NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorized for issuance on 11 September 2006.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 27.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company's principal place of business. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 April 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

The HKICPA has issued a number of new and revised HKFRSs, which term collectively included HKASs and Interpretations, that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2006 on the basis of HKFRSs currently in issue, which the Board of Directors believes, do not have a significant impact on the Group's prior year financial position and results of operations.

The new and revised HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report. The Group has not applied any new standards or interpretations that is not yet effective for the current accounting period (see note 15).

3. 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 as 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.

For the six months ended 30 June	Provision of satellite transponder capacity and related services		Provision of satellite-based broadcasting and telecommunications services		Inter-segment elimination		Consolidated	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
Turnover from external customers	**181,077**	126,816	**26,871**	17,302	**–**	–	**207,948**	144,118
Inter-segment turnover	**8,771**	1,287	**563**	311	**(9,334)**	(1,598)	**–**	–
Total	**189,848**	128,103	**27,434**	17,613	**(9,334)**	(1,598)	**207,948**	144,118
Service income							**48**	134
							207,996	144,252
Segment result	**36,566**	21,964	**3,887**	740	**(2)**	369	**40,451**	23,073
Service income							**48**	134
Unallocated other net income							**9,152**	22,790
Unallocated administrative expenses								
– staff costs							**(21,333)**	(18,602)
– office expenses							**(14,025)**	(18,429)
Profit from operations							**14,293**	8,966
Finance costs							**(31,055)**	(8,629)
Share of results of jointly controlled entities							**(445)**	(2,909)
Loss before taxation							**(17,207)**	(2,572)
Income tax							**(4,575)**	(8,291)
Loss after taxation							**(21,782)**	(10,863)

3. 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 is based on the geographical location of customers.

	Hong Kong		Other regions in the PRC		Singapore		Indonesia		Others	
For the six months ended 30 June	**2006** **$'000**	2005 $'000	**2006** **$'000**	2005 $'000	**2006** **$'000**	2005 $'000	**2006** **$'000**	2005 $'000	**2006** **$'000**	2005 $'000
Turnover from external customers	**23,890**	18,009	**114,564**	90,071	**18,187**	14,805	**22,477**	7,923	**28,878**	13,444

4. LOSS BEFORE TAXATION

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

	Six months ended 30 June	
	2006 **$'000**	2005 $'000
Interest on borrowings wholly repayable within five years	**29,589**	17,703
Other borrowing costs	**1,466**	688
Less: borrowing costs capitalised	**–**	(9,762)
	31,055	8,629
Depreciation and amortisation	**116,438**	80,355
Gain on disposal of property, plant and equipment	**(92)**	(46)

5. INCOME TAX

	Six months ended 30 June	
	2006 **$'000**	2005 $'000
Current tax – Overseas	**10,358**	7,750
Deferred tax	**(5,783)**	541
	4,575	8,291

5. **INCOME TAX (continued)**

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 period. 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.

6. **LOSS PER SHARE**

(a) **Basic loss per share**
The calculation of basic loss per share is based on the loss attributable to equity shareholder of the Company of $21,139,000 (six months ended 30 June 2005: $10,390,000) and the weighted average of 413,265,000 ordinary shares (30 June 2005: 413,265,000 shares) in issue during the six months ended 30 June 2006.

(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 six months ended 30 June 2006 and 2005.

7. **ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

(a) **Acquisitions**
During the current period, the Group has acquired property, plant and equipment amounting to $2,453,000 (six months ended 30 June 2005: $521,770,000).

(b) **Valuation**
Investment property was revalued at 30 June 2006 at $2,418,000 (31 December 2005: $2,340,000) by Savills Valuation and Professional Services Limited, an independent professional property valuer, on an open market value basis by reference to net rental income allowing for reversionary income potential.

8. **TRADE RECEIVABLES**

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:

	At 30 June 2006 $'000	At 31 December 2005 $'000
0 – 30 days	**43,957**	27,603
31 – 60 days	**10,087**	8,208
61 – 90 days	**7,658**	6,141
91 – 120 days	**4,064**	2,129
Over 121 days	**22,574**	5,649
	88,340	49,730

9. SECURED BANK BORROWINGS

At 30 June 2006, the assets pledged for securing bank borrowings are the satellites of approximately $2,655,352,000 (31 December 2005: $2,752,162,000) and bank deposits of approximately $60,396,000 (31 December 2005: $68,699,000).

