

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 2004.

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 telecommunications services and other related services.

SEGMENTAL INFORMATION

Details of the segmental information are set out in note 10 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 2004 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 2004.

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 89.

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 2004 are set out in note 11 to the financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2004 are set out in note 13 to the financial statements.

JOINTLY CONTROLLED ENTITIES

Details of the Group's interest in jointly controlled entities are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movement of the share capital are set out in note 20 to the financial statements. During the year, no share was issued.

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 statements of changes in equity on page 44.

DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company are set out in note 22 to the financial statements.

BORROWINGS

Details of the Group's bank borrowings are set out in note 16 to the financial statements.

DIRECTORS

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

Executive directors

Chen Zhaobin (*President*)

Tong Xudong (*Vice President*)

(appointed as executive director and vice president on 29 March 2004 and 20 April 2004, respectively)

Cui Xinzheng (*Vice President*)

(resigned as executive director on 8 September 2004 but remains the vice president)

He Dongfeng (*Vice President*)

(resigned as executive director and vice president on 29 March 2004 and 5 April 2004, respectively)

Non-executive directors

Liu Ji Yuan (<i>Chairman</i>)	
Zhang Hainan (<i>Deputy Chairman</i>)	(<i>appointed on 29 March 2004</i>)
Lim Toon	
Wu Zhen Mu	
Yin Yen-liang	
Lim Wee Seng	(<i>appointed as non-executive director on 20 December 2004 and resigned as alternate director to Lim Toon and Tay Chek Khoon on 20 December 2004; ceased as alternate director to Lim Shyong on 8 September 2004 and appointed as alternate director to Lim Toon and Tay Chek Khoon on 8 September 2004</i>)
Tseng Ta-mon	(<i>appointed as alternate director to Yin Yen-liang on 8 September 2004 and resigned as non-executive director on 8 September 2004</i>)
Kwok Kah Wai Victor	(<i>appointed as alternate director to Lim Toon and Lim Wee Seng on 20 December 2004</i>)
Zhou Ze He (<i>Deputy Chairman</i>)	(<i>resigned on 29 March 2004</i>)
Lim Shyong	(<i>resigned on 8 September 2004</i>)
Wong Hung Khim	(<i>resigned on 8 September 2004</i>)
Wu Hongju	(<i>resigned on 8 September 2004</i>)
Wu Jinfeng	(<i>resigned on 8 September 2004</i>)
Tay Chek Khoon	(<i>resigned on 20 December 2004</i>)
Chen Chi-chuan	(<i>resigned as alternate director to Yin Yen-liang on 8 September 2004</i>)

Independent non-executive directors

Yuen Pak Yiu, Philip	
Huan Guocang	
Lui King Man	(<i>appointed on 18 August 2004</i>)

In accordance with Article 86(2) and Article 87 of the Company's Bye-Laws, Messrs. Lim Toon, Lim Wee Seng, Lui King Man, Yin Yen-liang and Yuen Pak Yiu, Philip 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.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-Laws.

DIRECTOR'S SERVICE CONTRACT

In accordance with the rules ("Listing Rules") governing the listing of securities on the Stock Exchange of Hong Kong Limited ("Stock Exchange") on or before 31 January 2004, the particulars of exempt directors' service contracts entered into between the Company or any of its subsidiaries under rule 13.69 of the Listing Rules are as follows:

- (a) Mr. Chen Zhaobin (Executive Director and President) and Mr. Cui Xinzheng (Executive Director and Vice President) entered into service contracts with the Company for an initial term of three years, commencing on 10 February 2001 and 1 February 2001, respectively and continuing thereafter until terminated by either party giving to the other not less than six months notice; and the one between the Company and Mr. Cui Xinzheng was terminated on 8 September 2004 upon his resignation as Executive Director of the Company; and
- (b) Mr. He Dongfeng (Executive Director and Vice President) entered into a service contract with the Company for an initial term of three years, commencing on 13 August 2002 and continuing thereafter until terminated by either party giving to the other not less than six months' notice and the service contract was terminated on 5 April 2004.

