

# Corporate Governance Report

## Statement

In the interest of its shareholders, the Company is committed to high standards of corporate governance and is devoted to identifying and formalising best practices. The Company is in compliance with the requirements of local and relevant overseas regulators in this regard.

Throughout 2006, the Group applied the principles and complied with the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Exchange") with certain deviations as outlined below.

The Directors acknowledge that they are responsible for overseeing the preparation of accounts for each financial period, which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2006, the Directors have:

- selected suitable accounting policies and applied them consistently;
- applied adoption of all Hong Kong Financial Reporting Standards ("HKFRSs"), which are in conformity to the International Financial Reporting Standards ("IFRSs"); and
- made judgments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis.

# Corporate Governance Report

## Code on Corporate Governance Practices

The Company has adopted all the provisions in the CG Code with the following exception:

The CG Code provides that a majority of the members of the Remuneration Committee should be independent non-executive directors ("INEDs"). However, the Remuneration Committee is composed of three members, of whom one is an INED and the other two are Non-executive Directors ("NEDs"). The Committee is chaired by the INED. Having committee members representing the majority shareholders adds value as the representative of CITIC Group ("CITIC") brings in the knowledge of local market pay practices (China in general and Hong Kong more specifically), whereas the SES S.A. ("SES") (formerly SES GLOBAL S.A.) representative adds the satellite industry specific dimension. It is logical to have a small Remuneration Committee as it allows open, frank and very focused discussions. Strict compliance with the CG Code would have the Committee consist of at least five members, implying that all the INEDs and close to half of the NEDs would have to participate in the Committee so as to maintain the balance of input from the main shareholders' representative.

## Directors' Securities Transactions:

### In respect of Model Code (Appendix 10)

The Company has adopted procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year 2006.

## The Company

The Company is listed on the Hong Kong and New York Stock Exchanges and its shares are majority held by a private company, Bowenvale Limited ("Bowenvale"), incorporated in British Virgin Islands, with a 68.9% holding. Bowenvale is, in turn, held by CITIC and SES. CITIC controls 50.5% of the economic interest and 50% of voting rights of Bowenvale whilst SES controls 49.5% and 50%, respectively. Under the shareholders' agreement of Bowenvale, CITIC and SES are each entitled to appoint, and remove, up to four directors to, or from, the Board of the Company.

# Corporate Governance Report

## Board of Directors

### DETAILS IN RELATION TO THE BOARD OF DIRECTORS

#### Attendance of individual Directors at Board meetings in 2006

Number of meetings	4	
	Attendance	Attendance rate
<b>INEDs</b>		
Edward CHEN	4/4	100%
R. Donald FULLERTON (resigned on 30 May 2006)	0/1	0%
Robert SZE	4/4	100%
James WATKINS (appointed on 30 June 2006)	2/2	100%
<b>NEDs</b>		
MI Zeng Xin (Chairman)	4/4	100%
Romain BAUSCH (Deputy Chairman)	3/4	75%
Robert BEDNAREK (resigned on 31 October 2006)	3/3	100%
Cynthia DICKINS	4/4	100%
DING Yu Cheng	3/4	75%
JU Wei Min	2/4	50%
KO Fai Wong	4/4	100%
Mark RIGOLLE	4/4	100%
<b>Executive Directors</b>		
Peter JACKSON (Chief Executive Officer)	4/4	100%
William WADE (Deputy Chief Executive Officer)	4/4	100%
<b>Average attendance rate</b>		<b>90%</b>

The Board is currently composed of 12 members: seven appointed by the shareholders of Bowenvale, CITIC and SES, as NEDs; three INEDs; and two Executive Directors, who are also the Chief Executive Officer and the Deputy Chief Executive Officer of the Company.

The Chairman and the Deputy Chairman of the Board are appointed by CITIC and SES from one of their nominated directors, and the posts are rotated biennially between CITIC and SES.

Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation from each INED of his independence to the Company. The Company considers all of the INEDs to be independent.

The Board is scheduled to meet on a quarterly basis and additional Board meetings are held if and when required. The Board also holds private sessions at least once per year without the presence of management.

# Corporate Governance Report

## Board of Directors (continued)

### DETAILS IN RELATION TO THE BOARD OF DIRECTORS (CONTINUED)

The Board deals with strategic and policy issues and approves corporate plans, budgets and monitors the performance of the management. The day-to-day operation of the Company is delegated to the management. The Board has established a framework of corporate governance and is supported by three committees, the Audit Committee, the Nomination Committee and the Remuneration Committee, each of which has its own charter covering its authorities and duties. The Chairmen of these committees report regularly to the Board on the matters discussed. The Board has also established a Business Development Committee which reviews strategic business initiative.

