Surplus arising on revaluation of investment property	**–**	(78)
Share of results of jointly controlled entities	**7,995**	2,709
Provision for bad and doubtful receivables	**350**	5,654
Operating profit before changes in working capital	**174,457**	139,523
(Increase)/decrease in trade receivables	**(4,393)**	16,957
Increase in prepaid expenses	**(8,863)**	(27,604)
Decrease in amount due from immediate holding company	**–**	20
Decrease in deposits, prepayments and other receivables	**19,293**	16,815
Increase/(decrease) in payables and accrued charges	**1,400**	(8,939)
Increase in rentals received in advance	**762**	9,691
Decrease/(increase) in amounts due from jointly controlled entities	**300**	(768)
Increase in deposits received	**3,379**	233,499
Decrease in deferred income	**(22,369)**	(25,353)
Cash generated from operations	**163,966**	353,841
Hong Kong profits tax paid	**–**	(108,135)
Overseas tax paid	**(14,438)**	(12,328)
Net cash from operating activities	**149,528**	233,378

For the year ended 31 December 2005 (Expressed in Hong Kong dollars)

	2005	2004 (restated)
	$'000	$'000
Investing activities		
Payment for purchase of property, plant and equipment	**(559,780)**	(423,572)
Proceeds from disposal of property, plant and equipment	**178**	1
Advances/loans to jointly controlled entities	**(2,261)**	–
Interest received	**13,404**	6,810
(Increase)/decrease in pledged bank deposits	**(47,559)**	90,723
Prepayment for construction of a satellite	**(21,450)**	(38,454)
Net cash used in investing activities	**(617,468)**	(364,492)
Financing activities		
Interest paid	**(32,582)**	(15,847)
New bank borrowings	**229,320**	273,780
Repayment of bank borrowings	**(77,805)**	–
Net cash from financing activities	**118,933**	257,933
Net (decrease)/increase in cash and cash equivalents	**(349,007)**	126,819
Cash and cash equivalents at 1 January	**673,763**	546,864
Effect of foreign exchange rates changes	**1,684**	80
Cash and cash equivalents at 31 December	**326,440**	673,763
Analysis of the balances of cash and cash equivalents:		
Deposits with banks and other financial institutions	**316,685**	661,677
Cash at bank and on hand	**9,755**	12,086
Cash and cash equivalents at the end of the year	**326,440**	673,763

The notes on pages 48 to 106 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investment property (see note 1(f)) is stated at fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management judgements, estimates any assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 37.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting powers or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity, separately from equity attributable to shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses attributable to the minority exceed the minority interest in the equity of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, fund the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see note 1(e)).

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance from part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(q)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(h).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses:

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(h)); and

– other items of plant and equipment.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

–	Leasehold improvement	Over the lease term
–	Furniture and equipment, motor vehicles, and computer equipment	5 years
–	Communication satellite equipment	5 to 15 years
–	Communication station	5 years
–	Communication satellites	9 to 16 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(f)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts, to residual values, over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are reported as an expense of the accounting period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(i) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investments in subsidiaries, associates and joint ventures;
- trade and other receivables; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- *Calculation of recoverable amount*

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of other assets (Continued)

– *Recognition of impairment losses*

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(n) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

The employees of the Group participate in retirement plans managed by respective local governments of the municipalities in which the Group operates in the People's Republic of China (the "PRC"). The Group's contributions to the plan are calculated based on fixed rates of the employees' salary costs and charged to the income statement when incurred. The Group has no other obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(ii) *Share based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits (Continued)

(ii) Share based payments (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Transponder utilisation income

Income from provision of satellite transponder capacity and related services is recognised in the income statement in equal instalments over the accounting periods covered by the contract term, except where an alternative basis is more representative of the pattern of benefits to be derived from the satellite transponder capacity utilised.

(ii) Service income

Service income in respect of provision of satellite-based broadcasting and telecommunications services and other service is recognised when services are provided.

(iii) Interest income

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

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statements, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Translation of foreign currencies (Continued)

The functional currency of the Group's main operations is the United States dollar which is translated into Hong Kong dollar for reporting of the financial statements. As the Hong Kong dollar is pegged to the United States dollar, foreign currency exchange fluctuation have an insignificant impact to the Group.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(s) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment assets of the Group include trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on terms similar to those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group after the adoption of these new and revised HKFRSs have been summarised in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

(a) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price.

The new accounting policy has been applied retrospectively by decreasing the opening balance of retained earnings as of 1 January 2005 by $23,964,000 (1 January 2004: $27,424,000), with the corresponding amount credited to capital reserve. There is no effect on the Group's loss before taxation for the year ended 31 December 2004 and 2005 as a result of this new accounting policy because no additional options were granted nor did any options from previous grants vest during these periods.

Details of the employee share option scheme are set out in note 26.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Investment properties (HKAS 40, Investment property)

Changes in accounting policies relating to investment properties are as follows.

Timing of recognition of movements in fair value in the income statement

In prior years, movements in the fair value of the Group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a decline in the fair value of the portfolio, when a decline previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

Upon adoption of HKAS 40 as of 1 January 2005, all changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40.

These changes in accounting policy have been adopted retrospectively by increasing the opening balance of retained earnings as of 1 January 2005 by $5,500,000 (1 January 2004: $7,700,000) to include all of the Group's previous investment properties revaluation reserve.

As a result of this new policy, the Group's loss before taxation for the year ended 31 December 2005 has increased by $7,150,000 (31 December 2004: $2,200,000), consisting of the Group's share of the net decrease in the fair value of the investment property held by the Group's jointly controlled entity. The decrease is reflected in the share of results of jointly controlled entities.

(c) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land held for own use which was presented as part of "Land and buildings" in "Property, plant and equipment" and was stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation was calculated to write-off the cost of leasehold land on a straight-line basis over their lease term.

With effect from 1 January 2005, in order to comply with HKAS 17, leasehold land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. Any pre-paid land premiums for acquiring the leasehold land, or other lease payments, are stated at cost and are written off on a straight-line basis over the respective periods of the lease term.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Leasehold land and buildings held for own use (HKAS 17, Leases) (Continued)

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The new accounting policy has been adopted retrospectively, but there is no impact on the Group's net assets as at the year end and on the Group's loss attributable to equity shareholders for the year presented. An additional line item "Interest in leasehold land held for own use under an operating lease", which was previously included in "Property, plant and equipment" has been included on the face of the consolidated balance sheet. The comparative figure for "Property, plant and equipment" has been reclassified to conform with the current year's presentation.

(d) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent. Minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative year has been restated accordingly.

(e) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39 Financial instruments: Recognition and measurement)

In prior years, loan arrangement fee was included as part of the "Deposits, prepayments and deferred expenses" and was amortised over the terms of the relevant bank borrowings. With effect from 1 January 2005, in order to comply with HKAS 39, the unamortised balance of the loan arrangement fee is presented as a deduction from the secured bank borrowings in the consolidated balance sheet.

The new accounting policy has been retrospectively applied by decreasing the opening balance of retained earnings as of 1 January 2005 by $333,000, and the Group's loss before taxation for the year ended 31 December 2005 has increased by $504,000.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(f) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(t) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

3 TURNOVER

The principal activities of the Group are the maintenance, operation, provision of satellite transponder capacity and related services and satellite-based broadcasting and telecommunications services and other service.

Turnover represents income received and receivable from provision of satellite transponder capacity and related services, satellite-based broadcasting and telecommunications services and other service income. The amount of each category of revenue recognised in turnover during the year is as follows:

	2005 $'000	2004 $'000
Income from provision of satellite transponder capacity and related services	**290,683**	238,418
Income from provision of satellite-based broadcasting and telecommunications services	**45,552**	38,683
Service income	**277**	159
	336,512	277,260

4 OTHER NET INCOME

	2005 $'000	2004 $'000
Other net income primarily includes the following:		
Compensation income for the late delivery of the satellite*	**15,600**	–
Interest income	**12,916**	7,312
Rental income in respect of properties	**538**	513
(Gain)/loss on disposal of property, plant and equipment	**(109)**	32

* On 11 December 2001, the Group entered into a Satellite Procurement Agreement with a contractor for the design, construction, tests and delivery of APSTAR VI. APSTAR VI was originally scheduled to be launched at the end of 2004/early 2005. The delay in delivery of the satellite by the contractor has caused the postponement of the launch of APSTAR VI until 12 April 2005. To cope with the delay, the contractor agreed and paid a lump sum payment to the Group for the liquidated damages due to the late delivery of APSTAR VI.