Thereafter, 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 continuing thereafter until terminated by either party giving to the other not less than six months' notice.

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).

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received all its Independent Non-Executive Directors' annual confirmations as regards independence pursuant to rule 3.13 of the Listing Rules and in the opinion of the Directors, they are considered to be independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2004, 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 Directors and chief executives	Nature of interests	Number of shares held	Number of share options⁽¹⁾
Chen Zhaobin <i>(Executive Director and President)</i>	Personal	–	2,200,000
Cui Xinzheng <i>(Vice President)</i>	Personal	–	1,200,000
Lo Kin Hang, Brian <i>(Vice President and Company Secretary)</i>	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 2004, none of the Directors or the chief executive 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 8,450,000, (2003: 9,670,000) which represents 2.05% (2003: 2.34%) 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 report, the total number of shares of the Company in issue was 413,265,000 (2003: 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 2004	Options cancelled during the year	Options exercised during the year	Options outstanding as at 31 December 2004
Name of director and chief executive				
Chen Zhaobin <i>(Executive Director and President)</i>	2,200,000	–	–	2,200,000
Cui Xinzheng <i>(Vice President)</i>	1,200,000	–	–	1,200,000
Lo Kin Hang, Brian <i>(Vice President and Company Secretary)</i>	800,000	–	–	800,000
	4,200,000	–	–	4,200,000

Employees in aggregate:

Employees under employment contracts	9,670,000	1,220,000	–	8,450,000
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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 2004, 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
Kwok Kah Wai Victor	GB21 (Hong Kong) Limited	Provision of telecommunication services and products

SUBSTANTIAL SHAREHOLDER

As at 31 December 2004, 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 2004, 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.

Messrs. Chen Zhaobin, Tong Xudong, Liu Ji Yuan, Zhang Hainan, Lim Toon, Yin Yen-liang, Wu Zhen Mu, Lim Wee Seng, Tseng Ta-mon (alternate director to Yin Yen-liang) and Kwok Kah Wai Victor (alternate director to Lim Toon and Lim Wee Seng), 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 2004.

MAJOR CUSTOMERS AND SUPPLIERS

In 2004, the largest customer accounted for 13% (2003: 13%) of the Group's turnover. Turnover attributable to the Group's five largest customers accounted for 40% (2003: 39%) 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 28 to the financial statements.

During the year ended 31 December 2004, 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 2004, the annual aggregate values were as follows:

(i)	Transponder Transactions	HK\$14,490,000
(ii)	Telecom Transactions	HK\$238,000

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 2004 did not exceed HK\$15 million and HK\$2 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.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force for accounting periods commencing before 1 January 2005 throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-Laws of the Company.

CORPORATE GOVERNANCE

To comply with the new requirements in respect of corporate governance under the Code on Corporate Governance Practices of the Appendix 14 of the Listing Rules, on 11 April 2005 the Company has established the Remuneration Committee and the Nomination Committee, and has revised the existing Terms of Reference of the Audit Committee.

Messrs. Tong Xudong, Yuen Pak Yiu, Philip, Huan Guocang and Lui King Man were appointed as the members of the Remuneration Committee and of the Nomination Committee. Mr. Yuen Pak Yiu, Philip, and Dr. Lui King Man, the independent non-executive directors of the Company, were appointed as the Chairman of the Nomination Committee and the Remuneration Committee, respectively.

Written Terms of Reference (also known as Charter) of these Committees are contained in the Company's website (www.apstar.com) under the section headed "Corporate Governance" and they are also available on request with the Company's Investor Relations.

In addition to the Code of Ethics for the Directors and Officers of the Company aiming to promote honest and ethical business conduct, the Company has also formally adopted the Model Code for Securities Transactions by Directors of the Appendix 10 of the Listing Rules in respect of the Directors' dealings in the Company's securities.

Given the Company is also listed on the New York Stock Exchange, Inc. (the "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".

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

Chen Zhaobin
Director

Tong Xudong
Director

Xichang, China, 11 April 2005