

ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LTD

Form 20-F

June 19, 2006

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 19, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE
SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from _____ to _____

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

COMMISSION FILE NUMBER 1-14396

ASIA SATELLITE
TELECOMMUNICATIONS HOLDINGS LIMITED
(Exact Name of Registrant as Specified in Its Charter)

N/A
(Translation of Registrant's
Name Into English)

Bermuda
(Jurisdiction of Incorporation
or Organization)

17th Floor, The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong
852-2500-0888

(Address and Telephone Number of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|--|---|
| American Depositary Shares Common Stock, par value HK \$0.10 per share | The New York Stock Exchange The New York Stock Exchange* |

* Not for trading, but only in connection with the registration of American
Depositary Shares. The Common Stock is also listed and traded on The Stock
Exchange of Hong Kong Limited.

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Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to
Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes
of capital or common stock as of the close of the period covered by the annual
report.

-- As of December 31, 2005, 390,265,500 shares of Common Stock were issued
and outstanding Indicate by check mark if the registrant is a well-known
seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such filing requirements for the
past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer,
an accelerated filer, or a non-accelerated filer. See definition of "accelerated
filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check
one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has
elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant
is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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SUPPLEMENTAL INFORMATION AND EXCHANGE RATES

All references to the "Company" herein are references to Asia Satellite Telecommunications Holdings Limited, a Bermuda company incorporated on May 10, 1996, and, unless the context otherwise requires, its subsidiaries. All references to "AsiaSat" herein are to Asia Satellite Telecommunications Company Limited, a Hong Kong company and a wholly-owned indirect subsidiary of the Company and, unless the context otherwise requires, its subsidiaries. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

The Company and AsiaSat prepare their financial statements in Hong Kong Dollars. In this Annual Report references to "US Dollars," "US\$" or "\$" are to United States Dollars and references to "Hong Kong Dollars," "HK Dollars" or "HK\$" are to Hong Kong Dollars. Solely for the convenience of the reader, this Annual Report contains translations of certain Hong Kong Dollar amounts into US Dollars at specified rates. These translations should not be construed as representations that the Hong Kong Dollar amounts actually represent such US Dollar amounts or could be converted into US Dollars at the rates indicated or at all. Unless otherwise stated, the translations of Hong Kong Dollars into US Dollars have been made at the rate of HK\$7.80 to US\$1.00, the approximate rate of exchange on December 31, 2005. The noon buying rate in New York City for cable transfers in Hong Kong Dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") was HK\$7.7723 to US\$1.00 on December 31, 2005. The Noon Buying Rate on June 12, 2006 was HK\$7.7607 to US\$1.00.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 20-F contains certain forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. When used in this Annual Report on Form 20-F, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements and information. The Company identifies the following important factors which could cause its actual results to differ materially from any results which might be projected, forecast, estimated or budgeted by the Company in forward-looking information. All of such factors are difficult to predict and many are beyond the control of the Company.

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Accordingly, while the Company believes that the assumptions underlying the forward-looking information are reasonable, there can be no assurance that such assumptions will approximate actual experience, and in such event, actual results could differ materially from the predictions contained in this Annual Report on Form 20-F. These important factors include, but are not limited to: (i) the continued operation of the existing in-orbit satellites and success in constructing and launching new satellites as planned, (ii) future economic and competitive conditions in the Asian regional satellite market in which AsiaSat competes, (iii) the Company's success in obtaining necessary regulatory approvals and licenses, and (iv) the continued ability of the Company to meet its debt obligations and fund its capital expenditure programs.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS.

Not applicable.

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ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

Not applicable.

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL INFORMATION

The summary income statement data of the Company for the years ended December 31, 2003, 2004 and 2005 and the summary balance sheet data of the Company as of December 31, 2004 and 2005 set forth below are derived from, and are qualified in their entirety by reference to, the audited consolidated financial statements of the Company, including the notes thereto, included elsewhere herein and in "Operating and Financial Review and Prospects." The summary income statement data for the years ended December 31, 2001 and 2002 and the summary balance sheet data as of December 31, 2001, 2002 and 2003 set forth below are derived from audited consolidated financial statements of the Company not included herein. The consolidated financial statements of the Company are prepared and presented in accordance with accounting principles generally accepted in Hong Kong, or Hong Kong GAAP, which differ in certain material respects from accounting principles generally accepted in the United States, or U.S. GAAP. Note 32 to the Company's consolidated financial statements contains descriptions of the significant differences between Hong Kong GAAP and U.S. GAAP, a reconciliation of net income from Hong Kong GAAP to U.S. GAAP for the years ended December 31, 2003, 2004 and 2005, and a reconciliation of shareholders' equity from Hong Kong GAAP to U.S. GAAP as of December 31, 2004 and 2005. In addition, Note 32 to the Company's consolidated financial statements contains additional disclosures required under U.S. GAAP, which are not disclosed elsewhere in the notes to the Company's consolidated financial statements.

| 2001 | 2002 | 2003 | 2004 | 2005 |
|------|------|------|------|------|
| HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |

(in millions, except for percentages and per share amounts)

INCOME STATEMENT DATA:

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| | | | | |
|--|---------|---------|---------|---------|
| Hong Kong GAAP: | | | | |
| Revenues..... | 969.5 | 950.8 | 896.2 | 1,005.0 |
| Cost of services | (240.0) | (243.1) | (313.3) | (420.5) |
| Administrative expenses | (58.6) | (76.7) | (56.1) | (102.5) |
| Operating profit | 687.2 | 637.4 | 532.6 | 504.0 |
| Share of results of associates (including goodwill amortization) | (47.5) | (13.7) | (15.6) | (12.4) |
| Impairment loss recognized in respect of goodwill of associates | (0.6) | -- | (1.9) | -- |
| Profit before taxation | 633.6 | 623.8 | 512.1 | 491.6 |
| Minority Interests..... | -- | -- | -- | (0.1) |
| Taxation | (70.6) | (69.1) | (87.6) | (60.5) |
| Profit for the year..... | 563.0 | 554.7 | 424.5 | 431.1 |
| Earnings per share..... | | | | |
| Basic..... | 1.44 | 1.42 | 1.09 | 1.10 |

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| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ | 2004 HK\$ | 2005 |
|---|--------------|--------------|--------------|--------------|---------|
| (in millions, except for percentages and per share) | | | | | |
| Diluted..... | 1.44 | 1.42 | 1.09 | 1.10 | |
| Earnings per ADS..... | | | | | |
| Basic..... | 14.40 | 14.21 | 10.88 | 11.05 | |
| Diluted..... | 14.40 | 14.21 | 10.88 | 11.05 | |
| Dividend declared per share: | | | | | |
| Ordinary..... | 0.20 | 0.25 | 0.32 | 0.35 | |
| Number of shares outstanding (in thousands)..... | 390,266 | 390,266 | 390,266 | 390,266 | 390,266 |
| U.S. GAAP: | | | | | |
| Profit for the year | 562.5 | 538.1 | 408.3 | 424.1 | |
| Earnings per share..... | | | | | |
| Basic..... | 1.44 | 1.38 | 1.05 | 1.09 | |
| Diluted..... | 1.44 | 1.38 | 1.05 | 1.09 | |
| Earnings per ADS..... | | | | | |
| Basic..... | 14.41 | 13.79 | 10.46 | 10.86 | |
| Diluted..... | 14.41 | 13.79 | 10.46 | 10.86 | |

RESTATED

| | 2001 HK\$ | 2002 HK\$ | 2003 HK\$ | 2004 HK\$ | 2005 |
|---|--------------|--------------|--------------|--------------|---------|
| BALANCE SHEET DATA: | | | | | |
| Hong Kong GAAP: | | | | | |
| Working capital..... | 86.8 | 239.0 | 529.9 | 1,023.1 | 1,023.1 |
| Property, plant and equipment (1)..... | 2,915.8 | 3,206.4 | 3,140.0 | 2,894.5 | 2,894.5 |

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| | | | | | |
|---|---------|---------|---------|---------|----|
| Total assets..... | 3,384.7 | 3,936.4 | 4,157.2 | 4,549.2 | 4, |
| Long-term liabilities (2) | 288.8 | 326.0 | 336.5 | 317.1 | |
| Total liabilities (excluding minority interests) .. | 514.2 | 589.1 | 588.5 | 668.3 | |
| Capital stock | 39.0 | 39.0 | 39.0 | 39.0 | |
| Total shareholders' equity | 2,870.1 | 3,346.7 | 3,568.3 | 3,874.6 | 4, |
| U.S. GAAP: | | | | | |
| Property, plant and equipment | 3,009.2 | 3,276.6 | 3,198.5 | 2,944.9 | 2, |
| Total assets..... | 3,478.1 | 4,011.2 | 4,215.7 | 4,599.9 | 4, |
| Long-term liabilities (2) | 300.1 | 335.4 | 345.8 | 325.6 | |
| Total liabilities (excluding minority interests)... | 525.4 | 598.5 | 597.7 | 676.8 | |
| Total shareholders' equity | 2,952.2 | 3,412.2 | 3,617.5 | 3,916.7 | 4, |

-
- (1) Excludes leasehold land and land use rights which are reclassified as prepaid operating lease payments with the adoption of revised Hong Kong Accounting Standard 17.
- (2) Excludes current portion of long-term liabilities.

HISTORICAL EXCHANGE RATE INFORMATION

The Hong Kong Dollar is freely convertible into other currencies, including the US Dollar. Since October 17, 1983, the Hong Kong Dollar has been linked to the US Dollar at the rate

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of HK\$7.80 to US\$1.00. The central element in the arrangements that gives effect to the link is an agreement between the Hong Kong Government and the three Hong Kong banknote-issuing banks, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and, since May 1, 1994, Bank of China. Under this agreement, the Hong Kong Government Exchange Fund issues certificates of its indebtedness to the banknote-issuing banks against payment in US Dollars at the fixed exchange rate of HK\$7.80 to US\$1.00. The banknote-issuing banks hold the certificates of indebtedness to cover the issuances of banknotes. When the banknotes are withdrawn from circulation, the banknote-issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent US Dollars at the fixed exchange rate. Exchange transactions in the Hong Kong Dollar against the US Dollar continue in the foreign exchange market.

The following table sets forth the average, high, low and period end Noon Buying Rate between Hong Kong Dollars and US Dollars (in Hong Kong Dollars per US Dollar) for the periods indicated. No representation is made that the Hong Kong Dollar or US Dollar amounts referred to in this annual report have been, could have been or could be converted into US Dollars or Hong Kong Dollars, as the case may be, at the rates indicated below or at any other rate.

HONG KONG DOLLAR/US DOLLAR
NOON BUYING RATE

| AVERAGE (1) | HIGH | LOW | PERIOD END |
|-------------|------|------|------------|
| HK\$ | HK\$ | HK\$ | HK\$ |

| 2001 | 7.7997 | 7.8004 | 7.7970 | 7.7980 |
|---------------------|--------|--------|--------|--------|
| 2002 | 7.7997 | 7.8095 | 7.7970 | 7.7988 |
| 2003 | 7.7875 | 7.8001 | 7.7085 | 7.7640 |
| 2004 | 7.7891 | 7.8010 | 7.7632 | 7.7723 |
| 2005 | | | | |
| December 2005 | 7.7536 | 7.7552 | 7.7522 | 7.7545 |
| January 2006 | 7.7541 | 7.7573 | 7.7509 | 7.7573 |
| February 2006..... | 7.7596 | 7.7617 | 7.7565 | 7.7579 |
| March 2006 | 7.7593 | 7.7621 | 7.7572 | 7.7597 |
| April 2006 | 7.7563 | 7.7600 | 7.7534 | 7.7534 |
| May 2006 | 7.7541 | 7.7584 | 7.7513 | 7.7584 |

(1) The average of the Noon Buying Rates on the last day of each month during the period.

RISK FACTORS

RISK OF LAUNCH AND IN-ORBIT FAILURE, LOSS, REDUCED PERFORMANCE AND SATELLITE DEFECTS

Satellites are subject to significant risks, including launch and in-orbit failure, satellite defects, destruction and damage that may result in total or partial loss or incorrect orbital placement or may prevent proper commercial operation. The failure rate varies by launch vehicle, launch services provider and satellite manufacturer. A total or constructive total loss of any of our satellites would adversely affect the Company. In addition, any defects in

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AsiaSat 2, AsiaSat 3S or AsiaSat 4 may also adversely affect the Company. See "Information on the Company -- Satellites -- AsiaSat 2."

RISKS IN RELATION TO THE CONSTRUCTION AND LAUNCH OF ASIASAT 5

AsiaSat has entered into a construction contract and a launch contract for the commissioning of AsiaSat 5. The Company plans to launch AsiaSat 5 in 2008. AsiaSat 5 will replace AsiaSat 2, which is tentatively scheduled to retire in 2010. The Company has planned for the launch of AsiaSat 5 in 2008 so as to allow sufficient time for the construction and launch of another satellite in the event of an unsuccessful launch of AsiaSat 5. The total consideration under the construction contract and launch contract, together with insurance cost, is estimated at approximately HK\$1,404.0 million (US\$180.0 million). The construction contractor, Space Systems/Loral, Inc., is a subsidiary of Loral Space & Communications Inc., which emerged from chapter 11 of the federal bankruptcy laws of the United States in November 2005. The predecessor of Loral Space & Communications Inc. filed voluntary petitions for reorganization in July 2003 together with some of its subsidiaries, including Space Systems/Loral Inc. Space Systems/Loral, Inc. emerged from the reorganization debt-free. However, any future financial difficulties of Space Systems/Loral, Inc. may adversely affect its performance under the construction contract and may adversely affect the quality or delay the launch of AsiaSat 5. In addition, there can be no assurance that the launch of AsiaSat 5, including the subsequent in-orbit testing, will be successful. In the event AsiaSat 5 does not meet specifications, there are limited opportunities for the Company to replace AsiaSat 5 and the failure to timely replace AsiaSat 5 may result in interruption of services to our customers and adversely affect the operation

and financial results of the Company. Furthermore, a significant portion of the total cost of the construction and launch of a satellite is the cost of insurance, which generally will not be obtained until several months prior to a scheduled launch. There can be no assurance that sufficient insurance can be obtained at a reasonable price prior to the launch of AsiaSat 5.

RISK OF NOT SUCCESSFULLY RENEWING EXISTING TRANSPONDER CAPACITY AGREEMENTS OR NOT RENEWING THEM ON TERMS SIMILAR TO THEIR CURRENT TERMS

The Company's existing transponder capacity agreements, also known as transponder utilization agreements, have scheduled termination dates. If the Company is unsuccessful in obtaining their renewal on similar commercial terms, including price levels, and for similar duration, or in identifying alternate users for returned capacity, the Company's revenues will be adversely affected.

LIMITED LIFE OF SATELLITES

A number of factors affect the estimated useful life of a satellite, including the quality of their construction, the durability of their component parts, the amount of fuel on-board, the launch vehicle used and the skill with which the satellite is monitored and operated. There can be no assurance as to the specific longevity of AsiaSat 2, AsiaSat 3S or AsiaSat 4. The Company's results of operations would be adversely affected in the event the useful life of AsiaSat 2, AsiaSat 3S or AsiaSat 4 were significantly shorter than the estimates stated in "Information on the Company -- Satellites." See "Information on the Company -- Insurance."

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RISK OF LOSING SATELLITE SERVICE REVENUES IF OTHER SATELLITES OR SIGNALS INTERFERE WITH THE COMPANY'S TRANSMISSIONS

Satellites operating from orbital slots that are adjacent to, and using the same band of frequencies as, the Company's satellites could interfere with the transmissions made by its satellites. Such interference could lead to the loss of satellite service revenues if customers migrate to competitors who operate satellites without such interference. The Company has entered into frequency coordination agreements with certain other operators to avoid any material interference and pursuant to which the Company has agreed to certain operating constraints. The Company's ability to use its orbital slots could be further constrained in order to avoid material interference with other satellites and the Company could enter into disputes over interference in the future. In addition, unintentional or intentional signals could interfere with the transmissions of the Company's customers and could severely damage the reputation of the Company. If not remedied, such signals could lead to a loss of satellite service revenues if customers migrate to competitors. See "Information on the Company -- Additional Orbital Slots and Use of Frequencies" and "Information on the Company - Satellites - AsiaSat 3S."

RISK OF LOSS OR DAMAGE TO SATELLITES, GROUND BASED SATELLITE CONTROL EQUIPMENT OR SATELLITE STATIONS FROM ACTS OF WAR, TERRORISM, ELECTROSTATIC STORM, SPACE DEBRIS AND OTHER NATURAL DISASTERS

The loss, damage or destruction of AsiaSat 2, AsiaSat 3S or AsiaSat 4, or damage or destruction to AsiaSat's ground based satellite control equipment and satellite stations, as a result of military actions or acts of war, terrorism, anti-satellite devices, electrostatic storm, collision with space debris, other natural disasters or other causes would have an adverse effect on the Company. AsiaSat's insurance policies include standard commercial satellite insurance provisions and customary exclusions from losses resulting from (i) military or

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similar actions, (ii) terrorism, (iii) laser, directed energy or nuclear anti-satellite devices, (iv) insurrection and similar acts or governmental action to prevent such acts, (v) governmental confiscation, (vi) nuclear reaction or radiation contamination or (vii) willful or intentional acts of AsiaSat or its contractors. See "Information on the Company -- Insurance."

RELIANCE UPON SIGNIFICANT CUSTOMER

The Company's largest customer is STAR Group Limited ("STAR"), which is a Hong Kong-based international satellite television broadcasting company that broadcasts over the greater Asian region and is wholly-owned by News Corporation, a leading international media group. STAR accounted for approximately 24.9%, 22.4% and 25.7% of AsiaSat's revenues in the years ended December 31, 2003, 2004 and 2005, respectively. See "Information on the Company - Services and Customers."

The Company could be adversely affected by the loss of STAR as a customer or if STAR failed to perform its obligations in accordance with the terms of its transponder utilization agreements. There can be no assurance that STAR will enter into additional transponder utilization agreements with the Company upon the expiration of existing transponder utilization agreements.

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RISK OF TECHNOLOGICAL CHANGES

Technology in the satellite broadcasting and telecommunications industry is in a rapid and continuing state of change. Technological developments may have an adverse impact on the Company. First, because the Company's satellites have an estimated useful life of approximately 15 years, the technology used in the Company's satellites may not be the most advanced at some future date. As a consequence, customers could migrate to satellite operators offering new generations of competing satellite systems that incorporate more advanced technologies, or more suitable satellite capabilities or configurations, after the expiration of the Company's initial contract term, which would result in a loss of revenues. In addition, the Company might be required to replace satellites earlier than expected to address these developments. Second, increased transponder efficiency resulting from advances in compression technology, if not offset by increased applications for satellite capacity, may cause an overall decrease in demand for such capacity.

RISK OF LIMITED MARKET DEMAND AND INCREASING COMPETITION

The business in which the Company operates is highly competitive. The satellite services provided by the Company are used by its customers for point to multipoint communication (principally television broadcasting, private communication networks, Internet and multimedia services). The Company's principal competitors are regional and domestic satellite companies operating in the Asian region. Many of these competitors have long-standing customer relationships and are substantially larger, and have financial resources that are substantially greater, than those of the Company. See "Information on the Company - Competition."

TRANSPONDER OVERSUPPLY. It is expected that in 2006 the supply of transponders continues to exceed the demand for transponders. The Company believes that this imbalance cannot be corrected until global economic growth and new applications and services increase demand for the existing capacity. See "Information on the Company - Competition - Transponder Oversupply."

COMPETING SYSTEMS AND SATELLITES. AsiaSat competes with a number of

regional and domestic satellites and satellite systems such as APSTAR, Chinasat, Indosat, INSAT, Intelsat, JSAT, Koreasat, MEASAT, New Skies Satellites, PanAmSat, Singtel Optus, SINOSAT, Superbird, Thaicom and others. The Company believes that most of the domestic systems are planning to add at least some regional transponders to their next generation of satellites. The increased competition could adversely affect the Company's business prospects. See "Information on the Company - Competition - Competition Restriction from Domestic Systems."