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2005 $'000	2004 $'000
Interest on bank borrowings wholly repayable within five years	**44,482**	17,223
Other borrowing costs	**2,222**	3,598
Less: Amount capitalised into construction in progress*	**(9,762)**	(16,704)
	36,942	4,117

* The borrowing costs have been capitalised at a rate of 4.04% to 4.25% per annum (2004: 2.27% to 2.41%).

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

(Expressed in Hong Kong dollars)

5 LOSS BEFORE TAXATION (Continued)

(b) Staff costs

	2005 $'000	2004 $'000
Staff costs (including directors' emoluments)		
Pension contributions	**1,878**	1,608
Less: Forfeited contributions	**(21)**	(29)
Net pension contributions	**1,857**	1,579
Salaries, wages and other benefits	**44,264**	40,258
	46,121	41,837
Less: Capitalised into construction in progress	**–**	(772)
	46,121	41,065

(c) Other items

	2005 $'000	2004 $'000
Auditors' remuneration		
– audit services	**1,071**	960
– other services	**10**	18
Depreciation	**197,806**	177,617
Amortisation on leasehold land held for own use	**375**	375
Foreign currency exchange loss	**584**	458
Operating lease charges: minimum lease payments		
– land and buildings	**486**	1,010
– satellite transponder capacity	**3,779**	4,948
Provision for bad and doubtful receivables	**350**	5,654

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2005 $'000	2004 $'000
Current tax – Overseas		
Tax for the year	**18,856**	17,000
Deferred tax – Hong Kong		
Origination and reversal of temporary differences	**(5,684)**	(375)
	13,172	16,625

Taxation is charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company has no assessable profit for the year. Overseas tax includes the withholding tax paid or payable in respect of Group's income from provision of satellite transponder capacity to the customers which are located outside Hong Kong.

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2005 $'000	2004 (restated) $'000
Loss before taxation	**(123,402)**	(45,391)
Notional tax on loss before tax, calculated at the rates applicable to losses in the countries concerned	**(21,996)**	(8,681)
Overseas withholding tax	**18,856**	17,000
Tax effect of non-deductible expenses	**27,113**	41,106
Tax effect of non-taxable revenue	**(13,552)**	(27,852)
Tax effect of unused tax losses not recognised	**2,808**	2,656
Tax effect of prior year's unrecognised tax losses utilised this year	**(57)**	(7,604)
Actual tax expenses	**13,172**	16,625

7 DIRECTORS' REMUNERATION

Director' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Retirement scheme contributions $'000	2005 Total $'000
Executive directors				
Ni Yifeng	23	1,427	76	**1,526**
Tong Xudong	50	2,316	142	**2,508**
Chen Zhaobin	27	2,595	49	**2,671**
Non-executive directors				
Liu Ji Yuan	50	–	–	**50**
Zhang Hainan	50	–	–	**50**
Lim Toon	50	–	–	**50**
Lan Kwai-chu	19	–	–	**19**
Yin Yen-liang	50	–	–	**50**
Wu Zhen Mu	50	–	–	**50**
Lim Wee Seng (note b)	31	–	–	**31**
Tseng Ta-mon (note c)	–	–	–	**–**
Kwok Kah Wai Victor (note a)	–	–	–	**–**
Independent non-executive directors				
Yuen Pak Yiu, Philip	100	–	–	**100**
Huan Guocang	100	–	–	**100**
Lui King Man	100	–	–	**100**
	700	6,338	267	**7,305**

7 DIRECTORS' REMUNERATION (Continued)

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Retirement scheme contributions $'000	2004 Total $'000
Executive directors				
Chen Zhaobin	50	2,909	93	3,052
Tong Xudong	38	1,629	51	1,718
He Dongfeng	12	633	20	665
Cui Xinzheng	35	1,618	51	1,704
Non-executive directors				
Liu Ji Yuan	50	–	–	50
Zhang Hainan	38	–	–	38
Zhou Ze He	12	–	–	12
Lim Toon	50	–	–	50
Yin Yen-liang	50	–	–	50
Wu Zhen Mu	50	–	–	50
Wu Hongju	–	–	–	–
Wu Jinfeng	34	–	–	34
Wong Hung Khim	34	–	–	34
Lim Shyong	34	–	–	34
Tseng Ta-mon (note c)	34	–	–	34
Lim Wee Seng (note b)	2	–	–	2
Tay Chek Khoon	48	–	–	48
Chen Chi-chuan (note a)	–	–	–	–
Kwok Kah Wai Victor (note a)	–	–	–	–
Independent non-executive directors				
Yuen Pak Yiu, Philip	100	–	–	100
Huan Guocang	–	–	–	–
Lui King Man	37	–	–	37
	708	6,789	215	7,712

Mr. Wu Hongju, a non-executive director, and Dr. Huan Guocang, an independent non-executive director, have waived their directors' fees for the year 2004. Save as afore-mentioned, none of the directors have waived the rights to receive their remuneration.

In addition to the above emoluments, certain Directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Share option schemes" in the Directors' report and note 26.

7 DIRECTORS' REMUNERATION (Continued)

Notes:

Alternate directors are not entitled to receive any directors' fees:

(a) Mr. Chen Chi-chuan and Mr. Kwok Kah Wai Victor were alternate directors.

(b) Mr. Lim Wee Seng was re-designated from alternate director to non-executive director on 20 December 2004.

(c) Mr. Tseng Ta-mon was re-designated from non-executive director to alternate director on 8 September 2004.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five highest paid individuals of the Group, three are directors (2004: three) whose remuneration are disclosed in note 7. The aggregate of emoluments in respect of the other two (2004: two) individuals are as follows:

	2005 $'000	2004 $'000
Salaries and other emoluments	**4,117**	2,915
Retirement benefits contributions	**218**	181
Compensation for the loss of office	**–**	1,757
	4,335	4,853

The emoluments of the two (2004: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2005	2004
$1,500,001 to $2,000,000	**1**	1
$2,500,001 to $3,000,000	**1**	–
$3,000,001 to $3,500,000	**–**	1
	2	2

9 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of $253,000 (2004: $602,000) which has been dealt with in the financial statements of the Company.

10 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of $135,564,000 (2004 (restated): $59,957,000) and the weighted average of 413,265,000 ordinary shares (2004: 413,265,000 shares) in issue during the year ended 31 December 2005.

(b) Diluted loss per share

Diluted loss per share is the same as the basic loss per share as there were no dilutive potential ordinary shares in existence during the years 2005 and 2004.

11 SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Inter-segment pricing is based on terms similar to those available to external third parties.

Business segments

The Group comprises two main business segments, namely provision of satellite transponder capacity and related services and provision of satellite-based broadcasting and telecommunications services.