	At 30 June 2006 $'000	At 31 December 2005 $'000
Bank loans	**1,059,180**	1,118,059
Less: Amount due within one year included under current liabilities	**(126,591)**	(117,757)
Amount due after one year	**932,589**	1,000,302
At 30 June 2006, the bank borrowings are repayable as follows:		
Within one year or on demand	**126,591**	117,757
After one year but within five years	**932,589**	902,118
After five years	**–**	98,184
	1,059,180	1,118,059

10. SHARE CAPITAL

There were no movements in the share capital of the Company in either the current or the prior interim reporting period.

11. 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.

During the six months ended 30 June 2006, no options were granted under the Scheme 2002. (for the six months ended 30 June 2005: Nil)

11. SHARE OPTIONS (continued)

Movements in share options

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

	2006 Number
At 1 January	4,230,000
Cancelled during the period	(480,000)
At 30 June	3,750,000
Options vested at 30 June	3,750,000

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.

12. 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 30 June 2006 amounted to $1,067,040,000 (31 December 2005: $1,127,295,000).

12. 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.

Subsequent to the 15 March 2006 announcement, having considered the advice from the tax adviser, the Company believes that it would be in the best interest of the Company that the dispute be settled as soon as practicable to avoid further incurrence of time, effort and professional costs. The subsidiary submitted a settlement proposal to the IRD, via its tax adviser, on 28 August 2006 with a view to compromising on the tax assessment dispute. The proposal may or may not be accepted by IRD. In the event that the proposal is accepted by IRD, the Company believes that it will have a positive impact on cashflow.

In the proposal, the view that the transfer was a sale of capital asset is maintained but for settlement purposes, the subsidiary proposes to treat the sale proceeds from the disposal of APSTAR IIR of $2,114,758,000 (approximately US$272,872,000) as lease income with taxability arising over the remaining life of APSTAR IIR until the tax assessment year of 2012/2013. In addition, the Company had requested for deduction of statutory depreciation allowances in respect of APSTAR IIR and other expenditures related to the transaction. In the event that the proposal is accepted by IRD, the Company would recognize an additional tax expense of approximately $21,200,000.

(iv) As of 30 June 2006, the Group did not have full in-orbit insurance coverage for its satellites. The in-orbit satellites had a net book value in aggregate of $2,727,569,000 as of 30 June 2006.

13. COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

At 30 June 2006, the Group has the following outstanding capital commitments not provided for in the Group's financial statements:

	At 30 June 2006 $'000	At 31 December 2005 $'000
Contracted for	**764**	2,290
Authorised but not contracted for	**–**	–
	764	2,290

14. MATERIAL RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2006 $'000	2005 $'000
Income from provision of satellite transponder capacity and provision of satellite-based broadcasting and telecommunication services to certain shareholders and a subsidiary of the Company *(note i)*	**8,860**	12,204
Income from provision of satellite transponder capacity and related services and provision of satellite-based broadcasting and telecommunication services to a holding company and the subsidiaries of a shareholder of the Company *(note i)*	**18,093**	15,463
Payment of service fees in connection with a satellite project to a fellow subsidiary of a shareholder of the Company *(note ii)*	**–**	138,727
Management fee income from a jointly controlled entity *(note iii)*	**240**	240

14. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

(i) The terms and conditions of these transponder capacity utilisation agreements and satellite-based broadcasting and telecommunication services agreements are similar to those contracted with other customers of the Group.

(ii) 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.

(iii) Management fee income arose from a reimbursement of cost of service provided to a jointly controlled entity under the agreement.

(b) Key management personnel remuneration

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

	Six months ended 30 June	
	2006	2005
	$'000	$'000
Short-term employee benefits	**4,970**	5,923
Other long-term benefits	**343**	306
	5,313	6,229

15. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2006

Up to the date of issue of these interim financial reports, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2006 and which have not been adopted in these interim financial reports.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

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 while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.