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FIBER OPTIC SYSTEMS. Fiber optic systems have been widely installed within the region for point to point trans-oceanic communications. In addition, point to point fiber optic connections between major cities in Asia are common. As fiber optic coverage increases, the competitiveness of satellites for point to point communication will diminish. In addition, the transmission of television programming via Asymmetric Digital Subscriber Line ("ADSL") and Digital Subscriber Line ("DSL") technologies, commonly known as Internet Protocol Television, is also an alternative for transmission of television programming via direct broadcasting satellite and cable.

RISKS RELATING TO FUTURE SATELLITES

The construction, launch and operation of AsiaSat 5 and any future satellites by the Company would be subject to substantially the same risks as those set forth herein relating to AsiaSat 2, AsiaSat 3S and AsiaSat 4. In addition, AsiaSat's ability to make capital expenditures in connection with the construction and launch of future satellites could be subject to conditions of future financing arrangements. See "Operating and Financial Review and Prospects -- Liquidity and Capital Resources -- Planned Capital Expenditures."

THE COMPANY IS SUBJECT TO REGULATION BY A NUMBER OF DIFFERENT BODIES

The business in which the Company operates is highly regulated. Satellite, broadcasting and telecommunications services are subject to international and national law.

HONG KONG. As an operator of privately owned satellites, AsiaSat is subject to the regulatory authority of the Office of the Telecommunications Authority of Hong Kong ("OFTA"), which in turn is subject to the control and supervision of the People's Republic of China ("China"). The business prospects of the Company could be adversely affected by the adoption of new laws, policies or regulations, or changes in the administration, interpretation or application of existing laws, policies and regulations that modify the present regulatory environment in Hong Kong.

Licenses granted to AsiaSat are subject to conditions specified therein. The conditions may include basic orbital parameters (and requirements to obtain advance approval for any intended deviations and to notify any unintentional deviation), requirements to avoid interference with the activities of other users of outer space and requirements not to cause actions which may give rise to liabilities on the part of China or Hong Kong. Breach of any such conditions can give rise to a right of revocation of the relevant license.

The Company's operation of earth stations is subject to the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong) (the "Telecommunications Ordinance"). The Telecommunications Ordinance contains provisions for the taking of possession by the Hong Kong Government of telecommunications stations if the Chief Executive in Council is of the opinion

that an emergency has arisen in which it is expedient for the public service that the Hong Kong Government should have control over telecommunications stations. See "Information on the Company - Regulation - Hong Kong Regulation."

The Company has been advised by OFTA that it is considering reassigning part of the satellite C-band (specifically 3400 to 3600 MHz) for Broadband Wireless Access (BWA) applications. Although the Company does not use this part of the band the Company believes, based on analysis and limited testing, that broad deployment of BWA transmitters in Hong Kong will disrupt or interfere with all conventional (3700 to 4200 MHz) and extended C band

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(3400 to 3700 MHz) satellite services in Hong Kong. The Company, other satellite operators and users have raised objections to this allocation by OFTA, but there can be no assurance that this objection will be successful. The Company cannot be certain that in the event that such frequency band is reassigned, techniques that may potentially be applied to mitigate any such disruption or interference will be successful. This proposal by OFTA is part of a worldwide trend to assign more frequency spectrum to mobile and nomadic communications services users. Should this trend continue C band satellite services will be disadvantaged, particularly in urban areas within the Company's regional coverage.

OTHER NATIONAL REGULATORY SCHEMES. The customers of the Company are subject to the regulatory authority in the countries in which they operate. Many of the Company's customers must have authorization from the countries in which such customers are located in order to uplink to and communicate by means of the Company's satellites. Although the Company does not believe these regulatory schemes will prevent the Company from pursuing its business, there can be no assurance that such licenses and approvals are or will remain sufficient in the view of national regulatory authorities and that these authorities will not discourage or prevent potential customers from utilizing transponders on the Company's satellites.

The laws of certain countries require television broadcasters and satellite telecommunication users providing services in such countries generally to use state-owned or locally-owned satellites. Punitive withholding taxes are often applicable to payments made under non-domestic satellite contracts. These legal requirements prevent the Company and other satellite companies from competing to provide transponder capacity to these potential customers. There can be no assurance that other countries in the Asian region, including countries in which the Company already has customers, will not impose similar requirements to use state-owned or locally-owned satellites in the future. The imposition of such requirements could adversely affect the Company's results of operations. See "Information on the Company - Competition." The Company could be adversely affected by changes in laws and regulations, or in the interpretation and application of existing laws and regulations, relating to taxation or licensing fees in countries that may assert jurisdiction over the Company's activities, including countries where customers of the Company are located or where signals transmitted by the Company's satellites are received. See "Operating and Financial Review and Prospects - Taxation."

INTERNATIONAL TELECOMMUNICATION UNION. AsiaSat's use of orbital slots and radio frequency is subject to the regulations of the International Telecommunication Union ("ITU"). Nations are required by treaty to make a filing of their proposed use of satellite orbital slots for geostationary satellites with the Radiocommunication Bureau of the ITU. When a conflict or potential conflict is noted, nations are obligated to negotiate in an effort to

coordinate the proposed uses and resolve any interference concerns. The Radiocommunication Bureau, however, has no formal dispute resolution mechanism, and if nations cannot agree on a resolution, a satellite system will not be entitled to the full interference protection afforded under international law. See "Information on the Company - Regulation - International Telecommunication Union."

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FAILURE TO ACHIEVE AND MAINTAIN EFFECTIVE INTERNAL CONTROL OVER FINANCIAL REPORTING IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT OF 2002 COULD HAVE A MATERIAL ADVERSE EFFECT ON THE COMPANY

The United States Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. These requirements will first apply to our annual report on Form 20-F for the fiscal year ending December 31, 2006. Our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent auditor may still decline to attest to our management's assessment or may issue a report that is qualified if it is not satisfied with our controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. Furthermore, during the course of the evaluation, documentation and attestation, we may identify deficiencies that we may not be able to remedy in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. If we fail to achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls, on an ongoing basis, over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our shares and ADSs. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

POLITICAL, ECONOMIC AND OTHER REGIONAL RISKS

AsiaSat is a Hong Kong company. Substantially all of AsiaSat's revenues are derived from its operations conducted in the Asian region. In 2003, 2004 and 2005, approximately 59.8%, 51.8% and 61.9%, respectively, of AsiaSat's revenues, were derived from customers from Greater China, which includes mainland China, Hong Kong, Macau and Taiwan. Furthermore, during 2003, 2004 and 2005, approximately, 24.9%, 22.4% and 25.7%, respectively, of AsiaSat's revenues were attributable to transponder utilization agreements with STAR, a Hong Kong company. As a result, the Company's financial condition and results of operations may be influenced by the political situation in the Asian region and by the general state of the economies in such region.

CHINA. General economic conditions in China could have a significant

impact on the financial prospects of the Company. The economy of China has been changing dramatically with a gradual reduction in the role of state economic plans in the allocation of resources, pricing and management of assets and an increased reliance on market forces. Any slowdown in economic growth or return to non-market policies could adversely affect business in China.

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The Company may also be adversely affected by changes in the political and social conditions in China, and by changes in laws, regulations and governmental policies, with respect to broadcast media, telecommunications services, inflationary measures, currency conversion or the rates and methods of taxation, among other things. While the Chinese government is expected to continue its economic reform policies, many of the reforms are new or experimental and may be refined or changed.

Almost all payments under AsiaSat's transponder utilization agreements are made in US Dollars. Since China has extensive foreign exchange controls, the ability of Chinese companies to convert Renminbi (the currency of China) into foreign currency and to purchase foreign currency is subject to various Chinese laws and regulations. China's current or future foreign exchange controls could adversely affect the ability of the Company's customers in China to make payments to the Company in US Dollars.

HONG KONG. From July 1, 1997, Hong Kong ceased to be a Crown Colony of the United Kingdom, and became a Special Administrative Region of China. Although the Basic Law, which governs China's relationship with Hong Kong, provides that Hong Kong will have a high degree of legislative, judicial and economic autonomy, there can be no assurance that the Company's financial condition and results of operations will not be adversely affected as a consequence of the exercise of China's sovereignty over Hong Kong. In addition, political and social developments in China have from time to time adversely affected the Hong Kong economy.

SARS, AVIAN FLU OR SIMILAR OCCURRENCE. The Company's business could be adversely affected by the re-emergence of Severe Acute Respiratory Syndrome (or SARS) or the development of a possible pandemic such as the avian influenza or a similar type of regional occurrence. Restrictions on travel resulting from these possible events could adversely affect the Company's ability to market and service new and existing customers throughout the Asian region. In addition, sick employees or other employees who fear contracting such illness could decide to not report for duty. The Company's results of operations could be adversely affected to the extent that SARS, avian influenza or a similar type of regional occurrence harms the economy in, or otherwise negatively affects, China or the Asian region generally.

LIMITATIONS ON WARRANTIES AND INSURANCE

Pursuant to AsiaSat's satellite construction contracts with Boeing Satellite Systems, International, Inc. (formerly known as Hughes Space and Communications International, Inc.) ("Boeing"), Lockheed Martin and Space Systems/Loral Inc. with respect to AsiaSat 2, AsiaSat 3S, AsiaSat 4 and AsiaSat 5, AsiaSat is the beneficiary of certain limited performance-based, operational warranties on its satellites. However, the limited contractual warranties do not cover a substantial portion of the risk inherent in satellite launches or satellite operations. Furthermore, there has been a general rise in the cost of insurance following a series of satellite failures. In addition, while the cost of insurance has increased, insurance coverage has decreased as a result of the increase in satellite in-orbit failures and the terrorist events on and after September 11, 2001.

AsiaSat has in-orbit insurance coverage for AsiaSat 3S and AsiaSat 4 and plans to obtain such coverage for AsiaSat 5. AsiaSat's in-orbit insurance must be renewed annually. AsiaSat 2 is no longer insured for in-orbit failures. See "Key Information - Satellites - AsiaSat 2".

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There are circumstances in which AsiaSat's insurance will not fully reimburse AsiaSat for its expenditures with respect to launching a replacement satellite (for example, if the cost of replacement exceeds the sum insured), and the insurance will not compensate AsiaSat for business interruption and similar losses (including, among other things, loss of market share, loss of revenue and incidental and consequential damages) which might arise from the failure of a satellite launch and launch of a replacement satellite or a failure of a satellite to perform to specifications. For a description of the amounts and coverage of AsiaSat's launch, in-orbit and liability insurance, see "Information on the Company -- Insurance."

RISKS RELATED TO U.S. EXPORT CONTROLS

The United States tightly restricts the export of commercial communications satellites and satellite-related components and technology. U.S. export control policy toward Hong Kong and the Company is affected by U.S.-Sino relations, which can vary substantially from time to time. AsiaSat has sourced all its satellites in the United States. There can be no assurance that U.S. policy will not change in ways that will have a negative effect on the export of future satellites, including the timing of such export, nor can there be any assurance that future U.S. sourcing by the Company will be unimpeded by U.S. export restrictions.

RISK OF LOSS OF RIGHTS TO ORBITAL SLOTS

In addition to the frequency bands currently used in the three primary positions of 100.5 degrees East, 105.5 degrees East, and 122.2 degrees East, in which the Company's satellites currently operate, China has filed requests with the ITU on behalf of AsiaSat for a number of other frequency bands in the same orbit locations and for enhanced operating parameters in the current frequency bands. These filings are at different stages in the application process. There is no assurance that AsiaSat will maintain its right to operate satellites in its primary positions. There is also no assurance that AsiaSat will obtain rights to launch and operate satellites with enhanced parameters or additional frequency bands or that if it does obtain such rights, that it will be able to fully use the allocated frequencies because of the limitations imposed by coordination agreements with other satellite systems. See "Information on the Company - Satellites - Orbital Slots and Use of Frequencies" and "Information on the Company - Satellites - AsiaSat 4."

POTENTIAL FUTURE LEVERAGE

AsiaSat may incur borrowings under a loan facility in the future. Such a loan facility may contain covenants, including financial covenants, which could prevent the Company from undertaking certain acquisitions and purchases that may be necessary for its growth. See "Operating and Financial Review and Prospects - Liquidity and Capital Resources."

RISK OF NOT BEING ABLE TO HIRE AND RETAIN HIGH TECHNOLOGY EMPLOYEES IN THE SATELLITE INDUSTRY

The Company's continued success depends substantially on its ability to

hire, retain and motivate highly skilled technology specialists. Because the number of people with such skills is limited, satellite operators compete vigorously for their services. The potential consequences of the Company's loss of, or its inability to attract, key workers could include delays or inability to launch, monitor or control satellites, with a consequent reduction in sales and profits. Alternatively, the Company may have to offer more attractive remuneration

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packages than its competitors, which would increase the Company's personnel expenses and could reduce its margins.

ITEM 4. INFORMATION ON THE COMPANY.

HISTORY AND DEVELOPMENT OF THE COMPANY

The Company is an exempted company organized under the Companies Act 1981 of Bermuda (as amended) (the "Companies Act"). The Company was incorporated on May 10, 1996. The Company's registered office is located at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda (phone: 441-295-2244) and its principal place of business is located at 17th Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

ORGANIZATIONAL STRUCTURE

The Company is the parent company of AsiaSat. AsiaSat holds a 47.3% interest in SpeedCast Holdings Limited, a 49.0% interest in Beijing Asia Sky Telecommunications Technology Company Limited and an 80.0% interest in Skywave TV Company Limited. See Note 10 to the Company's consolidated financial statements.

ACQUISITIONS, INVESTMENTS AND JOINT VENTURES

- o In March 2002, the Company entered into an agreement to acquire an additional 8.8% interest in SpeedCast Holdings Limited, which wholly owns SpeedCast Limited ("SpeedCast") by making an aggregate contribution of HK\$31.2 million (US\$4.0 million), of which HK\$19.5 million (US\$2.5 million) was in cash and HK\$11.7 million (US\$1.5 million) was by means of extending the usage of one C-band transponder by SpeedCast Holdings Limited for a further period of 219 days from February 4, 2003. In 2003, the Company extended payment terms to SpeedCast allowing a deferment with interest of up to HK\$8.6 million (US\$1.1 million) in transponder payments until the end of April 2004. In May 2004, the Company entered into a further agreement to acquire an additional 2% interest in SpeedCast Holdings Limited by making a contribution of HK\$11.7 million (US\$1.5 million) in cash. See "- Services and Customers - Expanded Services and Other Businesses."
- o In March 2001, AsiaSat entered into an agreement with respect to the lease of the Tai Po Site. For details with respect to the lease of the Tai Po Site, see "Additional Information - Material Contracts", "- Business Overview" and "- Property, Plants and Equipment - Land Facilities." In March 2002, AsiaSat entered into a construction agreement with Leighton Contractors Asia Limited with respect to the construction of a satellite control center on the Tai Po Site. In December 2002, AsiaSat entered into an agreement with Globecom Systems Europe Limited for the procurement of the telemetry, tracking and control ("TT&C") radio frequency system to be installed at the

satellite control center at the Tai Po Site. In January 2004, AsiaSat entered into an agreement with Integral Systems for satellite control software. As at December 31, 2005, HK\$215.2 million (US\$27.6 million) had been spent on the Tai Po Site. See "Additional Information - Material Contracts."

- o In March 2004, the Company entered into a joint venture arrangement and formed Beijing Asia Sky Telecommunications Technology Company Limited ("Beijing Asia") to provide corporate data networks and services in China using very small

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aperture terminal ("VSAT") technology. In exchange for a 49% interest in Beijing Asia, the Company contributed HK\$12.5 million (US\$1.6 million) in cash to Beijing Asia and has committed to provide Beijing Asia with transponder capacity in an amount of up to HK\$13.0 million (US\$1.7 million) payable on a deferred basis over the next three to five years. See "-- Services and Customers - Expanded Services and Other Businesses" and "Additional Information - Material Contracts."

- o In November 2004, the Company entered into an agreement with two strategic partners pursuant to which the Company agreed to contribute HK\$24.0 million (US\$3.1 million) in return for an 80% interest in Skywave TV Company Limited ("Skywave") and each of the strategic partners agreed to make an in-kind contribution equal to HK\$3.0 million (US\$0.4 million) in return for a 10% interest each in Skywave. See "-- Services and Customers - Expanded Services and Other Businesses" and "Additional Information - Material Contracts."
- o In April 2006, AsiaSat entered into a construction contract with Space Systems/Loral, Inc. ("Loral") for the design and construction of AsiaSat 5. In May 2006, AsiaSat entered into a launch contract with Sea Launch Limited Partnership ("Sea Launch") which will provide launch services related to the launch of AsiaSat 5 from the Baikonur Space Center in Kazakhstan. The total consideration payable under the two contracts, together with insurance cost, is approximately HK\$1,404.0 million (US\$180.0 million). See "-- Business Overview - Satellites - AsiaSat 5."

BUSINESS OVERVIEW

The Company, through its wholly-owned subsidiary, AsiaSat, is a leading provider of high quality satellite transponder capacity in Asia. The Company's satellites are positioned over the Asian landmass and offer its customers comprehensive coverage of approximately two-thirds of the world's population. The Company operates three satellites -- AsiaSat 2, AsiaSat 3S and AsiaSat 4.

AsiaSat 2 was launched in 1995 and began commercial service in January 1996. AsiaSat 3S was launched from the Baikonur Cosmodrome in the Republic of Kazakhstan and began commercial service in 1999. AsiaSat 3S has a similar C-band footprint coverage to AsiaSat 2. Together, these two satellites provide coverage to more than 50 countries, with approximately 3.3 billion people, from Siberia to Australia and from Japan to the Middle East.

AsiaSat 4, launched from Cape Canaveral, United States in April 2003, is located at the 122.2 degrees East orbital slot and began commercial service on July 1, 2003. AsiaSat 4 is a high power satellite having C-band coverage and power substantially similar to AsiaSat 2 and AsiaSat 3S. Because AsiaSat 4 has a more easterly location, its C-band coverage favors the Pacific-Rim, Australia

and New Zealand to a greater degree than previous AsiaSat satellites. The Ku-band coverage of AsiaSat 4 is designed to meet the requirements of both broadcast satellite services ("BSS") frequencies and fixed satellite services ("FSS") frequencies for maximum flexibility. In June 2000, the Company received a Telecommunication License from OFTA allowing AsiaSat to operate four of the twelve BSS frequencies and the FSS frequencies on AsiaSat 4. In April 2005, the Company obtained the right to make available the remaining eight BSS frequencies on AsiaSat 4. See "-- Services and Customers - Expanded Services and Other Businesses." Because AsiaSat 4 is a newly established satellite

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without an existing customer base and viewership, AsiaSat can currently offer its customers the option to utilize AsiaSat 4's high powered transponder capacity at a lower cost than the rate demanded for capacity on AsiaSat 2 and AsiaSat 3S. AsiaSat 3S demands a higher rate for its transponder capacity because it has the largest viewership base of any commercial satellite in the Asian region.

The Company has leased a site in Tai Po Industrial Estates, New Territories, Hong Kong (the "Tai Po Site"), to support the growth of the Company's business. The Tai Po Site houses a new satellite control center (the "Tai Po Satellite Earth Station") that allows AsiaSat to offer its customers additional and improved services. These services include uplink, technical support and other value added services. For a general discussion on earth stations, see "--Regulation - Hong Kong Regulation." Construction of the Tai Po Satellite Earth Station was completed, and the final occupation permit was received in January 2004 from the Hong Kong Building Authority. See "Additional Information - Material Contracts."

As of December 31, 2005, the utilization rate for each of AsiaSat 2, AsiaSat 3S and AsiaSat 4 was approximately 40.1%, 72.7% and 46.5%, respectively, with an average of 54.0% under transponder utilization agreements and transponder purchase agreements.

The Company provides transponder capacity primarily to the broadcasting, telecommunications (including private communication networks), Internet and multimedia markets. AsiaSat has entered into separate transponder utilization agreements with over 100 customers from various countries and regions, including Australia, British West Indies, China, France, Germany, Hong Kong, India, Korea, Kuwait, Pakistan, Singapore, Taiwan, the United Kingdom, the United States and Vietnam.

In 2003, 2004 and 2005, approximately 59.8%, 51.8% and 61.9%, respectively, of the Company's revenues were derived from customers from Greater China, which includes mainland China, Hong Kong, Macau and Taiwan.

The Company believes that both AsiaSat 2 and AsiaSat 3S are the leading satellites for regional television programming distribution in Asia based on the number of viewers watching programming distributed on these satellites. The Company's largest customer, STAR, is a Hong Kong-based international satellite television broadcasting company that broadcasts to the Asian region via these two satellites.

