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.

(Expressed in Hong Kong dollars)

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).

(Expressed in Hong Kong dollars)

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.

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**

(Expressed in Hong Kong dollars)

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				

(Expressed in Hong Kong dollars)

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	Proportion of ownership interest: held by the Company	Proportion of ownership interest: 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	2004
	$'000	$'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	held by the Company	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	**–**	–

(Expressed in Hong Kong dollars)

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 $'000	The Group 2004 $'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 $'000	The Group 2004 $'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.