The role of the Chairman and the Chief Executive Officer are segregated and not exercised by the same individual. For the current term (2007-2008), Mr. MI Zeng Xin acts as Chairman, Mr. Romain BAUSCH as Deputy Chairman, and Mr. Peter JACKSON acts as Chief Executive Officer.

The Chairman of the Board is a NED, and is responsible for the leadership and effective running of the Board, and ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner. The Chief Executive Officer is delegated with the authority and is responsible for running the Group's business, and implementation of the Group's strategy in achieving the overall commercial objectives.

All the INEDs and NEDs are appointed for a specific term of three years and are subject to retirement, rotation and re-election at the Company's Annual General Meeting (AGM).

## Remuneration of Directors and Senior Management

The Remuneration Committee is established as a committee of the Board. The Remuneration Committee:

- (i) formulates the remuneration policies and guidelines for the Board's approval;
- (ii) ensures that the remuneration offered is appropriate and is in line with market practice;
- (iii) considers and reviews:
  - a. the remuneration packages of the Executive Directors;
  - b. pay and conditions for other employees below the Executive Director level; and
  - c. emoluments of the INEDs and NEDs prior to approval of award by the Board before the commencement of each financial year.

# Corporate Governance Report

## Remuneration of Directors and Senior Management (continued)

The Remuneration Committee shall have the sole authority:

- (i) to retain or terminate consultants to assist the Remuneration Committee in the evaluation of Director, Chief Executive Officer or senior executive compensation;
- (ii) to determine the terms of engagement and the extent of funding necessary for payment of compensation to any consultant retained to advise the Remuneration Committee.

The Remuneration Committee is composed of three members, of whom one is an INED and the other two are NEDs. The Committee is chaired by the INED. The Committee is scheduled to meet at least once per year. The Committee also holds private sessions without the presence of management.

### Attendance of individual member at Remuneration Committee meetings in 2006

Number of meetings	3	
	Attendance	Attendance rate
James WATKINS (Chairman) (appointed on 30 June 2006)	2/2	100%
R. Donald FULLERTON (Chairman) (resigned on 30 May 2006)	1/1	100%
JU Wei Min	1/3	33%
Mark RIGOLLE	3/3	100%
<b>Average attendance rate</b>		<b>78%</b>

The following is a summary of the work of the Remuneration Committee during 2006:

- (i) commissioned an independent consultant to:
  - a. review the compensation packages for Directors and senior executives;
  - b. review the bonus system that is commensurate with the practice in Hong Kong for a dual listed company; and
  - c. develop a framework for short- and long-term incentive arrangements;

# Corporate Governance Report

## Remuneration of Directors and Senior Management (continued)

- (ii) reviewed the compensation report from the independent consultant;
- (iii) made recommendations to the Board on implementing some of the changes recommended by the independent consultant; and
- (iv) instructed management to implement the changes as approved.

The Group has established a performance-based appraisal system. The present remuneration package consists of salaries, housing benefits (applicable to certain grades of employees), performance bonuses, share options (applicable to certain grades of employees) and fringe benefits that are compatible with the market. The basis of determining the emoluments payable to the Directors is a market survey included in the independent consultant's report.

Particulars of the share option scheme are set out in note 15 to the Consolidated Financial Statements.

## Nomination of Directors

### RELATING APPOINTMENT AND REMOVAL OF DIRECTORS

The Nomination Committee is established as a committee of the Board. The Nomination Committee shall:

- (i) identify individuals qualified to become Board members (consistent with criteria approved by the Board);
- (ii) select, or recommend that the Board selects, the Director nominees for the next annual meeting of shareholders;
- (iii) develop and recommend to the Board a set of corporate governance guidelines applicable to the Company;
- (iv) oversee the evaluation of the Board and management; and
- (v) develop a Chief Executive Officer's succession plan.

### Attendance of individual member at Nomination Committee meetings in 2006

<b>Number of meetings</b>	<b>3</b>	
	<b>Attendance</b>	<b>Attendance rate</b>
Edward CHEN (Chairman)	3/3	100%
Romain BAUSCH	2/3	67%
MI Zeng Xin	3/3	100%
<b>Average attendance rate</b>		<b>89%</b>

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## Nomination of Directors (continued)

### RELATING APPOINTMENT AND REMOVAL OF DIRECTORS (CONTINUED)

The following is a summary of the work of the Nomination Committee during 2006:

- (i) for Directors that are due for re-election at the AGM in 2007, the Nomination Committee recommended these Directors' appointments to be approved at the AGM;
- (ii) considered the appointment of Mr. James WATKINS as INED to the Board;
- (iii) considered the appointment of Ms. Sue YEUNG as Company Secretary, Qualified Accountant and Authorised Representative to the Company;
- (iv) reviewed model letter of appointment for NEDs of the Company;
- (v) reviewed the succession planning of the Company; and
- (vi) oversaw the self assessment of the Board and its Committees.