SERVICES AND CUSTOMERS

During the last three years, the Company's revenues were derived from the following markets:

| | 2003 | 2004 | 2005 |
|---|-------|-------|-------|
| Broadcasting (video)..... | 70.4% | 70.6% | 65.7% |
| Telecommunications, Internet and Multimedia..... | 29.6% | 29.4% | 34.3% |

Total revenue from the Company's five largest customers in each of the years ended December 31, 2003, 2004 and 2005 was HK\$376.6 million, HK\$462.5 million and HK\$345.8 million, respectively, which represented 42.0%, 46.0%, and 39.3% respectively, of total

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revenue. Revenues from the Company's largest customer represented 24.9%, 22.4% and 25.7% of total revenue for the years ended December 31, 2003, 2004 and 2005, respectively.

BROADCASTING

Local, national and international broadcasters use satellite transponder capacity for television programming distribution, contribution operations (i.e., the transmission of video feeds from one location to another) and ad hoc services such as the transmission of special events and live news reports from the scene of the event. The largest market for broadcasting services is the full-time leasing of transponder capacity by programmers to distribute programming to television stations, local cable operators, master antenna systems and directly to homes.

STAR offers a bouquet of digital services, including both subscription and free-to-air television that, according to STAR, reaches more than 300 million viewers across the Asian region.

STAR entered into capacity agreements for transponders on AsiaSat 3S. In February 2004, the Company entered into an agreement with STAR to provide facilities at the Tai Po Site to house STAR's back up play out, broadcast and radio frequency equipment for downlinking and uplinking to AsiaSat 3S, and other related services. STAR also utilises AsiaSat 2 C-band capacity to provide programming primarily as backup capacity.

The Company's results of operations could be adversely affected by the loss of STAR as a customer or if STAR failed to perform its obligations in accordance with the terms of its transponder utilization agreements. There can be no assurance that STAR will enter into additional transponder utilization agreements with the Company, either for AsiaSat 3S or other satellites, upon the expiration of existing transponder utilization agreements. See "Key Information - Risk Factors - Reliance Upon Significant Customer."

AsiaSat currently is not subject to any exclusivity arrangement with any of its customers. Other broadcasters on its satellite fleet using its transponders include Pakistan TV, Associated Press Television News, the Ministry of Information of Kuwait, , BBC World Service Radio, Voice of America, Deutsche Welle of Germany, TV5, RAI of Italy, RTVE of Spain, RTPi of Portugal, RTR Planeta of Russia, Fashion TV, TVB Satellite Broadcasting of Hong Kong, the European Broadcasting Union, Sahara TV, Turner Broadcasting System, Sun TV, Bloomberg TV, NOW TV, Indus Vision, Muslim TV, MATV, Channel NewsAsia and Reuters TV.

In addition, governmental bodies seek to use satellites to expand their coverage to remote and underdeveloped regions of their countries that would otherwise be unserved. The signals are received at rebroadcast centers and retransmitted to viewers. The State Administration of Radio, Film and Television of China (formerly, the Ministry of Radio, Film and Television) uses capacity on AsiaSat 3S to distribute domestic and international television programming. A number of television channels from various provinces and regions in China are broadcasting on AsiaSat's C-band transponders.

TELECOMMUNICATIONS, INTERNET AND MULTIMEDIA

The Company's telecommunications services include the provision of transponder capacity for private communications networks for data and voice communications and for communications service providers in Asia. The Company believes that there will continue to

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be opportunities in Asia to market transponder capacity to certain end users that, due to poor telecommunications infrastructure or high costs of local public networks, desire to operate their own private network for data and voice transmission. These are often large multinational companies or agencies such as financial news providers, newspapers, banks, paging companies, airlines, oil companies and stock exchanges.

China represents one of the world's largest potential markets for satellite communications. Private communications networks in China are numerous and growing. Organizations in China in such businesses as banking, securities, publishing and oil have established private networks utilizing AsiaSat's satellites to link remote sites with their headquarters.

AsiaSat's Chinese telecommunications customers include the People's Bank of China, the Shanghai Stock Exchange, the People's Daily, CITIC Guoan Information Industry Company Limited and China Petrochemical Corporation. In addition, Chinese ministries and agencies have entered into transponder purchase agreements to use transponders on AsiaSat's satellites.

AsiaSat's telecommunications customers also include Vietnam Telecom International, Reach, Corporate Access, Associated Press, Reuters, the International Air Transport Association, Korea Telecom, Teleport Access Services and Pakistan Telecom.

Customers including Telstra Corporation, Pacific Century Matrix and SpeedCast use AsiaSat's satellites to offer broadband (which refers to the provision of multiple channels of data over a single communications channel), Internet and multimedia services. In addition, Connexion by Boeing entered into an agreement for the use of Ku-band capacity on AsiaSat 3S to provide in-flight broadband communication services on the Asia-to-Europe flight corridor, which commenced in the first quarter of 2004.

EXPANDED SERVICES AND OTHER BUSINESSES

AsiaSat has launched digital broadcast platforms on AsiaSat 2 that offers one stop shop services including satellite capacity, signal turnaround facilities and analog/digital conversion to broadcast customers from Europe and the Middle East for their services to Asia and Australia. The turnaround facilities are supplied by teleport partners in Cyprus and Israel that are able to receive signals from European and Middle East satellites and uplink the signals to AsiaSat 2 .

OFTA granted AsiaSat a Fixed Carrier Services ("FC") license in May 2004. A FC license allows license holders to uplink broadcasting programs and to provide public telecommunication services linking Hong Kong and other countries either on their own business initiatives, or for and on behalf of their customers via satellites. AsiaSat's FC license has enabled AsiaSat to provide a one-stop service to its customers, including high-quality satellite transponder capacity, uplinking or downlinking broadcasting programs, and telecommunication services to audiences or operators outside Hong Kong.

SpeedCast has installed a multimedia platform that enables distribution of Internet services and other multimedia content. Customers may use this format when distributing content on the AsiaSat satellite system. AsiaSat now holds a 47.3% interest in SpeedCast Holdings Limited, which was formed in 1999 to principally provide high speed Internet, multimedia content delivery, and corporate broadcast services such as data packages delivery and Internet streaming. SpeedCast, in addition to providing the principal services, also launched on-line

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music distribution, on-line multimedia services and streaming encryption system. In 2003, SpeedCast also launched a new service for two-way operation, which provides more efficient connection for content delivery.

On June 27, 2000, the Company was granted a telecommunication license (the "Telecommunication License") from OFTA allowing certain BSS frequencies to be incorporated into the payload of AsiaSat 4 at the 122.2 degrees East orbital position. It was subsequently granted the right to make available four BSS frequencies on AsiaSat 4 by OFTA. These BSS frequencies were assigned to Hong Kong by the 1997 World Radiocommunication Conference ("WRC '97") of the ITU. The 2000 World Radiocommunication Conference ("WRC-2000") later revised these assignments and further assigned eight more frequencies to Hong Kong. OFTA granted AsiaSat the right in April 2005 to make available the additional eight frequencies on AsiaSat 4. These frequencies are designated for satellite broadcasting uses and are receivable in Hong Kong and surrounding areas with very small antennas. They can be used to provide Direct-to-Home ("DTH") satellite broadcasting services, which refers to a satellite service that delivers television programming directly to consumer homes using a small antenna and related equipment. Adding the BSS frequencies onto AsiaSat 4 enables AsiaSat to offer high power and wide coverage for broadcasting services in Hong Kong and the surrounding areas. The main difference between the BSS and the FSS in AsiaSat's case is that BSS gives access to additional spectrum for the Company. Moreover, while the FSS frequency bands are used for a multitude of services, the BSS frequency bands are normally used only for television applications and with much more standardized parameters.

In April 2004, the Company's subsidiary Skywave applied for a non-domestic television program service license, which was granted for 12 years by the Broadcasting Authority of Hong Kong in May 2004, in order to use the BSS frequencies on AsiaSat 4 to provide DTH satellite broadcasting services.

In November 2004, the Company entered into an agreement with two strategic partners pursuant to which each of these strategic partners made an in-kind contribution equal to HK\$3.0 million in return for a 10% interest in Skywave. See "-- Acquisitions, Investments and Joint Ventures" and "Additional Information - Material Contracts." Skywave has set up a low cost regional DTH service, providing selected programming to the markets of Macau, Hong Kong, Taiwan and to subscribers in Southern China licensed to receive foreign television services. This DTH service commenced trial services in December 2004

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and uses the four BSS transponders on AsiaSat 4. By installing a very small dish, viewers can enjoy a whole new range of programming.

In March 2004, the Company formed joint venture Beijing Asia to provide corporate data networks and services in China using VSAT technology. Beijing Asia commenced operation in October 2004 and is providing technical services and equipment installation for the construction and operation of a trial network to connect remotes sites in rural China using VSAT technology. See "--Acquisitions, Investments and Joint Ventures" and "Additional Information - Material Contracts."

On March 18, 2005, Auspicious Colour Limited, a wholly owned subsidiary of the Company, was established and was granted a non-domestic television program service licence on September 17, 2005 from the Television and Entertainment Licensing Authority of

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Hong Kong. Auspicious Colour Limited was set up to provide a one-stop service that combines the provision of satellite capacity and uplink service to broadcasters.

SATELLITES

The global communications market has historically been shared among three major transmission technologies - fiber optic and coaxial cable, microwave systems and satellites. Satellites have been, and continue to be, used for global communications applications. Each of these transmission technologies has advantages over the other two in specific market segments.

Although satellites initially were used for point to point long distance telephone and television transmissions and continue to be used for these applications, fiber optic cables have proven to be a more cost effective transmission method for high volume point to point applications. Today, most trans-oceanic transmissions are delivered via submarine fiber optic and coaxial cables, which are ideally suited to carry large amounts of traffic between two points. In developing countries, satellites carry a significant portion of point to point traffic due to the lack of terrestrial fiber optic and coaxial network. However, as more fiber optic and coaxial networks are established, less of this traffic will be delivered via satellite. In many countries, satellites are also used to supplement terrestrial transmission networks for the distribution of television and radio programming.

Geostationary satellites are located in-orbit approximately 22,300 miles above the Equator. When positioned in geostationary or geosynchronous orbit, a satellite appears to hover over the same spot on the earth because it is moving at a rate that matches the speed of the earth's rotation on its axis. These high powered satellites have the ability to cover up to approximately 42% of the earth's surface at one time. With broad coverage capabilities, these satellites are well suited for point-to-multi-point applications (principally television broadcasting, private communication network, Internet and multimedia services). Satellites are commonly used for distribution of video and audio signals to cable operators and local television and radio stations for redistribution. In DTH applications, a high powered geostationary satellite allows video transmissions to be received directly from the satellite to homes using very small dishes.

A satellite can be accessed by an uplink for the transmission of a satellite circuit extending from the earth to the satellite from virtually anywhere within its coverage area. This flexibility makes satellites ideal for

private communications networks. Due to the high cost of local telecommunications services or the lack of an adequate local telecommunications infrastructure, an organization may wish to operate its own network. A VSAT network, connecting a large number of widely dispersed locations via satellite, is an efficient and cost effective method for many organizations to maintain communications with a network of offices that spread over a large geographic area.

Satellite transponders receive signals from the uplink earth stations and then change the frequency of, amplify and transmit the signals to the downlink earth stations. Transponder subsystems include low-noise receivers, frequency converters, channel amplifiers, high power amplifiers, input/output multipliers, various switches and other electronic components. Frequency represents the measure of how frequently a periodic (repetitious) electromagnetic wave form or signal regenerates itself at a given amplitude.

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Communications satellites are of varying quality and usefulness depending on (i) footprint, or coverage area, (ii) orbital location, (iii) transponder power (EIRP), (iv) interference from adjacent satellites, (v) transponder bandwidth, (vi) frequency band and (vii) other features, such as beam switching and linearizers.

A beam represents one of the coverage patterns offered by a satellite. A steerable beam allows the area of coverage to be changed based on market demand. The footprint of a satellite refers to the geographic area covered by a satellite, the outer edge of which defines area beyond where the quality of communication degrades below an acceptable commercial level due to the spacecraft antenna pattern, power of the signal and curvature of the earth. The primary transponder characteristic is downlink power, which is expressed in terms of EIRP. EIRP means equivalent isotropic radiated power and is a measure of radio frequency power of each transponder. Transponder bandwidth, expressed in terms of megahertz or MHz, a unit of frequency equal to one million cycles per second, is a range of frequencies that can pass over a given transmission channel. The greater the bandwidth, the more information that can be sent through the circuit in a given amount of time.

C-band and Ku-band in the context of satellite communications are portions of the radio frequency spectrum assigned for satellite transmission, and are approximately in the three to seven and 11 to 15 gigahertz (or GHz) ranges, respectively. Gigahertz is a measure of frequency equal to one billion cycles per second. While Ku-band frequencies suffer from fading caused by rain, they are more suitable for small antenna applications than C-band frequencies. Ku-band is generally used for the same purposes as C-band. To compensate for fading caused by rain, Ku-band transmitters generally have higher power margins than C-band transmitters. Higher power, which permits the use of small antennas, makes Ku-band transmission more suitable for DTH television.

The following table sets forth certain satellite specifications in relation to AsiaSat 2, AsiaSat 3S, AsiaSat 4 and AsiaSat 5, which is planned to be launched in 2008. For a discussion on certain risks related to satellites, see "Key Information -- Risk Factors -- Risk of Launch and In-orbit Failure, Loss, Reduced Performance and Satellite Defects", "Key Information -- Risk Factors -- Limited Life of Satellites" and "Key Information -- Risk Factors -- Risk of Loss or Damage to Satellites, Ground Based Satellite Control Equipment or Satellite Stations from Acts of War, Terrorism, Electrostatic Storm, Space Debris and Other Natural Disasters."

SUMMARY SATELLITE DATA

| | ASIASAT 2 | ASIASAT 3S | ASIASAT 4 | ASIASAT |
|-----------------|---|--|--|---|
| Region covered: | | | | |
| C-band | Asia, Middle East, CIS and Australia | Asia, Middle East, CIS, Australia and New Zealand | Asia, Middle East, CIS, Australia and New Zealand | Asia, Middle East, CIS, Australia and New Zealand |
| Ku-band | China, Japan, Hong Kong, Taiwan and Korea | East Asia Beam (from Japan to Kazakhstan), South Asia Beam (from Bangladesh to the Middle East), Steerable Beam(1) | China Beam, Australia Beam (Australia and New Zealand (steerable)), Hong Kong BSS Beam (steerable) | China Beam, South Asia Beam (from Bangladesh to the Middle East), Steerable Beam(1) |
| Launch date | November 28, 1995 | March 21, 1999 | April 11, 2003 | 3rd quarter (estimated) |
| Manufacturer | Lockheed Martin | Boeing | Boeing | Space Systems |
| Model | Series 7000 | BSS601HP | BSS601HP | SS L 1300 |

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SUMMARY SATELLITE DATA

| | ASIASAT 2 | ASIASAT 3S | ASIASAT 4 | ASIASAT |
|------------------------|---|--|---|-------------------------------------|
| Stabilization | Three Axis Stabilized | Three Axis Stabilized | Three Axis Stabilized | Three Axis Stabilized |
| Number of Transponders | 33 | 44 | 48 | 40 |
| C-band | 20 @ 36 MHz 4 @ 72 MHz | 28 @ 36 MHz | 28 @ 36 MHz | 24 @ 36 MHz 2 @ 72MHz |
| Ku-band | 9 @ 54 MHz | 16 @ 54 MHz | 10 @ 54 MHz (FSS) 6 @ 33 MHz (FSS) 4 @ 33 MHz (BSS) | 14 @ 54 MHz |
| Maximum EIRP | 40 dBW (C-band) 53 dBW (Ku-band) (2) 56 dBW (BSS Ku-band) | 41 dBW (C-band) 53 dBW (Ku-band) | 41 dBW (C-band) 53 dBW (Ku-band) | 42 dBW (C-band) 54 dBW (Ku-band) |
| Payload | FSS | FSS | BSS / FSS | FSS |
| Power output | 55 W_TWTAs (C-band) 115 W_ TWTAs (Ku-band) | 55 W_TWTAs (C-band) 140 W_TWTAs (Ku-band) | 55 W_TWTAs (C-band) 140 W_TWTAs (Ku-band) | 65 W_TWTAs 150 W_TWTAs |
| Estimated | | | | |

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| | | | | |
|----------------|----------|----------|----------|----------|
| Useful | | | | |
| Life | 13 years | 16 years | 15 years | 15 years |
| Estimated end | | | | |
| of useful life | 2010 | 2015 | 2018 | 2023 |

-
- (1) AsiaSat 3S has 16 Ku-band transponders divided into two fixed beams and a steerable beam.
 - (2) AsiaSat 2 has experienced power reductions in its Ku-band transponders in relation to their design specifications. See "-- AsiaSat 2."

ASIASAT 2

AsiaSat 2 is located in the geostationary orbit at 100.5 degrees East. It was designed and produced by Lockheed Martin and is a series 7000 model satellite. It was launched on November 28, 1995 by a Long March 2E launch vehicle under a contract with China Great Wall Industry Corporation. AsiaSat 2 commenced commercial service in January 1996.

AsiaSat 2 is equipped with twenty 36 MHz C-band and four 72 MHz C-band transponders with a maximum signal power of 40 dBW. It is also equipped with nine 54 MHz Ku-band transponders with a maximum signal power of 53 dBW. However, at the time of the launch, AsiaSat 2 experienced a Ku-band power reduction at certain points of its coverage area. Since 2002, the back-up command receiver on AsiaSat 2 (a component used to communicate with and control the satellite) has experienced intermittent outages. AsiaSat 2 can operate normally on its primary command receiver. The satellite uses linear polarized beams, with the C-band and Ku-band having distinct coverage areas. For the C-band transponders, there are four spare amplifiers for each polarization of 12 C-band transponders in two separate 12 for 16 (12 working/16 total) redundancy ring configurations. For the Ku-band transponders, there are three spare amplifiers connected in a 9 for 12 (9 working/12 total) single redundancy ring configuration. In December 2003, AsiaSat 2 experienced two related short duration service outages. These outages caused no permanent damage to AsiaSat 2 and AsiaSat's engineers took the appropriate action to restore AsiaSat 2's service. As a result of these outages, some customers moved to other AsiaSat satellites, while three customers utilizing capacity representing in the aggregate less than one C-band transponder moved to a competitor's satellite. These outages were the first break in service of an AsiaSat satellite in the

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history of the Company. In February 2005, one of the two bus power transformers on AsiaSat 2 (which provides low voltage to the satellite) changed to "off" status. While this change of status does not necessarily indicate a failure of the transformer, it is impossible for the Company to verify the integrity of this transformer. AsiaSat 2 can operate normally with only one bus power transformer. See "Key Information -- Risk Factors -- Risk of Launch and In-orbit Failure, Loss, Reduced Performance and Satellite Defects."

AsiaSat 2 has C-band coverage over virtually the entire Asian region, with a footprint stretching from Russia to Australia and from Japan to the Middle East and parts of Africa. The footprint of AsiaSat 2 covers approximately two-thirds of the world's population. AsiaSat 2's C-band footprint provides coverage over a large area with a single beam. The nine Ku-band transponders provide coverage over China, the Korean peninsula and Japan.

AsiaSat 2 has an estimated useful life of 13 years, indicating that the

estimated end of its useful life will be in 2008.

In June 2000, Lockheed Martin obtained a Technical Assistance Agreement from the U.S. Department of State to provide technical data and services for in-orbit anomaly support for AsiaSat 2 until December 31, 2009. See " -- Regulation -- Export Regulations."

As a result of a number of reported mechanical failures of Lockheed Martin series 7000 satellites, the same model as AsiaSat 2, the in-orbit insurance rate for AsiaSat 2, without exclusions of coverage, increased significantly. The Company has decided not to procure in-orbit insurance for AsiaSat 2 given the low book value of AsiaSat 2 and the Company's cash position. In the event of a failure resulting in a total loss of AsiaSat 2, the Company would incur a loss that is equal to the net book value of AsiaSat 2 at the time of the total loss as well as disruption of services carried out on AsiaSat 2.