	Provision of satellite transponder capacity and related services		Provision of satellite-based broadcasting and telecommunications services		Inter-segment elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004 (restated)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Turnover from external customers	**290,683**	238,418	**45,552**	38,683	**–**	–	**336,235**	277,101
Inter-segment turnover	**4,264**	5,276	**720**	6	**(4,984)**	(5,282)	**–**	–
Total	**294,947**	243,694	**46,272**	38,689	**(4,984)**	(5,282)	**336,235**	277,101
Service income							**277**	159
							336,512	277,260
Segment result	**(29,021)**	28,230	**(3,697)**	(3,332)	**(5)**	(6)	**(32,723)**	24,892
Service income							**277**	159
Unallocated other net income							**30,831**	9,332
Unallocated administrative expenses								
– staff costs							**(45,035)**	(41,605)
– office expenses							**(31,815)**	(31,343)
Loss from operations							**(78,465)**	(38,565)
Finance costs							**(36,942)**	(4,117)
Share of results of jointly controlled entities							**(7,995)**	(2,709)
Loss before taxation							**(123,402)**	(45,391)
Income tax							**(13,172)**	(16,625)
Loss for the year							**(136,574)**	(62,016)

11 SEGMENTAL REPORTING (Continued)

Business segments (Continued)

	Provision of satellite transponder capacity and related services		Provision of satellite-based broadcasting and telecommunications services		Inter-segment elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004 (restated)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Depreciation for the year	**187,967**	167,521	**9,839**	10,096				
Impairment loss for the year	**59,904**	–	**7,512**	1,800				
Significant non-cash expenses (other than depreciation)	**–**	2,883	**349**	2,771				
Segment assets	**3,110,958**	2,853,269	**50,170**	52,869	**(56,666)**	(52,284)	**3,104,462**	2,853,854
Investment in and amounts due from jointly controlled entities	**74,817**	80,330	**–**	510			**74,817**	80,840
Unallocated assets							**435,010**	686,098
Total assets							**3,614,289**	3,620,792
Segment liabilities	**384,044**	399,229	**87,043**	74,994	**(56,666)**	(52,284)	**414,421**	421,939
Unallocated liabilities							**1,138,316**	1,001,844
Total liabilities							**1,552,737**	1,423,783
Capital expenditure incurred during the year	**521,677**	417,553	**2,787**	13,187				

11 SEGMENTAL REPORTING (Continued)

Geographical segments

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 within a specific geographical area. Accordingly, no segment analysis of the carrying amount of segment assets by location of assets is presented.

In presenting information on the basis of geographical segments, segment revenue, segment assets and capital expenditure is based on the geographical location of customers.

	Hong Kong		Other regions in the PRC		Singapore		Indonesia		Others		Unallocated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Turnover from external customers	**38,459**	21,287	**201,851**	195,155	**30,657**	23,339	**32,262**	6,010	**33,283**	31,469	**–**	–
Segment assets	**4,009**	1,666	**44,972**	55,492	**468**	2,226	**4,061**	155	**5,453**	4,522	**3,555,326**	3,556,731
Capital expenditure incurred during the year	**–**	–	**1,416**	2,253	**–**	–	**–**	–	**–**	–	**523,048**	428,487

12 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Land and buildings $'000	Leasehold improve-ments $'000	Furniture and equipment, motor vehicles, and computer equipment $'000	Communi-cation satellite equipment $'000	Communi-cation station $'000	Communi-cation satellites $'000	Construc-tion in progress $'000	Total $'000
Cost:								
At 1 January 2004	100,092	9,251	41,678	125,600	8,425	2,100,129	2,020,724	4,405,899
Additions	2,414	474	1,624	5,264	51	–	420,913	430,740
Disposals	–	(2,344)	(472)	(2)	–	–	–	(2,818)
Transfer	–	–	75	24	529	1,157,899	(1,158,527)	–
At 31 December 2004 (restated)	102,506	7,381	42,905	130,886	9,005	3,258,028	1,283,110	4,833,821
At 1 January 2005 (restated)	102,506	7,381	42,905	130,886	9,005	3,258,028	1,283,110	4,833,821
Exchange adjustments	–	21	58	152	187	–	144	562
Additions	200	229	685	2,017	151	–	521,182	524,464
Disposals	(473)	(10)	(368)	(45)	–	–	–	(896)
Transfer	–	–	–	28,165	4,561	1,770,612	(1,803,338)	–
At 31 December 2005	102,233	7,621	43,280	161,175	13,904	5,028,640	1,098	5,357,951
Accumulated depreciation:								
At 1 January 2004 (restated)	13,229	5,503	18,973	63,430	1,443	1,874,281	–	1,976,859
Charge for the year	2,069	676	8,167	13,893	1,565	151,247	–	177,617
Impairment loss	–	–	–	–	–	–	1,800	1,800
Written back on disposal	–	(2,344)	(440)	(1)	–	–	–	(2,785)
At 31 December 2004 (restated)	15,298	3,835	26,700	77,322	3,008	2,025,528	1,800	2,153,491
At 1 January 2005 (restated)	15,298	3,835	26,700	77,322	3,008	2,025,528	1,800	2,153,491
Exchange adjustments	–	13	35	84	63	–	37	232
Charge for the year	2,096	439	7,570	14,185	1,663	171,853	–	197,806
Impairment loss transfer	–	–	–	680	1,157	–	(1,837)	–
Impairment loss	–	–	–	7,512	–	–	–	7,512
Written back on disposal	(105)	(10)	(361)	(16)	–	–	–	(492)
At 31 December 2005	17,289	4,277	33,944	99,767	5,891	2,197,381	–	2,358,549
Net book value:								
At 31 December 2005	84,944	3,344	9,336	61,408	8,013	2,831,259	1,098	2,999,402
At 31 December 2004 (restated)	87,208	3,546	16,205	53,564	5,997	1,232,500	1,281,310	2,680,330

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Group (Continued)

Impairment loss

During the year, the Group conducted a review of the Group's property, plant and equipment and determined that certain assets were impaired as the recoverable amount of these assets is estimated to be less than their carrying amount. Accordingly, an impairment loss of $7,512,000 in respect of communication satellite equipment (2004: $1,800,000 in respect of construction in progress) has been recognised and charged to the income statement.

Communication satellites at an inclined mode operation

During the year, the Group has entered into an utilisation agreement with a customer to utilise the communication satellite of APSTAR IA to work in an inclined orbital mode for at least 5 years. Accordingly, the residual value of APSTAR IA is now being amortised over the above contract terms from 1 July 2005. Other satellites have no change of their remaining useful lives.

(b) The Company

	Motor vehicle $'000
Cost:	
At 1 January 2005 and 31 December 2005	411
Accumulated depreciation:	
At 1 January 2005 and 31 December 2005	411
Net book value:	
At 31 December 2004 and 31 December 2005	–

(c) The analysis of net book value of land and buildings held by the Group is as follows:

	Land and buildings 2005 $'000	Land and buildings 2004 (restated) $'000
Medium-term leases outside Hong Kong	**2,150**	2,584
Medium-term leases in Hong Kong	**82,794**	84,624
	84,944	87,208

12 PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) Fixed assets under finance leases

(i) The fair value of the buildings held for own use, which are situated on leasehold land as disclosed above cannot be measured separately from the fair value of the leasehold land at the inception of the lease, and therefore is accounted for as being held under a finance lease.

(ii) In August 2004, the in-orbit tests of APSTAR V with 54 transponders was completed and APSTAR V was put into service on 13 August 2004. Based on the arrangements entered into by the Group and the vendor, Loral Orion, Inc ("Loral Orion"), the Group assumed risks and rewards of 37 transponders ("APT Transponders") for the entire operational life of APSTAR V under finance leases, while the risks and rewards relating to the other 17 transponders remained with Loral Orion. As at 31 December 2005, the net book value of communication satellites held under finance leases in connection with APSTAR V amounted to $1,045,095,000 (2004: $1,126,576,000).

Pursuant to the various amended agreements with Loral Orion, Loral Orion has an option to lease 4 APT Transponders from the fourth year and another 4 APT Transponders from the fifth year after completion of in-orbit tests of APSTAR V to its remaining operational lives at a total consideration of $282,865,000. The transponders subject to this option had a net book value of $225,966,000 at 31 December 2005 (2004: $243,584,000).

13 INTEREST IN LEASEHOLD LAND HELD FOR OWN USE UNDER AN OPERATING LEASE

	$'000
Cost:	
At 1 January 2004 (restated) and 31 December 2005	18,678
Accumulated depreciation:	
At 1 January 2004 (restated)	2,358
Charge for the year	375
At 31 December 2004 (restated)	2,733
At 1 January 2005 (restated)	2,733
Charge for the year	375
At 31 December 2005	3,108
Net book value:	
At 31 December 2005	15,570
At 31 December 2004 (restated)	15,945

14 INVESTMENT PROPERTY

The investment property was revalued at 31 December 2005 at $2,340,000 (2004: $2,340,000) by Savills Valuation and Professional Services Limited (2004: Chesterton Petty Limited), an independent professional property valuer, on an open market value basis by reference to net rental income allowing for reversionary income potential. No revaluation surplus or loss (revaluation surplus of 2004: $78,000) has been recognised in the income statement during the year.