The Nomination Committee has the sole authority:

- (i) to retain and terminate a search firm to be used to identify Director candidates;
- (ii) to retain other professionals to assist it with any background checks; and
- (iii) to approve the search firm's and such other professionals' fees and retention terms.

# Corporate Governance Report

## Auditors' Remuneration

The fees incurred and described below for 2006 were as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Audit Fees	<b>1,775</b>	769
Audit-related Fees	<b>12</b>	142
Tax Fees	<b>85</b>	89
All Other Fees	<b>115</b>	775
	<b>1,987</b>	1,775

### AUDIT FEES

The aggregate fees incurred by the Group for professional services rendered by the Auditors for the audit or review of the Group's financial statements, which includes the audit of internal controls over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act 2002.

### AUDIT-RELATED FEES

The aggregate fees incurred by the Group for assurance and related services by the Auditors that are reasonably related to the performance of the audit or review of the Group's financial statements and are not otherwise reported under the paragraph entitled "Audit Fees" above.

### TAX FEES

The aggregate fees incurred by the Group for professional services rendered by the Auditors for tax compliance, tax advice and tax planning.

### ALL OTHER FEES

The aggregate fees incurred by the Group for products and services provided by the Auditors, other than for services described in the paragraphs above.



# Corporate Governance Report

## Audit Committee

The primary objective of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with respect to:

- (i) the accounting and financial reporting processes of the Company, including the integrity of the financial statements and other financial information provided by the Company to its shareholders, the public, any stock exchange and others;
- (ii) the Company's compliance with legal and regulatory requirements;
- (iii) the independent auditors' qualifications and independence,
- (iv) the audit of the Company's financial statements; and
- (v) the performance of the Company's internal audit function and independent auditors.

The members of the Audit Committee assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the external and internal audits.

The Audit Committee shall have the sole authority and responsibility:

- (i) to select, evaluate and, where appropriate, replace the independent auditors (or to nominate the independent auditors for shareholder approval);
- (ii) to approve all audit engagement fees and terms and all non-audit engagements with the independent auditors; and
- (iii) to perform such other duties and responsibilities set forth in any applicable independence and regulatory requirements. The Audit Committee may consult with management, including the Chief Financial Officer and the personnel responsible for the internal audit function, but shall not delegate these responsibilities.

# Corporate Governance Report

## Internal Control

The Board is responsible for maintaining and reviewing the effectiveness of the Company's internal control system. This system is designed to provide reasonable assurance on the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The Board conducted a review of the Company's internal control system for the year ended 31 December 2006, including financial, operational and compliance control, and risk management functions. The Board assessed the effectiveness of internal control by considering reviews performed by both internal and external auditors.

The Internal Auditor follows a risk-and-control-based approach. A three-year internal audit plan is formulated in a risk-weighted manner so that priorities and appropriate audit frequency is given to areas with higher risks. The Internal Auditor performs regular financial and operational reviews on the Company. The audit findings and control weaknesses, if any, are reported to the Audit Committee at the end of the year. The Internal Auditor monitors the follow-up actions agreed upon in response to its recommendations.

## Resources

The Audit Committee shall have the authority to retain independent legal, accounting and other consultants to advise the Audit Committee. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

## Funding

The Audit Committee shall determine the extent of funding necessary for payment of:

- (i) compensation to the independent auditors engaged for the purpose of preparing or issuing an Audit Report or performing other audit, review or attest services for the Company;
- (ii) compensation to any independent legal, accounting and other consultants retained to advise the Audit Committee, and
- (iii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

# Corporate Governance Report

## Composition

The Audit Committee comprises five members, three of whom are INEDs who satisfy independent, financial literacy and experience requirements, whilst the other two members are NEDs and have only observer status with no voting rights. The Committee is chaired by an INED, who possesses appropriate professional qualifications and experience in financial matters.