ASIASAT 3S

In 1997, AsiaSat launched AsiaSat 3 from the Baikonur Cosmodrome in the Republic of Kazakhstan. AsiaSat 3 failed as it did not reach its orbital slot and was replaced, following the successful launch in March 1999, by AsiaSat 3S.

AsiaSat 3S is located in the geostationary orbit at 105.5 degrees East. AsiaSat 3S was constructed by Boeing and is a BSS-601HP model satellite. AsiaSat 3S was launched from the Baikonur Cosmodrome in the Republic of Kazakhstan and commenced commercial service in 1999.

AsiaSat 3S has multiple beam coverage and is equipped with twenty-eight 36 MHz C-band transponders with a maximum signal power of 41 dBW. It is also equipped with sixteen 54 MHz Ku-band transponders with a maximum signal power of 53 dBW. AsiaSat 3S has transponder power output of 55 Watts for C-band and 140 Watts for Ku-band. It has an estimated useful life of 16 years, indicating that the estimated end of its useful life will be in 2015.

The footprint for AsiaSat 3S is similar to the footprint of AsiaSat 2 with two additional Ku-band beams designed to meet market demands. The C-band footprint stretches from Japan to the Middle East and from Russia to Australia. The footprint provides high powered service to the growing market areas in the Greater China region, Japan and Korea and Southeast Asia. It covers about two-thirds of the world's population.

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The 16 Ku-band transponders can be allocated to two fixed beams and a steerable beam. The first beam is an East Asia beam that includes coverage from Japan to Kazakhstan. The second beam is a South Asia beam that has coverage from Bangladesh to the Middle East. In order to compensate for rain fade, which may occur in certain countries in this region, AsiaSat has designed the coverage to direct higher power in heavy rain areas. The steerable Ku-band beam allows a smaller, highly concentrated beam to be moved to any market region in the coverage area. This beam could, for example, be placed over Australia or over a specific region in Asia. Of the 16 Ku-band transponders on AsiaSat 3S, eight transponders are fixed on East Asia and eight are switchable among the three beams so that up to 16 transponders may be used for the East Asia beam, up to eight transponders may be used for the South Asia beam and up to four transponders may be used for the steerable beam.

In February 2001, Boeing obtained a Technical Assistance Agreement from the U.S. Department of State to provide technical data and services for in-orbit anomaly support for AsiaSat 3S until December 31, 2009. See

"--Regulation - Export Regulation."

In both November 2004 and March 2005, a transponder on AsiaSat 3S was deliberately interrupted by signals carrying Falun Gong-related content. As a result, the Company was forced to shut down the respective transponder's transmission for a short period of time on November 26, 2004 and March 14, 2005. These breaks in service affected normal programming of certain customers' satellite television channels. The Company views these deliberate interruptions as "harmful interference" as such term is defined in the constitution of the ITU, and accordingly, the Company has requested that OFTA report these incidents to the Radiocommunications Sector of the ITU through the relevant authority in China. For a general discussion on the ITU, see "-- Regulation -- International Telecommunication Union." Also, see "Risk Factors -- Risk of Losing Satellite Service Revenues if Other Satellites or Signals Interfere with the Company's Transmissions."

ASIASAT 4

AsiaSat 4 was launched on an Atlas IIIB launch vehicle on April 11, 2003 in Cape Canaveral, Florida. AsiaSat 4 commenced commercial service on July 1, 2003 and is operational at 122.2 degrees East.

AsiaSat 4 was constructed by Boeing and is a BSS-601HP model satellite. AsiaSat 4 is the most powerful member of AsiaSat's satellite fleet carrying 28 C-band and 20-Ku-band transponders. Its footprint covers approximately two-thirds of the world's population. AsiaSat 4's pan-Asian C-band footprint covers more than 40 countries and regions spanning from New Zealand to the Middle East. Its Ku-band coverage consists of two high-power focused beams for East Asia and Australasia, as well as a new BSS beam for DTH services in Hong Kong and the adjacent South China region. AsiaSat 4 is designed to provide advanced satellite services including DTH television, broadband and IP solutions, and telecommunications services such as private networks for business and rural telephony (which refers to the construction and operation of telephones and telephonic systems). It has an estimated useful life of 15 years, indicating that the estimated end of its useful life will be in 2018.

Under the AsiaSat 4 construction contract with Boeing, Boeing agreed to provide off-site support services for the life of the satellite. Boeing has obtained a Technical Assistance Agreement from the U.S. Department of State to provide technical data and service for

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in-orbit anomaly support for AsiaSat 4. See "-- Business Overview" and "--Regulation - Export Regulation."

AsiaSat previously had a dispute with Shin Satellite in relation to Shin Satellite's right to operate a satellite from 120 degrees East. As part of a comprehensive agreement to limit potential mutual interference between AsiaSat 4 and the IPStar satellite operated by Shin Satellite, the responsible administrations of China, OFTA and the Administration of the Kingdom of Thailand (regulator and ITU notifying administration for Shin Satellite) agreed to increase the orbital separation of IPStar and AsiaSat 4. Both satellites are required to change orbital locations, with AsiaSat 4 shifting from 122 degrees East to 122.2 degrees East. For a general discussion on regulations, see "--Regulation - Hong Kong Regulation" and "--Regulation - International Telecommunication Union."

ASIASAT 5

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On April 28, 2006 and May 8, 2006, AsiaSat entered into a construction contract and a launch contract, respectively, for the commissioning of AsiaSat 5. Under the terms of the construction contract, Loral, the construction contractor, shall complete the construction of AsiaSat 5 within 25 months after April 28, 2006. The launch contractor, Sea Launch, shall provide services associated with the launch of AsiaSat 5 from the Baikonur Space Centre in Kazakhstan. Under the terms of the launch contract, the launch services shall be completed upon the launch of AsiaSat 5, which is scheduled to take place between July 1, 2008 and December 31, 2008. Though the launch schedule can be extended by AsiaSat in accordance with the terms of the launch contract, it is expected that AsiaSat 5 will be launched in the second half of 2008.

AsiaSat 5 is a new satellite based on the well proven Space Systems/Loral 1300 satellite bus. It will carry 26 C-band and 14 Ku-band transponders and is intended to replace AsiaSat 2 at the orbital location of 100.5 degrees East. It will replace all current functions of AsiaSat 2 in both C and Ku-bands and will provide additional coverage at Ku-band. This additional coverage consists of a dedicated antenna for South Asia plus a steerable antenna that can be pointed to other parts of Asia or Australia. AsiaSat 5 is expected to have an estimated useful life of 15 years after launch.

The C-band payload of AsiaSat 5 will be similar to that of AsiaSat 2 other than certain performance upgrades. The Ku-band coverage for China will be significantly improved, additional coverage will also be provided for South Asia, including India, Pakistan, Bangladesh and parts of the Middle East. The steerable antenna will allow Ku-band capacity to be deployed in a manner consistent with the market demand anywhere in Asia.

ADDITIONAL ORBITAL SLOTS AND USE OF FREQUENCIES

China has filed on behalf of AsiaSat applications with the ITU for additional spectrum capacity and enhanced characteristics in the current frequency bands for all three orbital slots where AsiaSat's satellites are currently operating. See "- Regulation." The current capacity has significant frequency and geographic coverage constraints resulting from the coordination process. No assurance can be given that the additional capacity will be obtained by AsiaSat.

AsiaSat has the option to co-locate additional satellites in the orbital slots located at 100.5 degrees East, 105.5 degrees East and 122.2 degrees East in order to provide additional

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capacity or enhanced performance in these locations and to support the existing satellites with redundant capacity. See "Key Information - Risk Factors - Risk of Loss of Orbital Slot" and "-- AsiaSat 4."

TRANSPONDER CAPACITY OR UTILIZATION AGREEMENTS

A typical transponder capacity agreement, also known as transponder utilization agreement, for AsiaSat 2, AsiaSat 3S and AsiaSat 4 has a term of three years or more, requires utilization fees to be paid quarterly or semi-annually in advance and provides for renewal options. Generally, AsiaSat's transponder utilization agreements require payment in US Dollars. Typically, the customer may terminate the transponder utilization agreement at any time during the term of the agreement without further obligation if AsiaSat fails to provide a fully operational transponder or by giving not less than 12 months' notice to AsiaSat. Upon termination (other than for cause), the customer is obligated to pay AsiaSat termination fees based on the remaining contract

period and the specific contractual terms. In addition, the transponder utilization agreements generally provide for a specified reduction in the utilization fees if transponder service is interrupted for reasons not caused by the customer or by outages due to the effects of the sun or other reasons beyond the control of AsiaSat. If such service interruptions continue without correction and AsiaSat is unable to provide suitable alternative capacity, the customer is entitled to terminate the transponder utilization agreement without further obligation to AsiaSat. Under the terms of the transponder utilization agreements, AsiaSat generally is not liable for the lost profits or other indirect or consequential damages of any customers.

AsiaSat entered into transponder purchase agreements with ministries or agencies of China under which the customer obtains the right to use Ku-band capacity on AsiaSat 2, AsiaSat 3S and AsiaSat 4 for the life of the transponder. The terms of these transponder purchase agreements are substantially the same as those found in transponder utilization agreements, except for certain differences such as the term of a transponder purchase agreement is for the entire useful life of a satellite and payment for the entire period of use is typically completed by the commencement of the second year of the term of the agreement.

CUSTOMER TECHNICAL QUALIFICATIONS AND SUPPORT

Before uplink communication with its satellite is permitted, AsiaSat's customers are required to meet AsiaSat's strict engineering performance and operations specifications. The purpose of these requirements is to confirm that the customer's equipment operates within AsiaSat's specifications in order to minimize interference with other customers on the same satellite or users on neighboring satellites. AsiaSat's engineers advise the customer with respect to the adjustments required to be made to the customer's equipment in order to minimize interference.

AsiaSat provides technical support to its customers. AsiaSat helps customers determine and evaluate their equipment configuration, carrier modulation, bandwidth and power requirements, design their networks and calculate link budgets.

AsiaSat's Carrier Monitoring System ("CMS") was designed and implemented by AsiaSat to monitor and measure communications parameters from AsiaSat's Tai Po Satellite Earth Station. The CMS is also used to assist in customer earth station qualification and analysis of

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anomalies. The CMS measures power, frequency, bandwidth, carrier-to-noise ratio and other communications performance characteristics.

INSURANCE

AsiaSat has satellite in-orbit insurance for AsiaSat 3S and AsiaSat 4 and plans to obtain such coverage for AsiaSat 5. AsiaSat 2 is no longer insured for in-orbit failures. See "Key Information-Satellites-AsiaSat 2". AsiaSat also has obtained third-party liability insurance for AsiaSat 2, AsiaSat 3S and AsiaSat 4. There can be no assurance that AsiaSat will be able to obtain insurance in the future on terms satisfactory to AsiaSat. See "Key Information -- Risk Factors -- Limitations on Warranties and Insurance."

There are circumstances in which AsiaSat's insurance will not fully reimburse AsiaSat for its expenditures with respect to launching a replacement satellite, such as when the cost of the construction and launch of a

replacement satellite exceeds the aggregate amount of coverage provided by AsiaSat's insurance policy. The amount of AsiaSat's insurance also will not compensate it for business interruption and similar losses (including, among other things, loss of market share, loss of revenue and incidental and consequential damages) which might arise from a full or partial launch failure or a failure of a satellite to perform to specifications. In addition, AsiaSat's insurance policies include standard commercial satellite insurance provisions and customary exclusions including, among other things, exclusions from losses resulting from (i) military or similar actions, (ii) terrorism, (iii) laser, directed energy, or nuclear anti-satellite devices, (iv) insurrection and similar acts or governmental action to prevent such acts, (v) governmental confiscation, (vi) nuclear reaction or radiation contamination or (vii) willful or intentional acts of AsiaSat or its contractors.

Satellite in-orbit insurance covering a specified period after launch of a satellite is typically purchased together with launch insurance. Subsequent satellite in-orbit insurance is typically purchased on an annual basis. Satellite in-orbit insurance, which has historically cost less than three percent of the insured value of a satellite on an annual basis, provides protection against partial or total loss of a satellite's communications capability, including loss of transponders, power or ability to control the positioning of the satellite and reduction in the useful life of the satellite.

AsiaSat obtained satellite in-orbit insurance for AsiaSat 3S covering the launch and the first five years in-orbit of AsiaSat 3S in the amount of HK\$1,521.0 million (US\$195.0 million), which provided coverage for (i) a total failure of the launch of the satellite and (ii) the failure of the satellite to obtain proper orbit or to perform in accordance with certain specifications once in-orbit. AsiaSat renewed in-orbit insurance for AsiaSat 3S in the amount of HK\$780.0 million (US\$100.0 million) at a cost of approximately HK\$21.1 million (US\$2.7 million) for the twelve month period beginning from March 21, 2006. AsiaSat obtained launch and the first year in-orbit insurance coverage for AsiaSat 4 prior to its launch. The insurance amount was HK\$1,443.0 million (US\$185.0 million) covering the total and partial loss of the satellite, and HK\$286.0 million (US\$36.7 million) covering the cost of insurance premium in the event of a total loss. This policy contained standard commercial satellite insurance provisions and customary exclusions, as well as an exclusion of losses in the event of a failure of XIPS (Xeon Ion Propulsion System) on the satellite. A failure of XIPS could result in a reduction of the satellite's life to less than 15 years. During the time when insurance for XIPS is unavailable, AsiaSat has an alternative arrangement in place to cover the event of a XIPS failure. Such arrangement will allow AsiaSat to purchase a

replacement satellite for AsiaSat 4 if XIPS fails at a pre-agreed price scaled relative to the time of failure. The replacement satellite would be delivered in-orbit before the end of life of AsiaSat 4. "See "Key Information - Risk Factors - Limited Life of Satellites." AsiaSat renewed in-orbit insurance for AsiaSat 4 in the amount HK\$1,404.0 million (US\$180.0 million) at a cost of approximately HK\$38.0 million (US\$4.9 million) for the twelve month period beginning from March 21, 2006. AsiaSat has obtained satellite in-orbit third-party liability insurance for AsiaSat 2, AsiaSat 3S and AsiaSat 4 in an aggregate amount of HK\$390.0 million (US\$50.0 million) for the twelve month period beginning from June 2, 2006.

SALES AND MARKETING

The Company's sales and marketing department, which had 35 employees (including two general managers) as of December 31, 2005, is divided into two

groups, one of which serves China and the other serves the remainder of the world. The senior executive officers of the Company, including the Chief Executive Officer and Deputy Chief Executive Officer, are directly involved in marketing to key broadcasting and telecommunications customers. Marketing activities include customer visits, selected trade advertising and presentations at industry conferences.

EMPLOYEES

As of December 31, 2005, the Company had 95 permanent employees, of which eight employees were in management, 40 employees were in engineering and operations and 33 employees were in sales and marketing. The remaining 14 employees were engaged in administrative, accounting, legal, regulatory and clerical activities. The Company has 80 employees in Hong Kong (including 1 employee for Skywave) and 15 employees in Beijing. The Company believes its relations with its employees are good. See "Directors, Senior Management and Employees - Employees."

COMPETITION

AsiaSat was founded in the late 1980s to serve the Asian regional satellite communications market. While global satellite communications demand was satisfied by Intelsat, Ltd. (the company formed in connection with the privatization of the former International Telecommunications Satellite Organization, an intergovernmental cooperative of more than 140 member nations that owned and operated a global communications satellite system) and several Asian countries that had developed domestic satellite communications, there was no supplier of Asian region-wide satellite communications. Since the launch of AsiaSat's first satellite in 1990, a number of international, regional and domestic satellite operators have entered the Asian regional market. The Company's primary market is Asian intra-regional broadcasting and telecommunications.

INTERNATIONAL, REGIONAL AND DOMESTIC SYSTEMS

The business in which the Company operates is highly competitive. The satellite services provided by the Company are used by its customers primarily for point to multipoint communication (principally television broadcasting, private communication network, Internet and multimedia). The Company competes with several international, regional and domestic satellite companies operating in the Asian region. Many of these competitors have long-standing customer relationships and are substantially larger, and have financial resources that

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are substantially greater, than those of the Company. The Company believes that its ability to compete with these organizations depends on its existing customer relationships and the quality of its customer service, its reputation as a reliable operator of commercial satellites and the technical advantages of its satellites.

COMPETITION RESTRICTION FROM DOMESTIC SYSTEMS

In many cases customers are required by the laws of their countries to use a state-owned or locally-owned satellite system for domestic communications. These legal requirements prevent the Company and other satellite companies from competing to provide transponder capacity to these potential customers. In addition, AsiaSat currently has entered into transponder utilization agreements for full transponders or partial transponders with various purely domestic users in several countries. These customers could be lost if monopolies were

granted to state-owned or locally-owned satellite systems. All, or almost all, of the domestic systems are planning to add at least some regional transponders to their next generation of satellites. See "Key Information - Risk Factors - Risk of Limited Market Demand and Increasing Competition - Competing Systems and Satellites."

OTHER SATELLITE SYSTEMS

Other existing and proposed organizations are competing or might consider competing in the Asian regional market. Some existing competitors offer low-cost, high performance transponders which compete directly with AsiaSat's satellites, while other potential competitors offer low-cost, low-performance transponders which do not compete directly with AsiaSat's high-performance transponders. New organizations face significant entry barriers including scarcity of orbital slots and high cost of entry.

FIBER OPTIC SYSTEMS

Fiber optic systems have been widely installed within the region for point to point trans-oceanic communications. In addition, point to point fiber optic connections between major cities in Asia are common. As fiber optic coverage increases, the competitiveness of satellites for point to point communications will diminish.

TRANSPONDER OVERSUPPLY

It is expected that in 2006, the supply of transponders in the region will continue to exceed the demand for transponders. The Company believes that this imbalance cannot be corrected until global economic growth and new applications and services increase demand for the existing capacity. See "Key Information - Risk Factors - Risk of Limited Market Demand and Increasing Competition."

REGULATION

The international telecommunications industry is highly regulated. Satellite services are subject to international space law while broadcasting and telecommunications services are subject to international and national law. The principal international law relating to the use of outer space is the Outer Space Treaty. Countries that are party to the Outer Space Treaty or to other treaties or conventions regulating outer space activities are responsible for fulfilling their own obligations under these treaties or conventions. This often results in the adoption

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by member countries of domestic laws to regulate the activities of their own subjects in order to enable the country concerned to comply with its international obligations.

HONG KONG REGULATION

As an operator of privately owned satellites, AsiaSat is subject to the regulatory authority of Hong Kong through AsiaSat's principal regulator, OFTA.

AsiaSat's satellite operations are principally regulated by the Outer Space Ordinance (Chapter 523 of the Laws of Hong Kong) (the "Outer Space Ordinance"). The Outer Space Ordinance applies to all Hong Kong nationals and entities incorporated under the laws of Hong Kong, including AsiaSat. This prohibits any such person from, among other things, launching or procuring the launch of a satellite, or operating a satellite, without obtaining an appropriate license. The Outer Space Ordinance stipulates that any such license

shall describe the activities authorized by it and also provides that licenses may be granted subject to conditions specified therein. The conditions may include, among other things, basic orbital parameters (which include requirements to obtain advance approval for any intended deviations and to notify any unintentional deviation), requirements to avoid interference with the activities of other users of outer space and requirements not to cause actions which may give rise to liabilities on the part of China and Hong Kong. Breach of any such conditions can give rise to a right of revocation of the relevant license.

In Hong Kong, the ultimate authority to grant licenses and otherwise to administer the Outer Space Ordinance is vested in the Chief Executive of Hong Kong, acting in coordination with the Executive Council of Hong Kong. In practice, all relevant matters are dealt with on a day-to-day basis by and through OFTA. AsiaSat has the benefit of existing licenses covering current and future operation of each of AsiaSat 2, AsiaSat 3S and AsiaSat 4, subject to the conditions of the respective licenses. Each of these licenses was formally granted shortly before or after launch of the satellite concerned following a period of consultation between AsiaSat and OFTA.