The investment property, which is situated in the PRC under a medium-term lease, is rented out under an operating lease and the rental income earned from the investment property during the year was $254,000 (2004: $250,000).

15 INTEREST IN, LOANS TO AND AMOUNTS DUE FROM SUBSIDIARIES

(a) Interest in subsidiaries

	The Company	
	2005	2004
	$'000	$'000
Unlisted shares, at cost	**615,862**	615,862

(b) Loans to and amounts due from subsidiaries under non-current assets were unsecured, interest-free and have no fixed repayment terms. The Company had agreed not to demand for repayment within the next twelve months from 31 December 2004 and accordingly, the amounts are classified as non-current.

(c) Loans to and amounts due from subsidiaries under current assets are unsecured, interest-free and repayable on demand.

(d) Particulars of subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group financial statements.

Name of Company	Place of incorporation and operation*	Particulars of issued and paid up capital and debt securities	Proportion of ownership interest: Group's effective interest	held by the Company	held by subsidiary	Principal activities
APT Satellite Investment Company Limited	British Virgin Islands	US$1,400	100%	100%	–	Investment holding
Acme Star Investment Limited	Hong Kong	HK$2	100%	–	100%	Inactive
APT Satellite Company Limited	Hong Kong	Ordinary Class "A" HK$100; Non-voting Deferred Class "B" HK$542,500,000	100%	–	100%	Provision of satellite transponder capacity
APT Satellite Enterprise Limited	Cayman Islands	US$2	100%	–	100%	Provision of satellite transponder capacity
APT Satellite Global Company Limited	Cayman Islands	US$2	100%	–	100%	Investment holding

(Expressed in Hong Kong dollars)

15 INTEREST IN, LOANS TO AND AMOUNTS DUE FROM SUBSIDIARIES (Continued)

(d) Particulars of subsidiaries (Continued)

Name of Company	Place of incorporation and operation*	Particulars of issued and paid up capital and debt securities	Proportion of ownership interest: Group's effective interest	held by the Company	held by subsidiary	Principal activities
APT Satellite Link Limited	Cayman Islands	US$2	100%	–	100%	Provision of satellite transponder capacity
APT Satellite Telewell Limited	Hong Kong	HK$2	100%	–	100%	Inactive
APT Satellite TV Development Limited	Hong Kong	HK$2	100%	–	100%	Provision of satellite television uplink and downlink services
APT Satellite Vision Limited	Hong Kong	HK$2	100%	–	100%	Satellite leasing
APT Telecom Services Limited	Hong Kong	HK$2	100%	–	100%	Provision of telecommunication services
Haslett Investments Limited	British Virgin Islands	US$1	100%	–	100%	Inactive
Skywork Corporation	British Virgin Islands	US$1	100%	–	100%	Investment holding
The 138 Leasing Partnership	Hong Kong	Partners capital HK$329,128,857	N/A	N/A	N/A	Inactive
Ying Fai Realty (China) Limited	Hong Kong/PRC	HK$20	100%	–	100%	Property holding
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	100%	–	100%	Provision of satellite transponder capacity
CTIA VSAT Network Limited	Hong Kong	HK$5,000,000	60%	–	60%	Investment holding
北京亞太東方通信網絡有限公司 (Beijing Asia Pacific East Communication Network Limited)	Joint venture, PRC	Registered capital US$4,000,000	36%	–	60%	Provision of data transmission services

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

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

16 INTEREST IN JOINTLY CONTROLLED ENTITIES AND AMOUNTS DUE FROM A JOINTLY CONTROLLED ENTITY

	The Group 2005 $'000	The Group 2004 $'000
Share of net assets	**2,241**	10,226

Details of the jointly controlled entities of the Group as at 31 December 2005 are set out below:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: held by the Company	Proportion of ownership interest: held by the subsidiary	Principal activity
APT Satellite Telecommunications Limited ("APT Telecom")	Incorporated	Hong Kong	HK$153,791,900	55%	–	55%	Property holding
北京中廣信達數據廣播技術有限公司 (Beijing Zhong Guang Xin Da Data Broadcast Technology Co. Limited) ("Zhong Guang Xin Da")	Joint venture, Incorporated	PRC	Registered capital RMB11,000,000	12.6%	–	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.

Zhong Guang Xin Da is considered as a jointly controlled entity as the Group and the other shareholders of Zhong Guang Xin Da exercise joint control over it pursuant to a shareholders' resolution.

The amounts due from a jointly controlled entity are unsecured and interest-free. Except for an amount of $13,200,000 (2004: $13,500,000), the amounts have no fixed repayment terms.

16 INTEREST IN JOINTLY CONTROLLED ENTITIES AND AMOUNTS DUE FROM A JOINTLY CONTROLLED ENTITY (Continued)

At 31 December 2005, the amount of $13,200,000 is repayable as follows:

	2005 $'000	2004 $'000
Within one year or on demand	**5,100**	2,700
After one year but within five years	**8,100**	10,800
	13,200	13,500

The Group has agreed not to demand for repayment of other amounts due from a jointly controlled entity within the next twelve months from the balance sheet date and accordingly, the amount is classified as non-current.

Summary financial information on jointly controlled entities – Group's effective interest:

	2005 $'000	2004 $'000
Non-current assets	**75,350**	83,171
Current assets	**3,398**	3,716
Non-current liabilities	**(63,831)**	(63,054)
Current liabilities	**(12,676)**	(13,607)
Net assets	**2,241**	10,226
Income	**1,084**	840
Expenses	**(9,079)**	(3,549)
Loss for the year	**(7,995)**	(2,709)

17 PREPAYMENT FOR CONSTRUCTION OF A SATELLITE

In 2004, the Group had entered into an agreement with a contractor on 10 November 2004 pursuant to which the Group is granted a right to require the contractor to provide for the design, construction, delivery and launch of a new satellite, APSTAR VIB at the total option price of $59,904,000. If the option was exercised, the total consideration for the procurement and launch of APSTAR VIB would be $936,780,000 and the option price would be applied towards the total consideration.

	$'000
At 1 January 2004	–
Prepayment	38,454
At 31 December 2004	38,454
At 1 January 2005	38,454
Prepayment	21,450
Impairment loss	(59,904)
At 31 December 2005	–

In view of the successful launch of APSTAR VI on 12 April 2005, the Group did not exercise the option before the expiry date of 30 September 2005. According to the terms of the option agreement, the option has been expired and the option agreement is deemed to be terminated. The Group was responsible for all reasonable costs and expenses incurred up to the date of termination in respect of the preparation works for the design, construction, delivery and launch of APSTAR VIB. The balance of option price (net of all reasonable costs and expenses incurred) should be transferred to such other satellite project as may be designated by the Group or the contractor within two years after the expiry date of the option. In the event that the balance of option price was transferred to a satellite project for another customer as designated by the contractor, the balance of the option price could be refunded to the Group. Up to and including the date hereof, the Group has no plan for the procurement and launch of a new satellite in the coming two years owing to the transponder market has remained highly competitive and transponders are still supply over demand in the Asia Pacific region. Given the demand condition in the transponder market, the Group expects that the possibility of transferring the preparation works of APSTAR VIB to another satellite project of another customer as designated either by the Group or the contractor in the coming two years is remote. Accordingly, the Group does not currently expect the option price would be applied towards any future satellite project within the required time restriction or the contractor would refund the balance of option price to the Group, an impairment loss of $59,904,000 (2004: $nil) has been recognised in respect of the prepayment for construction of a satellite.

18 PREPAID EXPENSES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Prepaid expenses represents the advance payment of license fee for the right to use certain designated transmission frequencies. Part of the prepaid expenses which fall due within one year are included as part of deposits, prepayments and other receivables.