### Attendance of individual member at Audit Committee meetings in 2006

Number of meetings	4	
	Attendance	Attendance rate
Robert SZE (Chairman)	4/4	100%
Edward CHEN	4/4	100%
R. Donald FULLERTON (resigned on 30 May 2006)	1/1	100%
James WATKINS (appointed on 30 June 2006)	2/2	100%
JU Wei Min	3/4	75%
Mark RIGOLLE	4/4	100%
<b>Average attendance rate</b>		<b>95%</b>

## Corporate Governance Report

### Composition (continued)

The following is a summary of the work of the Audit Committee during 2006:

- (i) reviewed the financial statements and reports for the year ended 31 December 2005 and for the six months ended 30 June 2006;
- (ii) reviewed the effectiveness of the internal control system in conjunction with management and the Independent Auditors;
- (iii) reviewed the Independent Auditors' statutory audit plan and the Letters of Representation;
- (iv) considered and approved the 2006 audit fees;
- (v) considered and approved the non-audit services fees for the Group;
- (vi) reviewed the revised Audit Committee charter to conform to the CG Code;
- (vii) reviewed the "Continuing Connected Transactions" set forth on pages 54 to 55 prior to the review and confirmation by the Board;
- (viii) reviewed the accounting principles and practices adopted by the Group and the Consolidated Financial Statements for the year ended 31 December 2006 in conjunction with the Group's Independent Auditors; and
- (ix) conducted a private session with the Independent Auditors.

### Accountability and Audit

#### FINANCIAL REPORTING

The Group recognises that high quality corporate reporting is important in reinforcing the trustworthy relationship with the Company's shareholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. The annual and interim results of the Group are announced in a timely manner within the limits of three and two months respectively after the end of the relevant periods.

# Corporate Governance Report

## Internal Control

### SYSTEM AND PROCEDURES

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained, which includes a defined management structure with specified limits of authority, to:

- achieve business objectives and safeguard assets against unauthorised use or disposition;
- ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and
- ensure compliance with the relevant legislation and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and manage rather than eliminate risks of failure in operational systems, and to ensure achievement of the Group's objectives.

### ANNUAL ASSESSMENT

In 2006, the Board, through its Audit Committee, reviewed the effectiveness of the Group's internal control systems over the financial, operational, compliance and risk management functions. To formalise the annual review of the internal control system, the Audit Committee made reference to the requirements of the relevant regulatory bodies. The Audit Committee is of the view that, in general, the Group has set up a sound control environment and implemented necessary control mechanisms to monitor and correct non-compliance.

### GRIEVANCES AND WHISTLE-BLOWING POLICIES

The Group has established defined procedures for handling employees' complaints and grievances and alerts of wrongdoings. Recommendations on improvements can be channelled to the respective Department Heads or escalated to the Chief Executive Officer. If the complaint is about the Chief Executive Officer or a Director, the employee can report directly to the Chairman.

To encourage employees to raise concerns about internal malpractice without hesitation, the Group has also established the whistle-blowing policy, with embedded procedures for reporting such matter internally direct to the Chairman of the Audit Committee, who will review the reported complaint and decide how the investigation should be conducted.

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## Shareholder Relations

The Board recognises its accountability to shareholders for the performance and activities of the Company and attaches considerable importance to the effectiveness of its communications with shareholders. To this end, an Investor Relations Section has been established as part of the Company's website, [www.asiasat.com](http://www.asiasat.com), to provide information to shareholders about the Company. This is in addition to other corporate communications with shareholders, such as circulars, notices, announcements, interim reports and annual reports, copies of which can also be found in the website.

The interim report and annual report contain a full financial review and an operations review together with sections on corporate governance and a Management Discussion and Analysis.

The AGM is the principal forum for direct dialogue with shareholders at which shareholders are invited to ask questions on the Company's operations or financial information.

At the AGM, shareholders can vote on each proposed resolution by a show of hands (unless otherwise required by the Listing Rules). All issues to be considered by shareholders will be proposed at the general meeting as separate resolutions. There are provisions in the Bye-laws where:

- (i) the Chairman of the meeting;
- (ii) or at least three members present in person or by proxy being entitled to vote at the meeting;
- (iii) or any member or members present in person or by proxy being and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting;
- (iv) or a member or members present in person or by proxy holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid on all the shares conferring that right;

may demand for a poll.

Independent scrutineers are appointed to count the number of votes cast at a general meeting whether on a show of hand or on a poll.

## Guidelines on Conduct

The Company periodically issues notices to its Directors and employees reminding them that there is a general prohibition on dealing in the Company's listed securities during the blackout periods before the announcement of the interim and annual results.

The Company has a Code of Business Conduct and Ethics available on its website, [www.asiasat.com](http://www.asiasat.com).