In addition to the regulatory regime to which the Company's outer space operations are subject, the Company's earth station operations involve the operation and use of telecommunication apparatus at and from its earth stations at Stanley and Tai Po, Hong Kong. An earth station includes the antennas, receivers, transmitters and other equipment needed on the ground to transmit and receive satellite communications signals. Establishment, possession and use of such telecommunication apparatus from the Company's earth stations in Hong Kong are regulated by the Telecommunications Ordinance. AsiaSat has the benefit of licenses granted under the Telecommunications Ordinance covering all its TT&C operations (which refers to a land based facility that monitors and controls the position of the satellite in-orbit), as well as monitoring and testing functions, for each of AsiaSat 2, AsiaSat 3S and AsiaSat 4, subject to the terms and conditions of the respective licenses. The licenses require AsiaSat, among other things, to avoid harmful interference to other telecommunication apparatus operating within or outside Hong Kong and to ensure compliance with all relevant requirements of the International Telecommunication Convention (and any other international telecommunication agreements which may from time to time be acceded to by or on behalf of, or applied to, Hong Kong). Such licenses for AsiaSat 2 and AsiaSat 3S were formally granted contemporaneously with the grant of the licenses under the Outer Space Ordinance. In contrast, because the Company successfully won a bid for a Telecommunication License from OFTA allowing BSS frequencies to be incorporated into the payload of AsiaSat 4, the

license for AsiaSat 4 under the Telecommunications Ordinance was granted prior to the completion of AsiaSat 4. See "--AsiaSat 4." For a further discussion on the Telecommunication License, the FC license and the non-domestic television program service license, see "--Services and Customers - Expanded Services and Other Businesses."

The Telecommunications Ordinance also contains provisions for the taking of possession by the Hong Kong Government of telecommunications stations if the Chief Executive in Council is of the opinion that an emergency has arisen in which it is expedient for the public service that the Hong Kong Government should have control over telecommunications stations. In addition, the Telecommunications Ordinance contains provisions for the payment of compensation should such taking of possession occur.

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OVERSEAS NATIONAL TELECOMMUNICATIONS AUTHORITIES

The Company's customers in many of the countries covered by the Company's satellites must have authorization from the countries in which they or their uplink facilities are located in order to use the Company's satellites. The laws and regulatory requirements regulating access to satellite systems vary from country to country. Some countries have substantially deregulated satellite communications, making customer access to the Company's satellites a relatively simple procedure, while other countries have maintained strict monopolistic regimes. The application procedure for access to satellite systems can be time-consuming and costly and the terms of the licenses vary among different countries. Although AsiaSat believes its customers presently hold the requisite licenses and approvals in all relevant countries, there may be instances of non-compliance of which AsiaSat is not aware. Although AsiaSat does not believe these regulatory schemes will prevent it from pursuing its business, there can be no assurance that such licenses and approvals are or will remain sufficient in the view of foreign regulatory authorities and that these authorities will not discourage or prevent potential customers from utilizing transponders on AsiaSat's satellites.

The laws of certain countries require television broadcasters and satellite telecommunication users providing services in such countries generally to use state-owned or locally-owned satellites. For example, in Japan, domestic broadcast using a foreign satellite is not permitted. In India, if suitable capacity is available from a local satellite operator, operations using a foreign satellite will not be permitted. The use of a foreign satellite is subject to the authorization of the Department of Justice of India.

There are no specific restrictions on satellite operators providing services in Australia. A radio communications license may be issued to a satellite operator specifically to authorize transmissions (a Space License) or one may be issued specifically to authorize reception of transmissions (a Space Receive License). The satellite itself must be either an Australian or foreign space object as determined by the Australian Communications Authority. AsiaSat's satellites are determined as foreign space objects by the Australian Communications Authority. When the space stations are licensed via the space segment, the operation of ubiquitous earth stations that are communicating with them may be authorized by another class license. AsiaSat has appointed an authorized nominated carrier for its Ku-band Australian transponders in Australia.

In Thailand, Shin Satellite's 8-year monopoly (which is part of a 30 year concession from the country's government) ended in 1999. There are no specific laws to regulate the activities

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and operations of satellites in Thailand. At present, satellite activities in Thailand are authorized and controlled by the National Telecom Commission of Thailand.

China requires that all foreign satellite television broadcasters that have been licensed to be downlinked in China be uplinked to a state-owned satellite and multiplexed and downlinked to designated recipients and cable headends from that state-owned satellite. No such requirement applies to Chinese domestic satellite television broadcasters. Foreign satellite operators are required to provide transponder capacity to domestic companies that have been licensed to operate transponder capacity provision businesses or users approved by the Ministry of Information Industry. Foreign satellite operators are not allowed to provide transponder capacity to domestic users directly

without the approval of the Ministry of Information Industry.

With respect to telecommunications, Chinese regulations stipulate that all matters relating to the lease or the procurement of the use of foreign satellite transponders are under the Ministry of Information Industry's jurisdiction. Domestic users must apply to the Ministry of Information Industry to lease or procure the use of such transponders.

These legal requirements may prevent the Company and other satellite companies from competing to provide transponder capacity to these potential customers. There can be no assurance that other countries in the Asian region, including countries in which the Company already has customers, will not impose similar requirements to use state- or locally-owned satellites in the future. The imposition of such requirements could adversely affect the Company's results of operations.

INTERNATIONAL TELECOMMUNICATION UNION

The ITU was established in 1865 and became a specialized agency of the United Nations in 1947. The ITU is an organization of sovereign member states that aims at maintaining and extending international cooperation among all its member states for the improvement and rational use of telecommunications of all kinds. For this purpose, the ITU has developed and maintains international procedures and requirements for use of telecommunications as well as technical standards and recommendations. As of today, practically all countries in the world are members of the ITU.

The ITU is organized in three sectors: the Telecommunication Standardization Sector, the Radiocommunication Sector and the Telecommunication Development Sector. For satellite communications, most of the activities and regulations of relevance take place within the Radiocommunication Sector.

The objectives of the Radiocommunication Sector are to ensure rational, equitable, efficient and economical use of, and access to, the radio-frequency spectrum by all radio communication services and all countries. The main instrument of the Radiocommunication Sector is the Radio Regulations, which establishes procedures for member states. The Radio Regulations are updated regularly by World Radio Conferences. In between the sessions of the World Radio Conferences, the Radio Regulations Board, a group of elected members, develop Rules of Procedure on the application of the Radio Regulations and also consider other matters that cannot be resolved through a Rule of Procedure. The Radiocommunication Sector also carries out technical studies and develops recommendations on radio communication matters to assist member states and users of the radio-frequency spectrum.

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The Radiocommunication Bureau was established to facilitate the work of the Radiocommunication Sector, in particular, to facilitate the technical studies, meetings and conferences and the application of the procedures contained in the Radio Regulations. The Radiocommunication Bureau has a group of permanent staff with its headquarters in Geneva, Switzerland.

The Radio Regulations allocates certain frequency bands for various kinds of satellite communication. It also contains procedures to be followed by its member states to ensure that in bringing into use radio communication systems, other users operating in accordance with these procedures are given the required protection.

Details of the ITU, its instruments and working methods can be found in

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the Constitution and Convention of the ITU, while radio communication matters are dealt with in the Radio Regulations.

Nations are required by treaty to make a filing of their proposed use of satellite orbital slots for geostationary satellites with the Radiocommunication Bureau. After filing an orbital slot request with the Radiocommunication Bureau, other nations are afforded the opportunity to inform the Radiocommunication Bureau of any potential conflicts with their present or planned use of orbital slots. When a conflict or potential conflict is noted, nations are obligated to negotiate in an effort to coordinate the proposed uses and resolve any interference concerns. The Radiocommunication Bureau, however, has no formal enforcement mechanism, and if nations cannot agree on a resolution, a satellite system may not be entitled to the full interference protection afforded under international law.

The Hong Kong Special Administrative Region is mandated by China to file and coordinate applications made by Hong Kong companies for orbital slots with the Radiocommunication Bureau and to resolve interference concerns. The Chief Executive of Hong Kong has delegated these responsibilities to OFTA. Use of the orbital slots remains subject to the continuing oversight of OFTA and to a variety of regulations generally applicable to all satellite and radio licensees. OFTA has fulfilled its obligation to notify the Radiocommunication Bureau of the proposed use of the orbital slots for all of AsiaSat's filings, which include filings for AsiaSat 2, AsiaSat 3S and AsiaSat 4. After AsiaSat 2, AsiaSat 3S and AsiaSat 4 reached their orbital positions and commenced operations, AsiaSat notified OFTA, and OFTA in turn notified the ITU, that AsiaSat 2, AsiaSat 3S and AsiaSat 4, as applicable, were on station and operating as filed with the Radiocommunication Bureau, as coordinated and as authorized by OFTA. The orbital locations of all of AsiaSat's satellites have been entered into or are waiting to be entered into the Master Register of the ITU. This concludes the process for the coordination of the orbital slots for AsiaSat 2, AsiaSat 3S and AsiaSat 4. Moreover, to add more flexibility for the utilization of the payloads of the current and future AsiaSat satellites in positions at 100.5 degrees East, 105.5 degrees East and 122.2 degrees East, additional filings have been submitted to, and are currently being coordinated with, the ITU.

EXPORT REGULATION

In February 2001, Boeing obtained a Technical Assistance Agreement to provide off-site support services for the life of AsiaSat 3S. On October 23, 2001, Boeing obtained a Technical Assistance Agreement to provide necessary technical data and services to AsiaSat in connection with the AsiaSat 4 program. In addition, Boeing has obtained a Technical

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Assistance Agreement from the U.S. Department of State to provide technical data and service for in-orbit anomaly support for AsiaSat 4. See "-- Satellites --AsiaSat 4."

In June 2000, Lockheed Martin obtained a Technical Assistance Agreement from the U.S. Department of State to provide technical data and services for in-orbit anomaly support for AsiaSat 2 until December 31, 2009.

PROPERTY, PLANTS AND EQUIPMENT

LAND FACILITIES

The Company's executive offices are located in Causeway Bay, Hong Kong.

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The lease covering the Company's executive office space commenced in March 2005 for a term of three years. The rental amount (excluding rates, air-conditioning and management charges) under this lease is approximately HK\$2.7 million per year. The Company finances this cost from internal resources. See "Additional Information - Material Contracts."

In March 2000, the Company opened a representative office in Beijing, China. The Company's Beijing office entered into a new lease for a period of four years beginning in June 2004. The lease amount is approximately HK\$0.7 million per year.

The Company has leased the Tai Po Site in Hong Kong to support the growth of the Company's business. The Tai Po Site houses the Tai Po Satellite Earth Station, which is the center for coordination of all technical customer-related communication on the Company's satellite, including station testing, outage and trouble shooting and real time scheduling of ad hoc broadcasting services traffic. These services also include uplink, technical support and other value added services. The Tai Po Satellite Earth Station became fully operational in December 2003, and the complex received its final occupation permit from the Hong Kong Building Authority in January 2004. The five full performance antennas required for TT&C operations have been installed and are operational. See "Additional Information - Material Contracts."

The Company is not currently the subject of any actions or proceedings for environmental liabilities. As AsiaSat's satellites reach their "end of life" and are de-orbited, it is conceivable that the Company could be subject in the future to actions for environmental or other liabilities resulting from damages caused by these satellites.

SATELLITE CONTROL FACILITIES

The Tai Po Satellite Earth Station has been fully operational for more than two years and is now the Company's primary TT&C facility. The Tai Po Satellite Earth Station is connected by dual, diversely routed leased lines to the TT&C facility at the Reach Network (Hong Kong) Limited's ("Reach") teleport located at Stanley on the south side of Hong Kong Island (the "Stanley TT&C Facility"). The integrity of the delivery of the Company's services is achieved through duplicating at the Tai Po Earth Station, the Company's circuits and facilities provided at the Stanley TT&C Facility. A new satellite control and monitor software program has been installed and is undergoing system testing.

AsiaSat's technical personnel staff the Tai Po Satellite Earth Station 24 hours a day. There are no full-time employees of AsiaSat located at the Stanley TT&C Facility. Reach teleport

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technicians are responsible for the routine maintenance of the antennas and other equipment located at this facility.

Once a satellite is placed at its orbital location, it is controlled by the Tai Po Satellite Earth Station until the end of its in-orbit life. The TT&C subsystem for each satellite makes it possible for ground control to monitor the position of the satellite in-orbit. AsiaSat's engineers at the Tai Po Satellite Earth Station periodically correct a satellite's attitude and conduct east-west and north-south stationkeeping maneuvers, thus ensuring that AsiaSat's satellites maintain their proper orientation and orbital position. In addition, commands from the Tai Po Satellite Earth Station can switch transponders in and out of service, position a steerable beam, control the charging and discharging of the batteries, activate back-up equipment and

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engage other control functions.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Company and related notes thereto included elsewhere herein.

OVERVIEW

The Company, through its wholly-owned subsidiary, AsiaSat, is a leading provider of high quality satellite transponder capacity in the Asian region. As of May 31, 2006, the Company had three satellites in operation:

| | POSITION | UTILIZATION RATES (1) | | | % CHAN |
|--------------------|---------------------|-----------------------|-------|-------|--------|
| | | 2003 | 2004 | 2005 | |
| AsiaSat 2 | 100.5 (degree) East | 54.3% | 36.4% | 40.1% | 10. |
| AsiaSat 3S | 105.5 (degree) East | 59.0% | 73.3% | 72.7% | - 0. |
| AsiaSat 4 | 122.2 (degree) East | 10.3% | 26.8% | 46.5% | 73. |
| System Utilization | | 39.0% | 45.7% | 54.0% | 18. |

(1) There were 49 and 57 transponders respectively utilized on all AsiaSat satellites at each of the year-end 2003 and 2004, and there were 67 transponders utilized on all AsiaSat satellites at year-end 2005. See "--- Results of Operations - Utilization Rates."

Our revenue by industry "segments" consist of video broadcasting and telecommunications. The factors that drive demand for AsiaSat's satellite services across the Asian region include video distribution, and the provision of telecommunications networks to users who need last mile connectivity over wide geographic coverage at a fixed cost. Satellites can provide this coverage where cable cannot, particularly across the widespread and disparate Asian region.

Due to overcapacity, the Company does not see material signs of improvement among regional broadcast and telecommunications operators, nor does it see new developments in the market that would enable the Company to deliver stronger results in 2006. The Company does not expect to achieve significant improvement in financial results in the near term. See "Key Information -- Risk Factors - Political, Economic and Other Regional Risks" and "Key Information -- Risk Factors - Risk of Limited Market Demand and Increasing Competition."

In addition to this slow growth in new demand, continuing price pressure on new transponder utilization agreements have limited the Company's growth. See "Information on the Company - Business Overview." However, the Company's business is long-term in nature, and the positive factors that drive demand

remain in place. These factors include television distribution (and increasingly in more developed markets, High Definition Television), and telecommunications networks that need connectivity over wide geographic coverage, at a fixed cost. In addition, the Company has a strong existing customer base with contracts representing approximately 73.9% of the Company's 2005 revenue remaining under contract for 2006. Furthermore, the Company has an outstanding technical and customer service team as well as a premium client base. Thus, operationally, 2006 will be another challenging year requiring intense customer focus to maintain and expand existing businesses where possible and to concentrate on identifying new opportunities for growth. The Company will continue to investigate strategic opportunities that would support and enhance the Company's core satellite business in order to position itself to capitalize upon the recovery of the commercial satellite industry in the Asian region.

REVENUE

SOURCES. Substantially all of the Company's revenues during the years 2001 through 2005 were derived from payments made in respect of transponder utilization agreements and transponder purchase agreements for AsiaSat 2, AsiaSat 3S and AsiaSat 4 and were almost entirely payable in US Dollars. AsiaSat's transponder utilization agreements and transponder purchase agreements in effect as of May 31, 2006 provided for total committed revenue (including a portion of the deposits received by the Company in prior periods and that will be recognized as revenue in the applicable future period) of HK\$2,680.0 million (US\$343.6 million). The Company expects that most of such committed revenue will be recognized over the remaining terms of the relevant agreements up to 2014, assuming that the agreements are not terminated earlier. See "Information on the Company - Transponder Utilization Agreements." In 2005, approximately 2.8% of the Company's revenue from the provision of transponder capacity was derived from transponder purchase agreements, and the remaining portion was derived from transponder utilization agreements.

Payments under transponder utilization agreements are negotiated with each individual customer and generally are influenced by various factors, including market conditions that drive demand, satellite performance capabilities and the reputation of AsiaSat as a reliable service provider. See "Information on the Company - Business Overview." Generally, in the satellite transponder market, transponders with greater coverage, wider bandwidth, more viewers and higher power have commanded a premium price. These factors will impact our ability to increase charges for transponder capacity in future periods with respect to new and existing agreements.

SEGMENTS. The Company's primary industry "segments" consist of video broadcasting and telecommunications. The majority of the Company's revenue is attributable to video broadcasting. Due to the contracted nature of the Company's revenue stream, year-to-year fluctuations are driven by customer contract renewals and customer movements. See "Information on the Company - Business Overview," "Information on the Company - Services and Customers - Broadcasting," "Information on the Company - Services and Customers - Telecommunications," "Information on the Company - Services and Customers - Multimedia and Internet" and "Information on the Company - Services and Customers -

Expanded Services and Other Businesses." The following table shows a breakdown of revenue by segment:

| YEAR ENDED DECEMBER 31, | | | | | |
|--|--------|--------------------------|-------------|--------------------------|--------|
| | 2003 | | 2004 | | 2005 |
| | AMOUNT | % OF TOTAL REVENUE | AMOUNT | % OF TOTAL REVENUE | AMOUNT |
| | HK\$ | | HK\$ | | HK\$ |
| (in millions, except for percentages) | | | | | |
| Broadcasting (video) | 631.2 | 70.4% | 709.4 | 70.6% | 578.4 |
| Telecommunications, Internet and Multimedia | 265.0 | 29.6% | 295.6 | 29.4% | 301.3 |
| Total Revenue | 896.2 | 100.0% | 1,005.0 (1) | 100.0% | 879.7 |

(1) See "-- Results of Operations - Revenues."

The following table shows the place of incorporation of the Company's customers. However, due to the nature of the Company's business, the place of incorporation of its customers are not reflective of their market activities as broadcasting and telecommunication consumers may be located outside the coverage area of AsiaSat's satellites.

| YEAR ENDED DECEMBER 31, | | | | | |
|--|--------|--------------------------|-----------|--------------------------|--------|
| | 2003 | | 2004 | | 2005 |
| | AMOUNT | % OF TOTAL REVENUE | AMOUNT | % OF TOTAL REVENUE | AMOUNT |
| | HK\$ | | HK\$ | | HK\$ |
| (in millions, except for percentages) | | | | | |
| Hong Kong | 323.2 | 36.1% | 323.1 | 32.1% | 341.7 |
| Greater China, including Macau and Taiwan | 212.8 | 23.7% | 197.9 | 19.7% | 202.7 |
| United States of America | 71.2 | 7.9% | 183.8 (1) | 18.3% | 78.2 |
| British Virgin Islands | 40.4 | 4.5% | 40.9 | 4.1% | 9.7 |
| United Kingdom | 23.9 | 2.7% | 46.1 | 4.6% | 49.4 |
| Others | 224.8 | 25.1% | 213.2 | 21.2% | 198.0 |

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| | | | | | |
|---------------|-------|--------|------------|--------|-------|
| Total Revenue | 896.2 | 100.0% | 1,005.0(1) | 100.0% | 879.7 |
|---------------|-------|--------|------------|--------|-------|

(1) See "-- Results of Operations - Revenues."

REVENUE RECOGNITION. The Company recognizes revenues from all transponder utilization agreements on a straight line basis over the term of the agreements. As a result of the utilization fee escalation clauses in the transponder utilization agreements, in the early years

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of the term of any such agreement revenues are recognized in respect of payments that are not yet due, and in the latter portion of the term of such agreement revenues recognized will be less than payments due under the contract terms. In the aggregate in 2003 and 2004, there was recognition of revenues under the transponder utilization agreements in excess of payments due under those agreements in the amounts of HK\$16.6 million and HK\$9.3 million, respectively. In 2005, the total amount of payments due under the transponder utilization agreements was in excess of revenues recognized under those agreements in the amount of HK\$0.7 million (US\$0.1 million).

The Company recognizes revenue on the sale of transponder capacity under transponder purchase agreements on a straight-line basis from the date of delivery of the capacity until the end of the design life of the satellite.

RELIANCE UPON A SIGNIFICANT CUSTOMER. In the years ended December 31, 2003, 2004 and 2005, approximately 24.9%, 22.4% and 25.7%, respectively, of the Company's revenues were attributable to transponder utilization agreements with STAR. See "Information on the Company - Services and Customers" and "Key Information -- Risk Factors --Reliance upon Significant Customer."