	The Group	
	2005	2004
	$'000	$'000
Balance at 31 December	**42,211**	29,605
Less: current portion (included in deposits, prepayments and other receivables under current assets)	**(9,984)**	(6,240)
Non-current portion	**32,227**	23,365

19 TRADE RECEIVABLES

	The Group	
	2005	2004
	$'000	$'000
Due from third parties	**26,348**	25,290
Due from shareholders of the Company	**22,992**	18,237
Due from holding company and its subsidiaries of a shareholder of the Company	**390**	2,226
	49,730	45,753

The Group allows an average credit period of 10 days to its trade customers. The following is an ageing analysis of trade receivables (net of specific provisions for bad and doubtful debts) at the balance sheet date:

	The Group	
	2005	2004
	$'000	$'000
0 – 30 days	**27,603**	22,167
31 – 60 days	**8,208**	4,106
61 – 90 days	**6,141**	4,278
91 – 120 days	**2,129**	765
Over 121 days	**5,649**	14,437
	49,730	45,753

19 TRADE RECEIVABLES (Continued)

The Group's credit policy is set out in note 28(a).

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group	
	2005	2004
	'000	'000
Reminbi	**RMB1,398**	RMB1,998

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Deposits with banks and other financial institutions	**316,685**	661,677	**3,117**	7,566
Cash at bank and on hand	**9,755**	12,086	**169**	233
Cash and cash equivalents in the consolidated balance sheet	**326,440**	673,763	**3,286**	7,799

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2005	2004	2005	2004
	'000	'000	'000	'000
Reminbi	**RMB54,224**	RMB30,930	**–**	–
Euro	**EUR9**	EUR10	**–**	–

21 SECURED BANK BORROWINGS

	The Group	
	2005	2004 (restated)
	$'000	$'000
Bank loans	**1,118,059**	969,540
Less: Amount due within one year included under current liabilities	**(117,757)**	(64,778)
Amount due after one year	**1,000,302**	904,762
At 31 December 2005, the bank borrowings are repayable as follows:		
Within one year or on demand	**117,757**	64,778
After one year but within five years	**902,118**	611,791
After five years	**98,184**	292,971
	1,118,059	969,540

All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's balance sheet ratio, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 28(b). As at 31 December 2005 and 2004, none of the covenants relating to drawn down facilities had been breached.

22 DEPOSITS RECEIVED

The amount represents deposits received in respect of provision of satellite transponder capacity.

23 DEFERRED INCOME

Deferred income represents unrecognised revenue received in respect of transponder utilisation income under which customers have obtained the right to use the transponder capacity for future periods. Deferred income is recognised in the income statement according to revenue recognition policy of transponder utilisation income as mention in note 1(q)(i).

24 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2005	2004
	$'000	$'000
Overseas tax payable	**4,418**	4,672
Balance of overseas tax provision relating to prior years	**84,669**	79,997
Balance of Profits Tax provision relating to prior years	**99**	99
	89,186	84,768

(b) Deferred tax assets and liabilities recognised:

(i) The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation $'000	Other temporary differences $'000	Losses $'000	Total $'000
At 1 January 2004	37,586	(281)	(34,855)	2,450
Charged/(credited) to consolidated income statement	96,996	40	(97,411)	(375)
At 31 December 2004	134,582	(241)	(132,266)	2,075
At 1 January 2005	134,582	(241)	(132,266)	2,075
Charged/(credited) to consolidated income statement	241,840	(155)	(247,369)	(5,684)
At 31 December 2005	376,422	(396)	(379,635)	(3,609)

24 INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised: (Continued)

(i) The Group (Continued)

	The Group	
	2005	2004
	$'000	$'000
Net deferred tax assets recognised in the consolidated balance sheet	**(3,609)**	(10,134)
Net deferred tax liabilities recognised in the consolidated balance sheet	–	12,209
	(3,609)	2,075

(ii) The Company

The Company did not have any deferred tax assets/liabilities recognised in the balance sheet.

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of tax losses of $80,686,000 (2004: $62,476,000) and other deductible temporary differences of $27,321,000 (2004: $22,709,000) as the realisation of the assets was considered less than probable. The tax losses do not expire under current tax legislation.

25 SHARE CAPITAL

	Number of shares '000	Issued and fully paid share capital $'000
Ordinary shares of $0.10 each		
At 31 December 2004 and 31 December 2005	413,265	41,327

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

26 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 further 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 in issue on the adoption date of the Scheme 2002 (i.e. 412,720,000 shares). As at the date of this report, 413,265,000 shares of the Company were in issue.

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 Stock Exchange of Hong Kong Limited's (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 were granted under the Scheme 2002.

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.

(Expressed in Hong Kong dollars)

26 SHARE OPTIONS (Continued)

Movements in share options

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

	2005 Number	2004 Number
At 1 January	**8,450,000**	9,670,000
Cancelled during the year	**(4,220,000)**	(1,220,000)
At 31 December	**4,230,000**	8,450,000
Options vested at 31 December	**4,230,000**	8,450,000

The above granted options have an exercise price of $2.765 per share and are exercisable within the period from 22 May 2003 to 21 May 2011.

Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share option granted. The estimated fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions	2005 & 2004
Fair value at measurement date	$2.836
Share price at the date of issue	$3.850
Exercise price	$2.765
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	47.00%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	9.93 years
Expected dividends	Nil
Risk-free interest rate (based on Exchange Fund Notes)	6.13%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

27 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 the 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 2005, the Company's reserves available for distribution amounted to $612,212,000 (2004 (restated): $600,497,000) as computed in accordance with the Companies Act 1981 of Bermuda (as amended).

28 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and cash investments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, periodic credit evaluations are performed of customers' financial condition. The Group generally does not require collateral because it usually receives trade deposits which represent a quarter of utilisation fees payable to the Group. The transponder utilisation agreements are subject to termination by the Group if utilisation payments are not made on a timely basis.

At the balance sheet date, the Group has a certain concentration of credit risk as 31% (2004: 33%) and 65% (2004: 60%) of the total trade receivables were due from the Group's largest customer and the five largest customers respectively within the satellite transponder business segment.

28 FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The Group is subject to interest rate risk due to fluctuation in interest rates. As of 31 December 2005, the Group's outstanding bank loans consist of variable interest rate loans only. From time to time, the Group may enter into interest rate swap agreements designed to mitigate our exposure to interest rate risks, although the Group did not consider it necessary to do so in 2005. Upward fluctuations in interest rates increase the cost of new bank loans and the interest cost of outstanding bank loans. As a result, a significant increase in interest rates could have a material adverse effect on the financial position of the Group.

The following table contains information about the Group's bank loans that are sensitive to changes in interest rates, as of 31 December 2005.

	Expected Maturity Date					
	2006	2007	2008	2009	2010	Thereafter
	(HK$ in million, except interest rates)					
Variable rate bank loan	121	159	220	256	273	98
Average interest rate[(1)]	5.965%	5.935%	5.98%	6.00%	6.02%	6.02%

(1) The interest rates are the implied future LIBOR rates calculated from US swap as proxy.

28 FINANCIAL INSTRUMENTS (Continued)

(d) Foreign currency risk

The Group's reporting currency is the Hong Kong Dollar. The Group's revenues, premiums for satellite insurance coverage and debt service and substantially all capital expenditures were denominated in United States Dollars. The Group's remaining expenses were primarily denominated in Hong Kong Dollars. The Group does not hedge its exposure to foreign exchange risk. Gains and losses resulting from the effects of changes in the United States Dollar to Hong Kong Dollar exchange rate are recorded in the consolidated income statement.

The Group does not utilise derivative financial instruments to hedge its foreign currency rate risks.

In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group's borrowings are denominated in United States Dollars. Given that all of the Group's revenues are denominated substantially in United States Dollars, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

(e) Sensitivity analysis

In managing interest rate and foreign currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 31 December 2005, it is estimated that a general increase of one percentage point in interest rates would increase the Group's loss before taxation by approximately $665,000 (2004: $222,000) so far as the effect on interest-bearing financial instruments is concerned.

(f) Fair values

The following financial assets and liabilities have their carrying amount approximately equal to their fair value: trade receivables, other receivables, other current assets, cash and cash equivalents, payables and accrued charges, and secured bank borrowings.