EXPENSES

The components of operating expenses are cost of services, selling, general and administrative expenses and depreciation. Significant components of cost of services include in-orbit insurance, staff costs, satellite operations and turnaround service charges. Significant components of selling, general and administrative expenses include staff costs, office rental expenses, provision for doubtful debts, marketing and promotion expenses, business travel expenses, dual listing expenses, professional fees and amortization of goodwill arising from an acquisition of affiliates.

Staff costs (and associated travel expenses) and office rental expenses are allocated by the Company between cost of services and selling, general and administrative expenses depending on the function of such staff and use of the office space. The cost of services category of operating expenses includes all operating expenses incurred for engineering and the operation of the Company's satellites, including the proportionate amount of office rental expense for the office space used by the Company's engineers and the operations department. All staff, travel and office space expenses not included in cost of services are allocated to selling, general and administrative expenses.

INTEREST IN ASSOCIATES

The Company has accounted for its share of profit or loss arising from associates on an equity accounting basis. In the case of a loss, the Company will reflect its share in its income statement with a corresponding write down of its investment in an affiliate. Once the investment has been written down to

zero the Company will not account for any further loss beyond its investment. In 2003, 2004 and 2005, the Company recorded a HK\$17.5 million, HK\$12.4 million and HK\$3.9 million (US\$0.5 million) loss, respectively, with respect to its investment in associates, which includes amortization of goodwill and impairment loss. In the case of a profit, the Company will reflect its share of the profit in its income statement. In 2003, 2004 and 2005, the Company recorded a positive contribution to the Company's income

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statement in the amount of HK\$HK\$3.3 million, HK\$6.4 million and HK\$28.3 million (US\$3.6 million), respectively.

TAXATION

The Company is subject to Hong Kong Profits Tax on its operations deemed to be located in Hong Kong. It is also subject to overseas tax on its operations in certain of the overseas jurisdictions. The Hong Kong profits tax rate was increased to 17.5% per annum with effect from April 2003. Hong Kong profits tax was previously charged at the rate of 16% per annum.

Under Indian tax regulations, the Company may be subject to Indian income tax on revenues received by the Company in respect of income from the provision of satellite transponder capacity to the Company's customers for purposes of those customers carrying on business in India or earning income from any source in India.

The Indian tax authorities have assessed the Company for income tax as follows:

| ASSESSMENTS (HK\$ IN MILLIONS) (APPROXIMATELY) | | | | | | | |
|--|---------|---------|---------|---------|---------|---------|---------|
| Assessment Year | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
| | 20.0 | 23.0 | 22.0 | 14.0 | 29.0 | 38.0 | 43.3 |

The Company has filed appeals for each of the assessment years 1997-98 to 2003-04. No assessment has yet been made for the 2004-05 or 2005-06 assessment years.

The Income Tax Appellate Tribunal (the "Tribunal") in an earlier appeal filed against the original assessment for the assessment year 1997-98 held that the Company is liable for Indian income tax under certain circumstances. The Company does not believe that it is liable for the Indian income tax as held by the Tribunal and has filed an appeal against the Tribunal's decision. The tax authorities have also filed an appeal against the Tribunal's decision. Both appeals have been admitted by the High Court.

In order to obtain a stay of recovery proceedings, the Company has made payments as follows and has recorded these payments as an asset on the assumption that the amounts are recoverable:

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PAYMENT TO STAY RECOVERY PROCEEDINGS (HK\$ IN MILLIONS) (APPROXIMATELY)

| Assessment Year | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | To |
|-----------------|---------|---------|---------|---------|---------|---------|---------|----|
| | 13.0 | 15.0 | 10.0 | 9.0 | 20.0 | 27.0 | 23.7 | 1 |

In addition, based on the general principles set forth by the Tribunal, the amount of income taxable in India depends on the payments made by the Company's customers to the Company for the purpose of those customers carrying on business in India or earning income from any source in India. As such information is proprietary in nature and has not been provided by the Company's customers, the Company cannot reasonably estimate the taxable income and

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therefore also cannot estimate the amount of Indian income tax for which the Company may become liable. Accordingly, no provision has been recognized for Indian income tax in the Company's financial statements. Furthermore, as stated above, the Company has filed an appeal against the Tribunal's decision. The appeal has been admitted by the High Court and is pending before the High Court.

RESULTS OF OPERATIONS

The Company's revenues for 2005 amounted to HK\$879.7 million (US\$112.8 million), a decrease of HK\$125.3 million (US\$16.1 million) compared to that of 2004. The revenues for 2004 included a one-time lump sum receipt of HK\$123.0 million (US\$15.8 million) for early termination of a transponder utilization agreement.

Operating profit decreased from HK\$532.6 million in 2003 to HK\$504.0 million in 2004 as a result of the full year effect on depreciation and in-orbit insurance of AsiaSat 4. Operating profit in 2005 decreased 16.6% to HK\$420.5 million from HK\$504.0 million in 2004. Operating profit as a result of revenues decreased in 2005 to 47.8% from 50.1% in 2004, which in turn decreased from 59.4% in 2003. The decrease in 2005 was the result of the one-time lump sum receipt in 2004 referred to above.

The following table sets forth, for the periods indicated, the percentage of revenues represented by certain income and expense items in the Company's Consolidated Statement of Operations.

| | YEAR ENDED DECEMBER 31, | | |
|-------------------|-------------------------|--------|--------|
| | 2003 | 2004 | 2005 |
| Revenues | 100% | 100% | 100% |
| Cost of services | (35.0) | (41.9) | (47.6) |
| | 65.0 | 58.1 | 52.4 |
| Other gains - net | 0.7 | 2.2 | 4.9 |

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| | | | |
|--|-------|--------|-------|
| Administrative expenses | (6.3) | (10.2) | (9.5) |
| | ----- | ----- | ----- |
| Operating profit | 59.4 | 50.1 | 47.8 |
| Finance costs | (0.3) | -- | -- |
| Share of results of associates (including goodwill amortization) | (1.7) | (1.2) | (0.5) |
| Impairment loss recognized in respect of goodwill of associates | (0.2) | -- | -- |
| | ----- | ----- | ----- |
| Profit before taxation | 57.2 | 48.9 | 47.3 |
| Taxation | (9.8) | (6.0) | (5.8) |
| | ----- | ----- | ----- |
| Profit for the year | 47.4 | 42.9 | 41.5 |
| | ===== | ===== | ===== |

REVENUES

Revenues in 2005 decreased 12.5% to HK\$879.7 million (US\$112.8 million) from HK\$1,005.0 million in 2004, which in turn increased from HK\$896.2 million in 2003. During 2005, the Company entered into transponder utilization agreements totaling

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approximately twenty transponders at lower rates for some new customers and lost approximately fifteen transponders on non-renewal of some contracts upon expiration or early termination. The increase in revenue in 2004 was primarily due to a one-time contribution to revenues resulting from the early termination of a transponder utilization agreement. In 2005, excluding the one-time contribution of HK\$107.6 million to the revenues of 2004 upon the early termination of a transponder utilization agreement, revenues were down by HK\$17.7 million.

UTILIZATION RATE. As of December 31, 2005, the overall total utilization rate of AsiaSat 2, AsiaSat 3S and AsiaSat 4 increased 18.2% over the prior year from 45.7% to 54.0%, which in turn increased from the overall total utilization rate of 39.0% as of December 31, 2003. See "--Overview." There were 49, 57 and 67 transponders utilized on all AsiaSat's satellites at the year-end 2003, 2004 and 2005, respectively. The decrease in the overall utilization rate in 2003 from the previous year was the result of the introduction of AsiaSat 4 to AsiaSat's satellite fleet and the contraction of the business of certain of AsiaSat's customers. The increase in 2004 and 2005 from the previous year was the result of the leasing of additional transponders to new and existing customers. See "Key Information - Risk Factors - Risk of Technological Changes" and "Key Information - Risk Factors - Risk of Limited Market Demand and Increasing Competition."

Utilization rates and the fees derived from its satellites are determined by the terms of the Company's transponder agreements rather than the transponder capacity actually used by the Company's customers at any given time. The fees derived from the Company's satellites with respect to video

broadcasting services varies depending, in part, on whether the satellite has an established viewer base. See "Information on the Company - Business Overview."

COST OF SERVICES. Cost of services in 2005 decreased 0.4% to HK\$419.0 million (US\$53.7 million) from HK\$420.5 million which in turn increased 34.2% from HK\$313.3 million in 2003. HK\$65.7 million of the increase in 2004 was due to depreciation and HK\$26.4 million of the increase was due to insurance. HK\$7.3 million of the decrease in 2005 was primarily due to the decrease in insurance costs resulting from the Company's decision not to procure the in-orbit insurance for AsiaSat 2. This decrease was largely offset by increase in depreciation expenses in 2005. See "Key Information - Risk Factors - Risk of Loss or Damage to Satellites, Ground Based Satellite Control Equipment or Satellite Stations from Acts of War, Terrorism, Electrostatic Storm, Space Debris and Other Natural Disasters and Limitations on Warranties and Insurance." Depreciation expenses, which are included in cost of services, increased in 2005 to HK\$295.1 million from HK\$287.4 million in 2004. The increase in depreciation expenses in 2005 represented expenses associated with the additional facilities. HK\$55.6 million of the increase in depreciation expenses in 2004 was attributable to the full year depreciation of AsiaSat 4 and HK\$55.6 million of the increase was attributable to the Tai Po Earth Station.

ADMINISTRATIVE EXPENSES. Administrative expenses in 2005 decreased 18.1% to HK\$83.9 million (US\$10.8 million) from HK\$102.5 million in 2004, which in turn increased 82.6% from HK\$56.1 million in 2003. The increase in administrative expenses in 2004 was largely attributable to the provision for impairment of receivables and performance bonus. The decrease in administrative expenses in 2005 was largely attributable to the decrease in the provision for impairment of receivables and the total amount of performance bonuses compared to 2004. The decrease in the provision for impairment of receivables was due to

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improvement in payment by trade customers, while the total amount of performance bonuses varies from year to year depending on whether performance targets are achieved.

OTHER GAINS - NET. Other gains primarily consists of interest income. Interest income in 2005 increased 100% to HK\$43.6 million (US\$5.6 million) from HK\$21.8 million in 2004, which increased 344.9% from HK\$4.9 million in 2003. The increase in interest income in 2004 and 2005 was primarily due to larger cash balances and higher interest rates on structured deposits.

PROFIT BEFORE INCOME TAX

Profit before income tax in 2005 decreased 15.3% to HK\$416.6 million (US\$53.4 million) from HK\$491.6 million in 2004, which in turn decreased 4.0% from HK\$512.1 million in 2003. The decrease in profit before income tax in 2004 resulted from higher cost of services and administrative expenses. The decrease in profit before income tax in 2005 resulted from lower revenues in 2005.

INCOME TAX EXPENSE

Income tax expense in 2005 decreased 15.2% to HK\$51.3 million (US\$6.6 million) from HK\$60.5 million in 2004, which in turn decreased 30.9% from HK\$87.6 million in 2003. The decrease in income tax expense in 2004 and 2005 resulted primarily from lower assessable profit. For the years 2003, 2004 and 2005, the effective tax rates were 17.1%, 12.3% and 12.3%, respectively. The higher effective rate in 2003 was mainly due to the additional provision for

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deferred tax for prior years and for 2003 due to the increase of the profits tax rate in Hong Kong by 1.5% in 2003.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit for the year in 2005 decreased 15.1% to HK\$366.2 million (US\$46.9 million) from HK\$431.2 million in 2004, which increased 1.6% from HK\$424.5 million in 2003.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES OF FINANCING

The Company's principal use of capital in 2003 was capital expenditures related to the construction and launch of AsiaSat 4 and the construction of the Tai Po Satellite Earth Station. The Company's principal use of capital in 2004 and 2005 was capital expenditures associated with the Tai Po Satellite Earth Station and tracking facilities. Cash applied for the acquisition of property, plant and equipment was HK\$162.2 million in 2003, which in turn decreased to HK\$47.7 million in 2004 and decreased further to HK\$23.7 million (US\$3.0 million) in 2005. Cash applied for the acquisition of property, plant and equipment has been financed through cash flows generated from operations.

As of December 31, 2005, the Company had no outstanding debt and HK\$4,104.2 million of shareholders' equity.

The satellite business is highly capital intensive. The Company's ability to meet its future debt obligations, if any, will be dependent on a number of factors, including its cash flow

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from operations, its ability to secure future financing, if needed, and the useful lives of the Company's satellites. See "-- Planned Capital Expenditures."

PLANNED CAPITAL EXPENDITURES

The Company anticipates the need for additional capital to fund a replacement satellite for AsiaSat 2. The following table sets forth the Company's planned major capital expenditures for the periods indicated. Actual capital expenditures may differ from the amounts indicated below.

| | PLANNED CAPITAL EXPENDITURES (IN MILLIONS) | | | | |
|------------|--|--------------|--------------|--------------|--------------|
| | 2006 HK\$ | 2007 HK\$ | 2008 HK\$ | 2009 HK\$ | 2010 HK\$ |
| AsiaSat 5 | 365.0 | 558.1 | 480.9 | - | |
| Others | 22.6 | 9.3 | 10.5 | 9.7 | 10.6 |
| Skywave TV | 0.4 | 1.5 | 0.5 | 0.5 | 0.5 |
| Total | 388.0 | 568.9 | 491.9 | 10.2 | 11.1 |

AsiaSat 5 will need to be constructed for launch in 2008 in order to provide adequate opportunity to replace AsiaSat 2 at the end of its useful life. The total costs for the construction and launch of AsiaSat 5 is estimated to be approximately HK\$1,404.0 million (US\$180.0 million). The planned capital expenditures indicated as "Others" in the table above consist of those planned for furniture and fixture, office equipment, equipment and building upgrade at the Tai Po site, motor vehicles, new business and test equipment and tools.

CONTRACTUAL OBLIGATIONS

As of December 31, 2005, the Company had various contractual obligations which are more fully disclosed in Note 30 to the consolidated financial statements of the Company. The following table aggregates the contractual obligations of the Company as of December 31, 2005:

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| | PAYMENTS (OR OTHER OBLIGATIONS WHICH MAY BY PERIOD (HK\$ IN MILLIONS) | | | |
|--|--|---------------------|--------------|------------|
| | TOTAL | LESS THAN 1 YEAR | 1-3 YEARS | 4 YEARS |
| Commitment of Expenditure for Operations and Maintenance Capital Expenditures..... | 15.9 | 15.9 | - | |
| Operating Lease Obligations..... | 9.1 | 4.3 | 4.8 | |
| Total Contractual Obligations | 25.0 | 20.2 | 4.8 | |
| Deferred Revenue Disclosed on the Company's Balance Sheet (1)..... | 239.6 | 151.9 | 35.3 | 1 |

(1) Only reflects deferred revenue associated with the sale of transponder capacity requiring the provision of on-going transponder capacity through the relevant period of the transponder purchase agreement.

AsiaSat leases its premises under non-cancelable operating leases. At December 31, 2005, commitments for future minimum lease payments which fall due in 2006, 2007 and subsequent years are HK\$4.3 million and HK\$4.8 million, respectively.

In the ordinary course of its business, AsiaSat enters into commercial commitments for various aspects of operations, such as repair and maintenance. However, the Company believes that those commitments will not have a material effect on the Company's financial condition, results of operations or cash flows.

CASH FLOWS

The Company has generally financed its short-term working capital requirements from cash provided by operations. The Company has not borrowed any amounts for the last three years. The Company had cash and cash equivalents of

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HK\$659.3 million, HK\$1,234.4 million and HK\$1,635.5 million (US\$209.7 million) as of December 31, 2003, 2004 and 2005, respectively.

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Net cash generated from operating activities was HK\$627.5 million, HK\$750.8 million and HK\$514.4 million (US\$65.9 million) in 2003, 2004 and 2005, respectively. In 2004, the increased level of net cash provided by operating activities resulted primarily from lower capital expenditures and lower amounts of dividends paid. In 2005, the decreased level of net cash provided by operating activities resulted from a lower level of cash generated from operations and a larger payment of Hong Kong profits tax.

Net cash used in investing activities was HK\$164.5 million, HK\$50.9 million in 2003 and 2004, respectively. Net cash from investing activities was HK\$23.4 million (US\$3.0 million) in 2005. Expenditures on the construction and launch of AsiaSat 3S and AsiaSat 4 were HK\$58.0 million in 2003. Expenditures on other property and equipment were HK\$104.2 million, HK\$47.7 million and HK\$23.7 million in 2003, 2004 and 2005, respectively.

Net cash used in financing activities was HK\$209.9 million, HK\$124.9 million and HK\$136.6 million (US\$17.5 million) in 2003, 2004 and 2005, respectively. In 2003, 2004 and 2005, net cash used in financing activities primarily consisted of dividend payments.

The Company has sufficient working capital to cover its planned capital expenditures and other operating needs. See "-- Planned Capital Expenditures." The Company had a working capital of HK\$529.9 million at December 31, 2003, a working capital of HK\$1,023.1 million at December 31, 2004 and a working capital of HK\$1,461.1 million (US\$187.3 million) at December 31, 2005.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or resources that are material to investors.

EXCHANGE RATES

During the past three years almost all of the Company's revenues, premiums for satellite insurance coverage and debt service and substantially all capital expenditures were denominated in US Dollars. The Company's remaining expenses were primarily denominated in HK Dollars during these periods. As of December 31, 2005, almost all of AsiaSat's transponder utilization agreements, transponder purchase agreements and obligations to construct and launch satellites and to purchase TT&C equipment were denominated in US Dollars.

INFLATION

Inflation has not materially affected the Company's operations during the past three years.

U.S. GAAP RECONCILIATION

The Company's financial statements are prepared in accordance with Hong Kong GAAP, which differs in certain material respects from U.S. GAAP. The following table sets forth a comparison of the Company's net income and shareholders' equity in accordance with Hong Kong GAAP and U.S. GAAP.

| | 2003 HK\$ | 2004 HK\$ | 2005 HK\$ |
|--|---------------|--------------|--------------|
| | (IN MILLIONS) | | |
| Net income in accordance with: | | | |
| Hong Kong GAAP..... | 424.5 | 431.2 | 366.2 |
| U.S. GAAP..... | 408.5 | 424.1 | 358.8 |
| Shareholders' equity in accordance with: | | | |
| Hong Kong GAAP..... | 3,568.3 | 3,874.6 | 4,104.2 |
| U.S. GAAP..... | 3,617.6 | 3,916.7 | 4,138.9 |

Note 32 to the Company's consolidated financial statements provides a description of the principal differences between Hong Kong GAAP and U.S. GAAP as they relate to the Company and a reconciliation to U.S. GAAP of certain

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items, including net income and shareholders' equity. Differences between Hong Kong GAAP and U.S. GAAP that have a material effect on the Company's net income and shareholders' equity as reported under Hong Kong GAAP relate to capitalization of interest, borrowing costs and deferred taxation.

RECENT U.S. ACCOUNTING PRONOUNCEMENTS

SFAS NO. 154. In May 2005, the Financial Accounting Standards Board ("FASB") issued the US Statement of Financial Accounting Standards ("SFAS") No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements (SFAS 154). SFAS 154 changes the requirements for the accounting for, and reporting of, a change in accounting principles. Previously, voluntary changes in accounting principles were generally required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. SFAS 154 requires retrospective application to financial statements of prior periods, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after 15 December 2005; but the statement does not change the transitional provisions of any existing accounting pronouncements. The Company does not believe that the adoption of SFAS 154 will have a material effect on its financial position, cash flows or results of operations.