29 PLEDGE OF ASSETS

In December 2002, the Group entered into a US$240 million secured term loan facility (the "Loan Facility"), which is secured by the assignment of the construction, launching and related equipment contracts relating to APSTAR V, APSTAR VI under construction and their related insurance claim proceeds, assignment of all present and future utilisation 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. In October 2004, the Group entered into a Deed of Amendment and Restatement to amend certain terms of the Loan Facility for the purpose of adjusting for the cancellation of the unutilised portion relating to APSTAR V satellite and APSTAR VI backup satellite. Accordingly, the maximum aggregate amount under the Loan Facility was reduced to US$165 million and certain financial covenants were amended. In May 2005, the Company entered into a Second Deed of Amendment and Restatement. The second amendment extended the availability period of drawing under the facility with respect to APSTAR VI to 30 June 2005 and amended the financial covenants. At 31 December 2005, the assets under fixed charge were APSTAR V and APSTAR VI, which had carrying value of approximately $2,752,162,000 (2004: APSTAR V and APSTAR VI under construction with aggregate carrying value of approximately $2,398,169,000), and bank deposits of approximately $68,699,000 (2004: $20,750,000).

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 $4,771,000 (2004: $4,887,000) and bank deposits of approximately $nil (2004: $390,000).

30 CONTINGENT LIABILITIES

(i) In the years before 1999, overseas withholding tax was not charged in respect of the Group's transponder utilisation income derived from the overseas customers. From 1999, overseas withholding tax has been charged on certain transponder utilisation income of the Group and full provision for such withholding tax for the years from 1999 onwards has been made in the financial statements. The Directors of the Company are of the opinion that the new tax rules should take effect from 1999 onwards and, accordingly, no provision for the withholding tax in respect of the years before 1999 is necessary. The Group's withholding tax in respect of 1998 and before, calculated at the applicable rates based on the relevant income earned in those years, not provided for in the financial statements amounted to approximately $75,864,000.

(ii) The Company has given guarantees to banks in respect of the secured term loan facility granted to its subsidiary. The extent of such facility utilised by the subsidiary at 31 December 2005 amounted to $1,127,295,000 (2004: $975,780,000).

30 CONTINGENT LIABILITIES (Continued)

(iii) The Hong Kong Profits Tax returns of a subsidiary of the Company for the years of assessment 1999/2000 and 2000/2001 are currently under dispute with the Hong Kong Inland Revenue Department ("IRD"). This subsidiary recognised a disposal gain of $389,744,000 in 1999 in relation to the transfer of the entire business of APSTAR IIR and substantially all of the satellite transponders of APSTAR IIR. This subsidiary has claimed the gain on disposal as a non-taxable capital gain in its 1999/2000 Profits Tax return. In 2003, IRD has proposed to treat the proceeds received as taxable income to this subsidiary with a corresponding entitlement to statutory depreciation allowance in respect of APSTAR IIR. On 23 January 2006, IRD raised a Profits Tax assessment for the year of assessment 2000/2001 to include that portion of the proceeds from sale of the satellite received during 2000/2001 as taxable income. The tax demanded for the year of assessment 2000/2001 is $212,846,000.

On 20 February 2006, the subsidiary lodged an objection against the IRD's assessment on the grounds that it is excessive.

On 24 February 2006, the subsidiary received a notice from the IRD confirming that the entire tax in dispute would be held over on condition that the subsidiary purchases $78,385,000 of Tax Reserve Certificates ("TRC") by 15 March 2006 and the balance of the amount of $134,461,000 would be held over unconditionally. Should any amount of tax held over on condition of the purchase of TRC become payable upon the final determination of the objection, the same amount of TRC would be used for settlement of tax due. For that part of the TRC not utilised to offset the tax payable, interest will accrue from the date of issue of the TRC to the date of determination of the objection and be refunded to the subsidiary. In order to fulfill the condition of hold over of tax payment, the subsidiary purchased TRC of $78,385,000 on 15 March 2006.

Since the receipt of the above mentioned notices, the Company has obtained external legal and tax advice, and the Company continues to believe that it has a reasonable likelihood of success in defending its position that the gain derived from the transaction should be treated as non-taxable. Accordingly, no provision for additional taxation has been made.

31 COMMITMENTS

At 31 December 2005, the Group has the following outstanding capital commitments not provided for in the Group's financial statements:

	The Group	
	2005	**2004**
	$'000	**$'000**
Contracted for	**2,290**	286,048
Authorised but not contracted for	**–**	340,551
	2,290	626,599

32 LEASING ARRANGEMENTS

The Group as lessee

At 31 December 2005, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

(i) *Land and buildings:*

	The Group	
	2005	**2004**
	$'000	**$'000**
Within one year	**109**	545
After one year but within five years	**–**	31
	109	576

Operating lease payments represent rental payable by the Group for its office properties. Leases are negotiated for a period of one to three years and rentals are fixed for the whole lease term.

(ii) *Satellite transponder capacity:*

	The Group	
	2005	**2004**
	$'000	**$'000**
Within one year	**2,108**	3,464
After one year but within five years	**14**	–
	2,122	3,464

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

32 LEASING ARRANGEMENTS (Continued)

The Group as lessor

Property rental income earned during the year was $538,000 (2004: $513,000). At the balance sheet date, certain properties with an aggregate carrying value of $8,896,000 (2004: $8,120,000) 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 $368,000 (2004: $1,294,000) and after one but within five years amounting to $nil (2004: $209,000). Depreciation charged for the year in respect of these properties was $160,000 (2004: $138,000).

Service income earned relating to leasing of facilities equipment during the year was $1,294,000 (2004: $1,374,000). At the balance sheet date, the Group had contracted with customers for the future minimum lease payments under non-cancellable operating leases which fall due within one year amounting to $542,000 (2004: $886,000) and after one but within five years amounting to $108,000 (2004: $375,000).

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 under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. Under the scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately. 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 MATERIAL RELATED PARTY TRANSACTIONS

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

	2005 $'000	2004 $'000
Income from provision of satellite transponder capacity and provision of satellite-based telecommunication services to certain shareholders and its subsidiary of the Company (note i)	**36,339**	38,259
Income from provision of satellite transponder capacity and provision of satellite-based telecommunication services to a holding company and its subsidiaries of a shareholder of the Company (note i)	**31,335**	24,163
Management fee income from a jointly controlled entity (note ii)	**480**	480
Management fee expenses to a holding company of a shareholder of the Company (note iii)	**–**	1,135
Payments of service fee in connection with the satellite project to a fellow subsidiary of a shareholder of the Company (note iv)	**138,727**	151,895

Certain of these transactions also constitute connected transactions under the Listing Rules. Further details of these transactions are disclosed under the paragraph "Continuing Connected Transactions" in the Directors' report.

34 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

	Prepayment		Amounts due from a jointly controlled entity		Trade receivables		Payables and accrued charges		Rentals received in advance and deferred income	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Jointly controlled entities	**–**	–	**72,576**	70,614	**–**	–	**–**	–	**–**	–
Certain shareholders and its subsidiary of the Company	**–**	–	**–**	–	**22,992**	18,237	**528**	24	**–**	
Holding company and its subsidiaries of a shareholder of the Company (note (i))	**–**	–	**–**	–	**390**	2,226	**325**	6	**236,425**	255,105
A fellow subsidiary of a shareholder of the Company	**–**	38,454	**–**	–	**–**	–	**–**	–	**–**	–

Notes:

(i) The terms and conditions of these transponder capacity utilisation 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 expenses arose from a reimbursement of cost of service provided from the holding company of a shareholder of the Company.

(iv) The Directors consider that the service fee is charged according to prices and conditions similar to those offered to other customers by the launch service provider.

34 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2005 $'000	2004 $'000
Short-term employee benefits	**13,356**	11,262
Other long-term benefits	**665**	486
Termination benefits	**–**	1,757
	14,021	13,505

Total remuneration is included in "staff costs" (see note 5(b)).

35 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details are disclosed in note 2.

36 ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2005 to be APT Satellite International Company Limited, which is incorporated in the British Virgin Islands.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

The financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Critical accounting judgement in applying the Group's accounting policies

The following are some of the more critical judgement areas in the application of the Group's accounting policies that currently affect the Group's financial condition and results of operations.