FASB NO. 109. In July 2005, the FASB issued a proposed Interpretation of FASB Statement No. 109 (the "Interpretation"), "Accounting for Income Taxes" which clarified accounting for uncertain tax positions. Under the Interpretation, an enterprise is required to recognize, in its financial statements, the best estimate of the impact of a tax position only if that position would probably be sustained in an audit, based solely on the technical merits of the position. In evaluating whether or not the "probable recognition" threshold has been met, the Interpretation requires the presumption that the tax position will be evaluated during an audit by taxing authorities. The term probable, as defined in FASB Statement No. 5, "Accounting for Contingencies" means "the future event or events are likely to occur." Individual tax positions that fail to meet the probable recognition threshold will generally result in either (a) a reduction in the deferred tax asset or an increase in a

deferred tax liability or (b) an increase in the liability for income taxes payable or the reduction of an income tax refund receivable. The impact may also include both (a) and (b). The increase in the income tax liability would not be classified as a deferred tax liability unless it resulted from a taxable temporary difference created by a tax position that has met the probable recognition threshold. For enterprises that present classified statements of financial position, the income tax liability would be classified as current to the extent that a payment is anticipated within one year or the operating cycle, if longer. The Interpretation also would provide guidance on disclosure, accrual of interest and penalties, accounting in interim periods, and transition. The Interpretation is currently in draft, and thus any effects on the current accounting treatment of the Indian income tax liability or the PRC withholding tax cannot be assessed at this point in time.

SAB 107 . In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107 Share Based Payment, which offers guidance on SFAS No. 123(R). SAB No. 107 was issued to assist preparers by simplifying some of the implementation challenges of SFAS No. 123(R) while enhancing the information that investors receive. SAB No. 107 creates a framework that is premised on two overarching themes: (i) considerable judgement will be required by preparers to successfully implement SFAS No. 123(R), specifically when valuing employee stock options; and (ii) reasonable individuals, acting in good faith, may reach

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different conclusions on the fair value of employee stock options. Key topics covered by SAB No. 107 include valuation models, expected volatility and expected term. The Company will adopt SAB No. 107 concurrently with the adoption of SFAS No. 123(R) with effect from January 1, 2006. The Group does not expect the adoption of this SAB to have a material impact on its consolidated financial position or results of operations.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with Hong Kong GAAP. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. The Company continually evaluates these estimates and judgments, including those related to estimated useful lives of satellites, impairment losses on satellites, allowance for doubtful accounts, and contingent liabilities related to tax assessments from Indian tax authorities. The Company bases these estimates and judgments on its historical experience and other factors that it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company has identified below the accounting policies that are the most critical to its consolidated financial statements.

USEFUL LIVES OF IN-ORBIT SATELLITES. The Company has significant investments in satellites. The carrying value of the Company's in-orbit satellites represented 72%, 59% and 52% of its total assets as of December 31, 2003, 2004 and 2005, respectively. The Company estimates the useful lives of satellites in order to determine the amount of depreciation expense to be recorded during the reported period. The useful lives are estimated at the time satellites are put into orbit and are based on historical experience with other satellites as well as the anticipated technological evolution or other environmental changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these satellites may need to be shortened, resulting in the recognition of

increased depreciation in a future period. Similarly, if the actual lives of satellites are longer than what the Company has estimated, the Company would have a smaller depreciation expense. As a result, if the Company's estimates of the useful lives of its satellites are not accurate or are required to be changed in the future, the Company's net income in future periods would be affected.

REALIZABILITY OF THE CARRYING AMOUNTS OF LONG-LIVED ASSETS. The Company is required to evaluate at each balance sheet date whether there is any indication that the carrying amounts of long-lived assets (primarily its satellites) may be impaired. The recoverable amount is the amount recoverable over the remaining lives of the assets through undiscounted future expected cash flows. If any such indication exists, the Company should estimate the recoverable amount of the long-lived assets. An impairment loss is recognized based on the excess of the carrying amount of such long-lived assets over their recoverable amounts. The impairment charge is calculated using the discounted present value of the cash flows expected to arise from the continuing use of long-lived assets and cash arising from its disposal at the end of its useful life. The estimates of the cash flows are based on the terms and period of existing transponder utilization agreements ("Existing Agreements"). Likewise, changes in estimated discount rates that result in lower recoverable amounts would result in an impairment loss being recognized.

Modifications to the terms of the Existing Agreements that results in shorter utilization period than previously agreed and/or those that result in the reduction in agreed rates will result in a

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lower recoverable amounts (if the discount rate used is not changed); which may, in turn, result in the carrying amounts exceeding the recoverable amounts, which in turn would result in an impairment loss being recognized.

INSURANCE. For each of its satellites, the Company obtains insurance covering launch and first-year in-orbit loss at a blended rate. The launch insurance is a one time charge and the in-orbit insurance is recurring in-nature. The Company capitalizes a large portion of the insurance premium relating to the launch as a cost of satellite and amortizes the cost over the life of the satellite on a straight-line basis. The small portion of the insurance premium relating to the first-year in-orbit is determined by reference to an indicative rate obtained through an insurance broker in an open market for satellites of similar type and configuration, and is recorded as part of cost of services after commissioning of the satellite. The in-orbit insurance cost usually represents 2.5% to 3.5% of the total amount insured for such satellite.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. The Company maintains allowance for doubtful accounts for estimated losses that result from the inability of its customers to make the required payments. The Company bases its allowances on the likelihood of recoverability of account receivables based on past experience and current collection trends that are expected to continue. The Company's evaluation also includes the length of time the receivables are past due and the general business environment.

If changes in these factors occur, or the historical data the Company uses to calculate the allowance for doubtful accounts as of December 31, 2005 does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the Company's future results of operations could be adversely affected.

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CONTINGENCY RELATED TO INDIAN TAX ASSESSMENTS. As of December 31, 2005 the Indian tax authorities have assessed the Company for income tax of approximately HK\$146.0 million (US\$18.7 million). Subsequently, the Company has received an assessment for the 2003/2004 year in the amount of HK\$43.3 million, which increases the total amount of such contingent liabilities to HK\$189.3 million (US\$24.3 million). See "-- Taxation." The Company did not recognize liabilities in connection with the foregoing assessments as the Company believes that the criteria for recognition of a loss contingency under the US SFAS 5, "Accounting for Contingencies" and Hong Kong Statement of Standard Accounting Practice No. 28 "Provisions, Contingent Liabilities and Contingent Assets" ("SSAP 28") were not met. SFAS 5 requires that "an estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met: (a) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements; and (b) the amount of loss can be reasonably estimated. SSAP 28 states that a contingent liability is: (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or (b) a present obligation that arises from past events but is not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

The Company cannot reasonably estimate the loss that will arise from the assessment since the information needed to calculate such loss (if any) is proprietary to the Company's customers and was not provided to the Company. Further, the

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Company believes it has a reasonable likelihood of success with respect to its appeals against the Tribunal's decision. Therefore, the Company believes that the criteria for recognition of a loss contingency under SSAP 28 or SFAS 5 were not met. If the Company is finally held liable for such Indian tax, the Company's future results of operations could be adversely affected.

NEW ACCOUNTING STANDARDS

In order to achieve convergence with the International Financial Reporting Standards, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Financial Reporting Standards ("HKFRS"), which became effective January 1, 2005. The Company adopted some of those standards that are relevant to its operation. The Company believes that the adoption of those standards did not result in substantial changes to the Company existing accounting policies under Hong Kong GAAP. For a discussion on the newly adopted accounting standards, see Note 2 to the Company's consolidated financial statements.

RESEARCH AND DEVELOPMENT

The Company does not incur any significant research and development expenditures.

TREND INFORMATION AND PROSPECTS

Due to the nature of the Company's business with long-term commitments being made for the purchase of satellites and long-term contracts entered into by AsiaSat's customers, there are no immediate changes from one period to the

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next which impact AsiaSat's business. See "Information on the Company - Business Overview." For a further discussion on trends and prospects, see " -- Overview."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.

DIRECTORS AND SENIOR MANAGEMENT

The directors of the Company ("Directors") as of May 31, 2006 are set forth below.

| NAME | AGE | POSITION | DATE FIRST ELECTED OR APPOINTED DIRECTOR OF ASIASAT (OR THE COMPANY) |
|---|-----|------------------------------|--|
| Romain Bausch (2) | 52 | Chairman and Director | January 15, 1999 |
| Zeng Xin Mi (1) | 55 | Deputy Chairman and Director | February 28, 2001 |
| Robert Bednarek (2) | 48 | Director | March 14, 2002 |
| Professor Edward Chen, G.B.S., C.B.E., J.P. (3) | 61 | Director | May 10, 1996 |
| Yu Cheng Ding (1) | 40 | Director | January 15, 1999 |
| R. Donald Fullerton (3) | 74 | Director | May 10, 1996 |

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| NAME | AGE | POSITION | DATE FIRST ELECTED OR APPOINTED DIRECTOR OF ASIASAT (OR THE COMPANY) |
|---------------------|-----|----------|--|
| Peter Jackson | 57 | Director | May 10, 1996 |
| Wei Min Ju (1) | 43 | Director | October 12, 1998 |
| Fai Wong Ko (1) | 57 | Director | March 11, 2004 |
| Mark Rigolle (2) | 41 | Director | November 17, 2004 |
| Robert Sze (3) | 65 | Director | May 10, 1996 |
| William Wade | 49 | Director | May 10, 1996 |
| Cynthia Dickins (2) | 42 | Director | November 17, 2005 |

 (1) Appointed by CITIC.

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(2) Appointed by SES.

(3) Independent.

R. Donald Fullerton resigned from the Board on May 30, 2006.

The executive officers of the Company as of May 31, 2006 are set forth below.

| NAME | AGE | POSITION | DATE FIRST ELECTED OR APPOINTED DIRECTOR OF ASIASAT (OR THE COMPANY) |
|-----------------|-----|---|--|
| Peter Jackson | 57 | Chief Executive Officer | July 1, 1993 |
| William Wade | 49 | Deputy Chief Executive Officer | April 15, 1994 |
| Catherine Chang | 38 | Legal Counsel | January 1, 2003 |
| Liqun Chen | 55 | General Manager, China | April 14, 1989 |
| Ya Hui Chiu | 56 | General Manager, Operation | February 13, 1989 |
| Sabrina Cubbon | 44 | General Manager, Marketing | December 1, 1993 |
| Denis Lau | 66 | Secretary and General Manager, Finance and Administration | July 1, 1988 |
| Barry Turner | 59 | General Manager, Engineering | May 1, 1998 |

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The Board of Directors of the Company currently consists of 12 members. Action can be taken by a majority of Directors present at a meeting at which a quorum is present. Attendance by six Directors, or such other number as determined by the Directors from time to time, constitutes a quorum. The Bye-laws of the Company provide that any Director may call a board meeting. The Directors all hold office until the next annual meeting of shareholders and until their successors are elected and have qualified.

ROMAIN BAUSCH was appointed a Non-executive Director of the Company on January 15, 1999. Since then, he acted as Deputy Chairman (1999-2000), Chairman (2001-2002) and Deputy Chairman (2003-2004) of the Board on a rotational basis biennially. For the current term (2005-2006), he acts as Chairman. He is the President and CEO of SES GLOBAL S.A ("SES GLOBAL"). He started his career in the Luxembourg civil service. After subsequent promotions, he became General Administrator of the Ministry of Finance. He occupied key positions in the banking and media sectors and spent a five-year term as a Director and Vice

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Chairman of SES GLOBAL. He graduated with a Master of Arts degree in Economics (specialization in Business Administration) from the University of Nancy (France).

ZENG XIN MI was appointed a Non-executive Director of the Company on February 28, 2001. Since then, he acted as Deputy Chairman (2001-2002) and Chairman (2003-2004) of the Board on a rotational basis biennially. For the current term (2005-2006), he acts as Deputy Chairman. He is Executive Director and Vice President of CITIC Group ("CITIC"). Prior to his appointment to the present position, he held executive management positions with various subsidiaries of CITIC and was the Chief Executive Officer of CITISTEEL in the United States from 1992 to 1997. He is also Chairman of the Board of CITIC USA Holdings and CITIC Australia Pty Limited, and Executive Director of CITIC Resources Holdings Limited in Hong Kong. He joined CITIC in 1985 and holds a Master of Science degree.

ROBERT BEDNAREK was appointed a Non-executive Director of the Company on March 14, 2002. He is Executive Vice-President Corporate Development and a member of the Executive Committee of SES GLOBAL. Prior to joining SES GLOBAL, he was the Executive Vice President and Chief Technology Officer of PanAmSat Corporation. He graduated with a Bachelor of Science degree in Electronic Engineering from the University of Florida.

PROFESSOR EDWARD CHEN, G.B.S., C.B.E., J.P., has been an Independent Non-executive Director of the Company since May 1996. He was educated at Hong Kong University (Bachelor of Arts, Master of Social Science) and Oxford University (Doctor of Philosophy) and is currently President of Lingnan University in Hong Kong. He was a member of the Executive Council of Hong Kong from 1992 to 1997 and Chairman of the Consumer Council from 1991 to 1997. He is now Chairman of the Press Council, a director of the First Pacific Company Limited, a trustee of Eaton Vance Management Funds (Boston), a director of The Wharf (Holdings) Limited and also a director of China Resources Peoples Telephone Company.

YU CHENG DING was appointed a Non-executive Director of the Company on January 15, 1999. He was the Assistant President of CITIC Securities Company Limited and had been with the company from April 1998 to September 2004. CITIC Securities Company Limited is a subsidiary of CITIC engaging in securities and investment banking business. He has been an independent non-executive director of SEEC Media Group Limited since June 2005. He

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holds a Master of Business Administration degree from the University of Pittsburgh and a Doctor of Philosophy degree in Economics from Tsinghua University.

R. DONALD FULLERTON has been an Independent Non-executive Director of the Company since May 1996. He was the Chairman and Chief Executive Officer of Canadian Imperial Bank of Commerce ("CIBC") until his retirement in 1992. Subsequently, he was Chairman of the Executive Committee of the CIBC's Board of Directors until 1999. He retired from the CIBC's Board in February 2004. During his career, he was a director of many national and multi-national corporations as well as medical, cultural and educational institutions. He currently sits on the board of Husky Energy Inc. and 3 Italia S.p.A. He resigned from the Board of the Company on May 30, 2006.

WEI MIN JU was appointed a Non-executive Director of the Company on October 12, 1998. He is a Director and the Chief Financial Officer of CITIC. He is also a non-executive director of CITIC International Financial Holdings

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Limited and a director of CITIC Ka Wah Bank. He holds a Bachelor of Arts degree and a Master degree in Economics.

ROBERT SZE has been an Independent Non-executive Director of the Company since May 1996. He is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and was a partner in an international firm of accountants with which he practiced for over 20 years. He is a non-executive director of a number of Hong Kong listed companies. He is also a member of the Shanghai Committee of the Chinese People's Political Consultative Conference.

FAI WONG KO was appointed a Non-executive Director of the Company on March 11, 2004. He is the Deputy General Manager of CITIC United Asia Investment Limited, a wholly owned subsidiary of CITIC in Hong Kong and has over 20 years' experience in banking and finance before joining CITIC. He holds a Bachelor of Arts and a Master degree in Business Administration.

MARK RIGOLLE was appointed a Non-executive Director of the Company on November 17, 2004. He is the Chief Financial Officer of SES GLOBAL. Prior to joining SES GLOBAL, he held various positions in Belgacom in the financial and strategic areas. He holds an Economic Sciences degree from the Catholic University of Leuven, Belgium.

CYNTHIA DICKINS was appointed a Non-executive Director of the Company on November 17, 2005. She is currently President of SES Asia S.A. ("SES Asia"), a wholly-owned subsidiary of SES GLOBAL. She has been with SES GLOBAL since 1997, when she joined GE Americom ("GE") as managing director of Americom Asia Pacific. Prior to GE, she held international management positions with TV Shopping Network, PanAmSat Corporation and Pharmacia (formerly Monsanto Company). She holds a Masters of International Management degree from the American Graduate School of International Management (Thunderbird) in Arizona (USA) and a Bachelor of Arts degree in International Relations from Gonzaga University in Washington (USA).

PETER JACKSON has been an Executive Director and the Chief Executive Officer of the Company since May 1996, having served in that position with AsiaSat since July 1993 prior to the listing of the Company. He has over 27 years' experience in the telecommunications field. Prior to his appointment as the Chief Executive Officer in 1996, he was employed by Cable & Wireless plc where he held engineering, marketing and management positions and

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was responsible for several satellite telecommunications ventures. He has been an independent non-executive director of Daum Communications Group since April 2006.

WILLIAM WADE has been an Executive Director and the Deputy Chief Executive Officer of the Company since May 1996, having served in that position with AsiaSat since April 1994 prior to the listing of the Company. He has over 26 years' experience in the satellite and cable television industry. He speaks Mandarin Chinese and holds a Bachelor of Arts (Honors) degree in Communications from the University of Utah, and a Masters of International Management degree from Thunderbird (the Garvin School of International Management).

CATHERINE CHANG is Legal Counsel of the Company. She joined AsiaSat in 1994 and established the legal department to manage the legal affairs of the Company. Prior to joining the Company, she was a solicitor at Ebsworth & Ebsworth, an Australian law firm. She graduated from the University of New South Wales, Australia with a Bachelor's degree in Laws and a Bachelor's degree

in Commerce, majoring in Accountancy.

LIQUN CHEN is General Manager, China, of AsiaSat, in which capacity he is responsible for marketing transponder capacity and managing customer relations in the China market. He had been on secondment to AsiaSat from his employer, CITIC, since 1989 and became a permanent employee of AsiaSat in January 1997. He graduated with a Master of Business Administration degree from the University of Leuven in Belgium and a Bachelor of Science degree in Electronics and Industrial Automation from Tsinghua University, China. Prior to being seconded to the Company, he worked for CITIC.

DR. YA HUI CHIU is General Manager, Operations, of AsiaSat, in which capacity he is responsible for maintaining and operating the Company's satellites. He has 22 years experience in telecommunications engineering and operations, with the last 19 years being in the satellite communications area. He received his Bachelor of Science degree from National Taiwan University and his M. Phil and Ph.D. degrees from Yale University, all in Physics.

SABRINA CUBBON is General Manager, Marketing, of AsiaSat, in which capacity she is responsible for sales and marketing, business development, corporate affairs and market research. She has over 21 years of marketing experience in the telecommunications industry. Prior to joining AsiaSat in August 1992, she was employed by Case Communications, a Hong Kong company, between 1987 and 1992 as Regional Manager Asia-Pacific responsible for the sales and marketing activities to multinational clients. She graduated from the University of Manchester, United Kingdom with a Masters degree in Electronic and Electrical Engineering, specializing in cryptography.

DENIS LAU is General Manager, Finance and Administration and the Secretary of the Company. He joined Hong Kong Telecom (now known as PCCW) in 1974 and held a number of senior positions, including the Assistant Group Chief Accountant, before being seconded to AsiaSat in 1988. He became a permanent employee of AsiaSat in September 1996. He is a qualified accountant and secretary by profession and has over 34 years experience in the fields of accounting and finance. He holds a Diploma in Management Executive Development from the Chinese University of Hong Kong, a Fellowship of The Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants and is an Associate of The Institute of Chartered Secretaries and Administrators in the United Kingdom. Prior to joining Hong Kong Telecom, he worked for Esso, Union Carbide and Shaw Brothers.

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BARRY TURNER is General Manager, Engineering of AsiaSat. He joined AsiaSat in 1997 as Deputy General Manager of Engineering and was appointed to his present position in May 1998. He has 31 years of experience in the satellite communications industry and has held senior and executive management positions in Engineering and in Sales and Marketing at Telesat Canada and in Strategic Planning at TMI Communications Inc. He holds a Bachelor's degree in Electrical Engineer from the Technical University of Nova Scotia, Canada, and a Masters degree in Business Administration from the University of Ottawa, Canada.

Except for Mr. Bednarek and Ms. Dickins, who are brother-in-law and sister-in-law, there is no family relationship between any director or executive officer and any other director or executive officer of the Company.

COMPENSATION

The aggregate compensation paid by AsiaSat to all directors and officers of the Company for 2004 and 2005 was approximately HK\$35.8 million and HK\$27.5

million, respectively. This compensation included payments of HK\$0.5 million (2004: HK\$0.5 million) and HK\$0.5 million (2004: HK\$0.5 million) to SES GLOBAL S.A. and a subsidiary of CITIC, the major shareholders of the Company, respectively, for certain Non-Executive Directors representing SES GLOBAL S.A. and CITIC. The decrease was largely attributable to a reduction in the amount of performance bonus of HK\$9.2 million.

CERTAIN SERVICE AGREEMENTS

PETER JACKSON. Mr. Jackson was seconded to the Company by Cable & Wireless plc prior to June 1996, when he entered into a service agreement (the "Jackson Service Agreement") with the Company pursuant to which he became its Chief Executive Officer.