(i) Depreciation

Depreciation of communication satellites is provided for on the straight-line method over the estimated useful life of the satellite, which is determined by engineering analysis performed at the in-services date and re-evaluated periodically. A number of factors affect the operational lives of satellites, including construction quality, component durability, fuel usage, the launch vehicle used and the skill with which the satellite is monitored and operated. As the telecommunication industry is subject to rapid technological change and the Group's satellites have been subjected to certain operational lives, the Group may be required to revise the estimated useful lives of its satellites and communication equipment or to adjust their carrying amounts periodically. Accordingly, the estimated useful lives of the Group's satellites are reviewed using current engineering data. If a significant change in the estimated useful lives of our satellites is identified, the Group accounts for the effects of such change as depreciation expenses on a prospective basis. Details of the depreciation of communication satellites are disclosed in notes 1(g) and 12.

Depreciation for future satellites will depend on in-orbit testing on their estimated useful lives after successful launch and, as the cost of the future satellites is greater than the carrying value of the current satellites, the depreciation charge is expected to increase in the coming years.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Critical accounting judgement in applying the Group's accounting policies (Continued)

(ii) Trade receivables and other receivables

The management of the Group estimates the provision of bad and doubtful debts required for the potential non-collectability of trade receivables and other receivables at each balance sheet date based on the ageing of its customer accounts and its historical write-off experience, net of recoveries. The Group performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customers' current credit worthiness. The Group does not make a general provision on its trade receivables and other receivables, but instead, makes a specific provision on its trade receivables and other receivables. Hence, the Group continuously monitors collections and payments from customers and maintains allowances for bad and doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the customers of the Group were to deteriorate, actual write-offs would be higher than estimated. For the year ended 31 December 2005, the Group made the provision for bad and doubtful debts in the amount of $350,000 (2004: $5,654,000).

The Group periodically reviews the carrying amounts of provision for bad and doubtful debts to determine whether there is any indication that the provision needs to be written off. If the Group becomes aware of a situation where a customer is not able to meet its financial obligations due to change of contact information by the customer without notification or after seeking professional advice from lawyers or debt collection agent that the probability of recovery is remote, the Group will consider to write off the debt.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Critical accounting judgement in applying the Group's accounting policies (Continued)

(iii) Impairment of property, plant and equipment

The Group periodically reviews internal or external resources to identify indications that the assets may be impaired. 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. In assessing the recoverable amount of these assets, the Group is required to make assumptions regarding estimated future cash flows and other factors to determine the net realisable value. If these estimates or their related assumptions change in the future, the Group may be required to adjust the impairment charges previously recorded.

The Group applies the foregoing analysis in determining the timing of the impairment test, the estimated useful lives of the individual assets, the discount rate, future cash flows used to assess impairments and the fair value of impaired assets. It is difficult to precisely estimate the price of the transponder capacities and related satellite services and residual values because the market prices for our assets are not readily available. The estimates of future cash flows are based on the terms of existing transponder capacity and service agreements. The dynamic economic environment in which the Group operates and the resulting assumptions used in setting depreciable lives on assets and judgement relating to the utilisation rate of the assets, price and amount of operating costs to estimate future cash flows impact the outcome of all of these impairment tests. If these estimates or their related assumptions change in the future, the Group may be required to record impairment loss for these assets not previously recorded.

The Group periodically reviews the carrying amounts of its property, plant and equipment through reference to its use value and fair market value as assessed both by the Group and by an independent professional property appraiser. If the use value or fair market value of the property, plant and equipment are lower than their carrying amount, the Group may be required to record additional impairment loss not previously recognised. Details of the impairment loss of property, plant and equipment are disclosed in note 12.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Critical accounting judgement in applying the Group's accounting policies (Continued)

(iv) Contingencies and provisions

Contingencies, representing an obligation that are neither probable nor certain at the date of the financial statements, or a probable obligation for which the cash outflow is not probable, are not recorded.

Provisions are recorded when, at the end of period, there is an obligation of the Group to a third party which is probable or certain to create an outflow of resources to the third party, without at least an equivalent return expected from the third party. This obligation may be legal, regulatory or contractual in nature.

To estimate the expenditure that the Group is likely to bear in order to settle an obligation, the management of the Group takes into consideration all of the available information at the closing date for its consolidated financial statements. If no reliable estimate of the amount can be made, no provision is recorded. For details, please refer to note 30 of contingent liabilities.

(Expressed in Hong Kong dollars)

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2005 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
HK(IFRIC)4, Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC)6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	1 December 2005
Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 39, Financial instruments: Recognition and measurement:	
– Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
– The fair value option	1 January 2006
– Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1, Presentation of financial statements	1 January 2006
– HKAS 27, Consolidated and separate financial statements	1 January 2006
– HKFRS 3, Business combinations	1 January 2006
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of the amendments to HKAS 1, HKAS 27 and HKFRS 3 made as a result of the Hong Kong Companies (Amendment) Ordinance 2005 are not applicable to any of the Group's operations and that the adoption of the remaining standards is unlikely to have a significant impact on the Group's results of operations and financial position.

(Expressed in Hong Kong dollars)

RESULTS

	Year ended 31 December				
	2001 (restated) $'000	2002 (restated) $'000	2003 (restated) $'000	2004 (restated) $'000	2005 $'000
Turnover	374,158	351,425	302,241	277,260	**336,512**
Cost of services	(266,015)	(275,717)	(280,319)	(244,755)	**(301,193)**
	108,143	75,708	21,922	32,505	**35,319**
Other operating income	78,491	72,327	33,051	9,332	**30,831**
Administrative expenses	(71,922)	(69,886)	(74,892)	(78,680)	**(77,199)**
Other operating expenses and losses	(10,695)	(28,406)	(128,270)	(1,722)	**(67,416)**
Profit/(loss) from operations	104,017	49,743	(148,189)	(38,565)	**(78,465)**
Finance costs	(5,644)	–	–	(4,117)	**(36,942)**
Share of results of jointly controlled entities	(5,067)	(10,624)	(57,132)	(2,709)	**(7,995)**
Profit/(loss) before taxation	93,306	39,119	(205,321)	(45,391)	**(123,402)**
Income tax	(25,947)	(36,814)	(11,721)	(16,625)	**(13,172)**
Profit/(loss) for the year	67,359	2,305	(217,042)	(62,016)	**(136,574)**
Attributable to:					
Equity shareholders of the Company	67,359	4,693	(216,119)	(59,957)	**(135,564)**
Minority interests	–	(2,388)	(923)	(2,059)	**(1,010)**
Profit/(loss) for the year	67,359	2,305	(217,042)	(62,016)	**(136,574)**

ASSETS AND LIABILITIES

	At 31 December				
	2001 (restated) $'000	2002 (restated) $'000	2003 (restated) $'000	2004 (restated) $'000	2005 $'000
Total assets	3,308,192	3,347,009	3,305,571	3,620,792	**3,614,289**
Total liabilities	(816,061)	(864,220)	(1,046,624)	(1,423,783)	**(1,552,737)**
Net assets	2,492,131	2,482,789	2,258,947	2,197,009	**2,061,552**

(Expressed in Hong Kong dollars)

Notes to the five years financial summary:

1 The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in note 2 to the financial statements. Figures for 2004 and 2005 have been adjusted for these new and revised policies in accordance with the transitional provisions and as disclosed in note 2. Earlier years have only been restated to the extent that the new accounting policies are adopted retrospectively as disclosed in note 2.

The Group's accounting policies conform with generally accepted accounting principles in Hong Kong ("HK GAAP") which differ in certain material respects from those applicable generally accepted accounting principles in the United States of America ("US GAAP"). The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Standards which are applicable to the Group for accounting period beginning on or after 1 January 2005.

The information below has not been subjected to independent audit or review, and has not presented fully the disclosures in accordance with all applicable financial accounting standards under US GAAP. Full compliance with all applicable US GAAP disclosure requirements will be presented in Form 20-F to be filed with the United States – Securities and Exchange Commission.

The significant differences relate principally to the following items and the adjustments considered necessary to present the net loss and shareholders' equity in accordance with US GAAP are set out below.

(a) Investment properties revaluation and depreciation

In prior years under HKGAAP, movements in the fair value of the Group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement. Upon adoption of new HK GAAP as from 1 January 2005, all changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model.

Under US GAAP, investment properties are stated at cost and depreciated over the shorter of the useful life and the land lease terms. Accordingly, the investment properties of the Group and its jointly controlled entity, which are stated at open market value, have been restated at historical cost less accumulated depreciation.

Depreciation has been based on the historical cost of the properties held by the Group and its jointly controlled entity and the useful lives of such properties range from 44 to 46 years. The gross historical cost of properties held by the Group and its jointly controlled entity subject to depreciation under US GAAP which are not depreciated under HK GAAP at 31 December 2005 amounted to $3,821,000 (2004: $3,821,000) and $140,000,000 (2004: $140,000,000), respectively.

In the US GAAP reconciliation of net loss for the year, the adjustments represent the reversal of revaluation gain in respect of the Group's properties of $nil (2004: $78,000), and the depreciation in respect of the properties held by the Group amounting to $83,000 (2004: $84,000) and the Group's proportionate share of depreciation in respect of the property held by its jointly controlled entity amounting to $1,750,000 (2004: $1,750,000) and the Group's proportionate share of revaluation loss in respect of the property held by its jointly controlled entity of $7,150,000 (2004: $2,200,000). In the US GAAP reconciliation of shareholders' equity at 31 December 2005, the adjustments represent the reversal of revaluation gain in respect of the investment properties of the Group of $nil (2004: $78,000) and the Group's proportionate share of revaluation loss in respect of the property held by its jointly controlled entity of $1,650,000 (2004: revaluation gain of $5,500,000).

(b) Share options

The Group granted share options to directors and employees. Under HK GAAP and prior to 1 January 2005, the proceeds received are recognised as an increase to capital upon the exercise of the share options. The Group does not account for the issuance of stock options until they are exercised. With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the consolidated income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

Under US GAAP, the compensation expenses are based on the excess, if any, of the quoted market price of the shares on the date of grant over the exercise price of the stock options. Such amount is charged to the consolidated income statement over the vesting period of the options. As a result, any expenses recognised based on the fair value of share options under HK GAAP is reversed under US GAAP. In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which requires companies to measure and recognise compensation expense for all stock-based payments at fair value. SFAS 123R is effective for all interim and annual periods beginning after 15 June 2005. The Group will adopt the SFAS 123R for the accounting period commencing from 1 January 2006.

(c) Impairment of long-lived assets

The Group periodically reviews the carrying amount of the 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. Under HK GAAP, the estimated future cash flows are discounted at a discount rate when assessing the recoverable amount of the asset.

Under US GAAP, in accordance with SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", recoverability of the assets is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets.

Given that the undiscounted cash flows expected to be generated by certain long-lived assets were below the carrying amount of such assets and subject to impairment under HK GAAP, the assets are also considered impaired under US GAAP. Accordingly, the impairment loss recognised under HK GAAP has not been reversed for US GAAP purpose.

(d) Minority interests

In prior years under HK GAAP, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January, 2005, under new HK GAAP, minority interests become part of the total result for the year and total equity of the Group, whereas under US GAAP, it is respectively excluded from the total result for the year and shareholders equity of the Group. However, there is no impact on net income and shareholder equity under US GAAP.

The effect on net loss of significant differences between HK GAAP and US GAAP is as follows:

	Note	2005 $'000	2004 $'000
Net loss attributable to equity shareholders as reported under HK GAAP (2004 restated)		**(135,564)**	(59,957)
Adjustments:			
Investment properties	(a)	**(1,833)**	(1,912)
Revaluation of investment properties	(a)	**7,150**	2,200
Compensation expense of share options granted	(b)	**–**	–
Impairment of long-lived assets	(c)	**–**	1,080
Approximate net loss as reported under US GAAP		**(130,247)**	(58,589)
Loss per share under US GAAP – basic and diluted		**(31.52 cents)**	(14.18 cents)

The effect on shareholders' equity of significant differences between HK GAAP and US GAAP is as follows:

	Note	2005 $'000	2004 $'000
Shareholders' equity as reported under HK GAAP (2004 restated)		**2,058,625**	2,193,153
Adjustments:			
Accumulated depreciation on investment properties	(a)	**(4,265)**	(2,432)
Revaluation reserve	(a)	**1,650**	(5,500)
Property, plant and equipment	(c)	**1,080**	1,080
Shareholders' equity as reported under US GAAP		**2,057,090**	2,186,301

NOTICE IS HEREBY GIVEN that an annual general meeting of APT Satellite Holdings Limited ("the Company") will be held at the Satellite Control Centre of the Company, 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Thursday, 25 May 2006 at 11:00 a.m. for the following purposes:

Ordinary Business

1. To receive and consider the audited consolidated financial statements and the reports of the Directors and of the auditors for the year ended 31 December 2005.

2. To re-elect Directors and to authorise the Board of Directors to fix the Directors' remuneration.

3. To re-appoint the auditors of the Company and to authorise the Board of Directors to fix their remuneration.

Special Business

4. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT**

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to purchase shares of HK$0.10 each in the capital of the Company be and is hereby generally and unconditionally approved;

(b) the total nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution, and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting; or

(iii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-Laws of the Company or any applicable laws to be held."

5. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT**

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined in paragraph (c) of this resolution) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements or options which may require the exercise of such powers either during or after the Relevant Period, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to:

(i) a Right Issue (as defined in paragraph (d) of this resolution); or

(ii) any exercise of subscription or conversion rights under any warrants of the Company, or any securities which are convertible into shares of the Company, or any share option scheme or similar arrangement for the time being adopted by the Company for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries and/or any eligible grantee pursuant to the scheme of shares or rights to acquire shares in the Company; or

(iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-Laws of the Company,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution and the said approval shall be limited accordingly;

(c) for the purpose of this Resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; or

(iii) the expiration of the period within which the next annual general meeting is required by the Bye-Laws of the Company or any other applicable laws to be held; and

(d) for the purpose of this Resolution, "Right Issue" means an offer of shares open for a period fixed by the Directors to shareholders on the register of members of the Company on a fixed record date in proportion to their then holding of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange)."

6. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT** the general mandate granted to the Directors of the Company to exercise the powers of the Company to issue, allot and deal with additional shares pursuant to Resolution No. 5 above be and is hereby extended by the addition to the total nominal amount of share capital and any shares which may be issued, allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to such general mandate an amount representing the total nominal amount of shares in the capital of the Company which has been purchased by the Company since the granting of such general mandate pursuant to Resolution No. 4 above, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue at the date of this Resolution."

By Order of the Board
Dr. Lo Kin Hang, Brian
Company Secretary

Hong Kong, 25 April 2006

Notes:

(a) The Register of Members of the Company will be closed from 22 May 2006, Monday to 25 May 2006, Thursday, both days inclusive, during which period no transfers of shares can be registered.

(b) A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

(c) In order to be valid, the form of proxy must be deposited with the Company's branch share registrars in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or other authority, not less than 48 hours before the time appointed for the meeting or adjourned meeting (as the case may be).

(d) The form of proxy for use in connection with the Annual General Meeting is enclosed and such form is also published on the website of the Stock Exchange (www.hkex.com.hk).

APT Satellite Holdings Limited

Hong Kong Office
22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong
Tel : (852) 2600 2100 Fax : (852) 2522 0419 Email : aptmk@apstar.com

Beijing Office
Rm. 815, Bright China Chang An Building, Jianguomennei Dajie, Dongcheng District, Beijing, China
Post Code: 100005 Tel: (8610) 6510 1735 Fax: (8610) 6510 1736

APT Communication Technology Development (Shenzhen) Co., Ltd.
Room B, 8/F., A. Zhen Ye Building, 2014 Bao an nan Road, Luohu District, Shenzhen, China
Post Code: 518010 Tel: (86755) 2586 2118 Fax: (86755) 2586 2518

www.apstar.com