The Jackson Service Agreement was for an initial fixed term of three years. Following the initial fixed term, the Jackson Service Agreement may be terminated by either party giving not less than 12 months' notice. Mr. Jackson currently is entitled to a gross annual salary of HK\$2.7 million per annum, together with a housing allowance including utilities of up to HK\$1.5 million per annum, which up to December 31, 2005 was paid directly by the Company to the landlord. Mr. Jackson is also entitled to an additional annual bonus based upon the Company's performance. Mr. Jackson is eligible to participate in the Share Option Scheme (as defined herein). He is also entitled to participate in the Company's medical scheme and in the Company's provident fund or any other AsiaSat pension scheme.

Under the terms of the Jackson Service Agreement, Mr. Jackson is restricted for a period of 12 months after the termination of his employment with the Company from competing with the Company, attempting to deal with or solicit any of the Company's customers with whom he had dealings during the last 12 months of his employment or employing or attempting to entice away any senior employees of the Company. Mr. Jackson will not act in any capacity for Cable & Wireless plc under the terms of the Jackson Service Agreement.

WILLIAM WADE. Mr. Wade was seconded to the Company by Hutchison Whampoa prior to June 1996, when he entered into a service agreement (the "Wade Service Agreement") with the Company pursuant to which he became its Deputy Chief Executive Officer of the Company.

The Wade Service Agreement was for an initial fixed term of two years. Following the initial fixed term, the Wade Service Agreement may be terminated by either party giving not less than six months' notice. Mr. Wade is entitled to a gross annual salary of HK\$2.1 million per annum, together with a housing allowance including utilities of up to HK\$1.1 million per annum, which is paid directly by the Company to the landlord. Mr. Wade is also entitled to an additional annual bonus based upon the Company's performance. Mr. Wade is eligible to participate in the Share Option Scheme. He is also entitled to participate in the Company's medical scheme and the Company's provident fund or any other AsiaSat pension scheme.

Under the terms of Mr. Wade's service agreement, he is restricted for a period of six months after the termination of his employment with the Company from competing with the Company, attempting to deal with or solicit any of the Company's customers with whom he had dealings during the last six months of his employment or employing or attempting to entice away any senior employees of the Company. Mr. Wade will not act in any capacity for Hutchison Whampoa under the terms of the Wade Service Agreement.

BOARD PRACTICES

The Board of Directors of the Company (the "Board") is vested with the broadest powers to perform all acts in the interest of the Company. The Board has adopted certain corporate governance guidelines (the "Guidelines") relating to Board membership, Board conduct and Board committee issues. A summary of the significant differences between the Company's corporate governance practices and those required by the NYSE Corporate Governance Standards for Domestic Companies is available at http://www.asiasat.com/eng/04_investor/governance/Comparison.pdf.

The Company has established an audit committee. The committee's primary objective is to assist the Board in fulfilling its oversight responsibility with respect to (a) 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 stockholders, (b) the Company's compliance with legal and regulatory requirements, (c) the independent auditors' qualifications and independence, (d) the audit of the Company's financial statements, and (e) the performance of the Company's internal audit function and independent auditors. The audit committee shall (x) have the sole authority and responsibility to select, evaluate and, where appropriate, replace the independent auditors (or to nominate the independent auditors for stockholder approval), (y) approve all audit engagement fees and terms and all non-audit engagements with the independent auditors, and (z) perform such other duties and responsibilities set forth under the Securities Exchange Act of 1934 and any other applicable independence and regulatory requirements. The audit committee shall also have the sole authority to review in advance, and grant any appropriate pre-approvals, of (i) all auditing services to be provided by the independent auditors and (ii) all non-audit services to be provided by the independent auditors as permitted by Section 10A of the Securities Exchange Act of 1934, and, in connection therewith, to approve all fees and other terms of engagement. The audit committee shall also review and approve disclosures required to be included in Securities and Exchange Commission periodic reports filed under Section 13(a) of the Securities Exchange Act of 1934 with respect to audit and non-audit services.

The audit committee shall have three or more members who shall be independent non-executive directors unless an applicable exemption is available under the rules promulgated by the U.S. Securities and Exchange Commission. The quorum for the committee shall be

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two voting members. The chairman of the committee shall be appointed by the Board or, if it does not do so, the members of the audit committee shall elect a chairman by a vote of the majority of the voting members of the audit committee. The committee comprises Messrs. Robert Sze (Chairman), Edward Chen, R. Donald Fullerton (resigned May 30, 2006), Wei Min Ju and Mark Rigolle. Messrs. Wei Min Ju and Mark Rigolle have only observer status on the audit committee and are non-voting members nominated by CITIC and SES GLOBAL under an exemption to the independence requirement.

The Company has also established a remuneration committee. The committee is responsible for, among other things, considering and reviewing the remuneration packages of the executive directors and the emoluments of the non-executive directors prior to approval of award by the Board. The committee also reviews the remuneration packages of the employees of the Company. The committee shall have three members and the quorum for the committee shall be two. The chairman of the committee shall be an independent non-executive director and appointed by the Board. The committee comprises Messrs. R. Donald

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Fullerton (Chairman, resigned May 30, 2006), Wei Min Ju and Mark Rigolle.

The Company has also established a nomination committee. The committee is responsible for, among other things, identifying individuals qualified to become Board members, overseeing the evaluation of the Board and management, and developing and recommending to the Board a set of corporate governance guidelines applicable to the Company. The committee also develops a Chief Executive Officer succession plan. The committee shall have three members and the quorum shall be two. The chairman of the committee shall be an independent non-executive director and appointed by the Board. The committee currently comprises of Messrs. Edward Chen (Chairman), Romain Bausch and Zeng Xin Mi.

The Company has also established a business development committee. The committee is responsible for reviewing all corporate plans, budgets and any new and ongoing projects or ventures and make recommendations to the Board for consideration and approval. The committee shall have no executive powers. The committee shall have three members who shall be non-executive directors. The committee currently comprises of Messrs. Robert Bednarek (Chairman), Yu Cheng Ding and Fai Wong Ko.

The execution of the policies and decisions of the Board and the daily management of the Company are vested with the management that comprises of the Chief Executive Officer, the Deputy Chief Executive Officer and the General Managers in the functional areas of Engineering, Finance, Marketing and Operations, respectively. Furthermore, the Board mandates the management with the preparation and planning of overall policies and strategies of the Company as well as decisions reaching beyond the daily management, for discussion and decision by the Board. The management meets on a regular basis on daily business and reports to the Board at every board meeting.

EMPLOYEES

As of December 31, 2005, the Company had 95 permanent employees, of which eight employees were in management, 38 employees were in engineering and operations and 31 employees were in sales and marketing. The remaining 18 employees were engaged in administrative, accounting, legal and regulatory activities. The Company has 80 employees in Hong Kong and 15 employees in Beijing.

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The Company does not employ a significant number of temporary employees. The Company is not party to any collective bargaining agreement. The Company believes its relations with its employees are good.

SHARE OWNERSHIP

Pursuant to the Company's new share option scheme adopted on January 25, 2002 (the "Share Option Scheme"), the Board of Directors of the Company may grant options to any employees (including officers and directors) of the Company or any of its subsidiaries to subscribe for shares in the Company. The subscription price shall be such price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant but the subscription price shall not be less than whichever is higher of (i) the closing price of the shares as stated in The Hong Kong Stock Exchange Limited's (the "Stock Exchange") daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share.

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At December 31, 2005, outstanding options granted under the Share Option Scheme (including those previously granted under the old scheme) were as follows:

| EXERCISE PERIOD | OPTION PRICE HK\$ | NUMBER OF SHARES |
|------------------------------|----------------------|------------------|
| Nov 26, 1999 to Nov 25, 2006 | 17.48 | 1,634,000 |
| Oct 1, 2002 to Sept 30, 2009 | 17.48 | 1,655,000 |
| Feb 4, 2004 to Feb 3, 2012 | 14.35 | 3,311,500 |
| | | 6,600,500 |
| | | 6,600,500 |

As of 31 May 2006, Romain Bausch, the Chairman and a Non-Executive Director of the Company, has been granted 100,000 options, exercisable from February 4, 2004 to February 3, 2012.

As of May 31, 2006, Zeng Xin Mi, the Deputy Chairman and a Non-Executive Director of the Company, has been granted 100,000 options, exercisable from February 4, 2004 to February 3, 2012.

As of May 31, 2006, Edward Chen, an Independent Non-Executive Director of the Company, has been granted 50,000 options, exercisable from February 4, 2004 to February 3, 2012.

As of May 31, 2006, Yu Cheng Ding, a Non-Executive Director of the Company, has been granted 50,000 options, exercisable from February 4, 2004 to February 3, 2012.

As of May 30, 2006, R. Donald Fullerton, an Independent Non-Executive Director of the Company, has been granted 75,000 options, exercisable from February 4, 2004 to February 3, 2012. Mr. Fullerton's options expired unexercised upon his resignation from the Company on May 30, 2006.

As of May 31, 2006, Wei Min Ju, a Non-Executive Director of the Company, has been granted 50,000 options, exercisable from February 4, 2004 to February 3, 2012.

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As of May 31, 2006, Robert Sze, an Independent Non-Executive Director of the Company, has been granted 75,000 options, exercisable from February 4, 2004 to February 3, 2012.

As of May 31, 2006, Peter Jackson, an Executive Director and the Chief Executive Officer of the Company, has been granted 915,000 options, exercisable from November 26, 1999 to February 3, 2012.

As of May 31, 2006, William Wade, an Executive Director and the Deputy Chief Executive Officer of the Company, has been granted 760,000 options, exercisable from November 26, 1999 to February 3, 2012.

Under SES company policy, the options granted to directors of the Company appointed by SES are held for the benefit of SES.

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.

MAJOR SHAREHOLDERS

The following table sets forth certain information regarding ownership of the Company's voting securities as of May 31, 2006 by (i) all persons who are known by the Company to be the beneficial owner of more than five percent (5%) of any class of the Company's voting securities and (ii) the total number of any class of the Company's voting securities owned by the officers and directors of the Company as a group.

| TITLE OF CLASS | IDENTITY OF PERSON OR GROUP | SHARES OWNED | PERCENT OF CLASS |
|----------------|--|--------------|------------------|
| Common Stock | Bowenvale Limited | 268,905,000 | 68.90% |
| Common Stock | Aberdeen Asset Management Asia Limited | 21,188,000 | 5.43% |
| Common Stock | Directors and Officers | 290,000 | 0.07% |

The Company is controlled by Bowenvale Limited, a limited liability company incorporated in the British Virgin Islands ("Bowenvale Limited"), which owns 68.9% of the outstanding shares of Common Stock of the Company. Until January 15, 1999, Bowenvale Limited was owned by Cable & Wireless plc, Able Star Limited, an indirect wholly-owned subsidiary of CITIC, and Dontech Limited, an indirect wholly-owned subsidiary of Hutchison Whampoa Limited. On January 15, 1999, Cable & Wireless plc and Hutchison Whampoa Limited sold their holdings in Bowenvale Limited to CITIC and SES. As a result of this transaction, CITIC increased its ownership of the voting share capital of Bowenvale Limited from 41.67% to 49.5% and SES acquired the remaining 49.5%. Voting rights in Bowenvale Limited are equally shared between CITIC and SES. CITIC also holds 1% of the shares of Bowenvale Limited that are non-voting. CITIC is China's leading state-owned investment corporation, with diversified holdings in banking, securities, energy, telecommunications, real estate, manufacturing, transportation and trading and extensive contact in China. The information contained in this Item 7 does not include options granted to current or former Directors appointed by SES which are beneficially owned by SES pursuant to SES company policy. See "Directors and Senior Management - Share Ownership." SES is based in Luxembourg and is the largest private satellite service provider in the world. CITIC and SES

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are each referred to herein as a Shareholder and Cable & Wireless plc and Hutchison Whampoa Limited are each referred to herein as a former Shareholder.

The Company is not aware of any arrangement that may at a subsequent date result in a change of control of the Company.

RELATED PARTY TRANSACTION

Certain members of the Board of Directors of the Company also serve as directors and executive officers of the current Shareholders. These individuals include Romain Bausch, Robert Bednarek, Zeng Xin Mi, Wei Min Ju, Mark Rigolle, Fai Wong Ko and Cynthia Dickins. See "Directors, Senior Management and Employees."

The Company has entered into transactions from time to time with its current and former Shareholders, their affiliates and other connected persons (as defined in the Listing Rules of the Hong Kong Stock Exchange). It is the Company's policy that such transactions be effected on terms which the Company believes to be comparable to those available with unaffiliated parties. For so long as the Company is listed on the Hong Kong Stock Exchange, all transactions between the Company and its directors or any of their respective affiliates (as defined in the Listing Rules of the Hong Kong Stock Exchange) will constitute connected transactions of the Company under the Listing Rules and unless exemptions are applicable or waivers are granted, will be subject to independent shareholders' approval in a general meeting.

AsiaSat has from time to time conducted transactions as described below with the Shareholders, their affiliates and other connected persons. Unless otherwise indicated, the following arrangements will continue to be conducted on the same basis:

(i) Since 1996, CITIC Guoan Information Industry Company Limited ("Guoan"), a subsidiary of CITIC, has entered into capacity agreements to utilize transponder capacity on the Company's satellites from time to time on normal commercial terms. The two current agreements have a term of one year starting from July 1, 2005 and June 1, 2005, respectively. The transponder capacity utilized under both agreements is used to provide domestic private network services within China. The total amount of revenue recognized by the Company during 2004 and 2005, respectively, under these agreements was approximately HK\$3.1 million (US\$0.4 million) and HK\$2.5 million (US\$0.3 million).

(ii) In 2004 and 2005, respectively, the Company paid an agency fee of HK\$0.7 million and HK\$0.7 million to CITIC Technology Company Limited, a subsidiary of CITIC, for collecting money from China customers on behalf of the Company.

(iii) In 2004, a software license fee amounting to HK\$49,000 was paid to SES ASTRA S.A.

(iv) The Company has granted or agreed to grant each of the Shareholders demand and piggyback registration rights, exercisable under certain circumstances and subject to certain conditions that require the Company to register under the Securities Act Common Stock held by Bowenvale Limited, the Shareholders and their affiliates. Under the registration rights agreement, the Company will pay all expenses in connection with registrations made at the request of the Shareholders and the Company will pay all expenses in connection with any registration by the Shareholders incidental to a registration by the Company. The exercise by the Shareholders of their registration rights

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could adversely affect the market price of the Shares and the ADSs and could impair the Company's future ability to raise capital through an offering of its equity securities.

(v) In 2004 and 2005, the Company recognized rental income from leasing satellite transponder capacity amounting to approximately HK\$18.8 million and HK\$32.2 million (US\$4.1 million), respectively, and no maintenance and other services income from SpeedCast Holdings Limited.

(vi) In 2005, the Company made payments to SES GLOBAL and a subsidiary of

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CITIC amounting to HK\$0.5 million (2004: HK\$0.5 million; 2003: HK\$0.5 million) and HK\$0.5 million (2004: HK\$0.5 million; 2003: HK\$0.5 million) respectively, for certain Non-Executive Directors representing SES GLOBAL and CITIC.

(vii) In 2004, AsiaSat entered into an agreement with Beijing Asia pursuant to which AsiaSat agreed to provide Beijing Asia with up to HK\$12.0 million (US\$1.5 million) in transponder capacity payable on a deferred basis.

Except for the arrangements referred to in paragraph (v), the transactions mentioned above have been entered into in the ordinary course of business and on normal commercial terms. Such transactions, which are of a continuing nature, are expected to be continued in the future. Under the Listing Rules of the Hong Kong Stock Exchange (the "HKSE Listing Rules"), such transactions are considered to be "continuing connected transactions" and depending on their respective value, may require full disclosure and/or prior independent shareholders' approval on each occasion they arise. The Company has been granted a conditional waiver by the Hong Kong Stock Exchange from these requirements in the past. As a result of recent amendments to the HKSE Listing Rules which came into effect on March 31, 2004, the Company is required to comply with the new disclosure and shareholders' approval requirements (if applicable) on "continuing connected transactions." The Company has applied to the Hong Kong Stock Exchange for clarification and waivers with respect to the disclosure and shareholders' approval requirements under the HKSE Listing Rules (as amended).

In addition to the requirements under the HKSE Listing Rules relating to "continuing connected transactions," the Companies Act subjects officers and directors of the Company to certain fiduciary standards in the exercise of their duties on behalf of the Company. Under the Companies Act, an officer of the Company (which term includes directors of the Company) is subject to a duty of care requiring him to act honestly and in good faith in the discharge of his duties and to, among other things, give notice to the Board of Directors at the first opportunity of any interest he has in any material contract or proposed material contract with the Company or any of its subsidiaries. The Companies Act also prohibits the Company from making loans to any Directors without obtaining the consent of shareholders holding in the aggregate not less than nine-tenths of the total voting rights of all the shareholders having the right to vote at any shareholders meeting.

ITEM 8. FINANCIAL INFORMATION.

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION.

Information responsive to this Item is included in response to Item 18.

DIVIDENDS AND DIVIDEND POLICY

The Company has distributed annual cash dividends to shareholders for each fiscal year since it commenced operations in 1996 and anticipates continuing to do so in the future. The

Board has adopted a dividend policy to distribute approximately 30-40% of net income as dividends. However, any future dividend payments are dependent on future earnings, financial position, cash flow and levels of investments in the satellite network and ground station equipment.

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The following table details the total amount of annual dividends and the gross dividends paid, together with certain additional information, for 2003, 2004 and 2005.

| | FOR THE YEAR EN DECEMBER 31 | |
|---|--------------------------------|------|
| | 2003 | 2004 |
| Net income (in HK Dollars in millions)..... | 424 | 431 |
| Ordinary dividend paid (in HK Dollars in millions)..... | 105 | 125 |
| Ordinary dividend paid per Share (in HK cents)..... | 27 | 32 |
| Ordinary dividend proposed (in HK Dollars in millions)..... | 94 | 105 |
| Ordinary dividend proposed per Share (in HK cents) | 24 | 27 |
| Special dividend paid (in HK Dollars in millions) | 98 | - |
| Special dividend paid per share (in HK cents) | 25 | - |

LEGAL AND REGULATORY PROCEEDINGS

Other than as described below, the Company is not involved in any significant legal or regulatory proceedings.

TAX DISPUTES

The Indian tax authority has made assessments against the Company in respect of certain capacity agreement payments for transponders used by the Company. See "Operating and Financial Review and Prospects - Taxation."

OTHER DISPUTES

In addition, the Company is subject to various claims and proceedings in the ordinary course of business. None of these claims and proceedings will have a material adverse effect on the financial condition or results of operations of the Company.

SIGNIFICANT CHANGES

There have been no significant changes in the Company's business, operations or financial condition since December 31, 2005.

ITEM 9. STOCK PRICE HISTORY.

SHARE PRICE HISTORY AND MARKETS

The Company's American Depositary Shares ("ADS") representing its shares (each ADS representing ten shares of the Company) are listed and traded on the New York Stock Exchange (symbol: SAT) and the Company's shares are listed and traded on the Hong Kong Stock Exchange (symbol: 1135.HK) since June 18, 1996 and June 19, 1996, respectively. The table below details, for the periods indicated, the high and low closing market prices for its depository receipts on each of the New York Stock Exchange and the Hong Kong Stock Exchange, as reported by the New York Stock Exchange and the Hong Kong Stock Exchange for the last five fiscal years and the most recent six months. See "Key Information

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Historical Exchange Rate Information" with respect to rates of exchange between the US Dollar and the HK Dollar applicable during the periods set forth below.

| | NEW YORK STOCK EXCHANGE (IN US\$) | | HONG KONG (I |
|--|--------------------------------------|------------|-----------------|
| | HIGH ---- | LOW --- | HIGH ---- |
| 2001 | 26.25 | 11.00 | 20.25 |
| 2002 | 18.90 | 10.95 | 15.00 |
| 2003 | 19.43 | 11.66 | 14.90 |
| 2004 | 22.11 | 15.20 | 17.30 |
| Quarter Ending March 31, 2004..... | 22.11 | 17.00 | 17.30 |
| Quarter Ending June 30, 2004..... | 18.35 | 15.20 | 14.25 |
| Quarter Ending September 30, 2004..... | 19.50 | 16.40 | 15.10 |
| Quarter Ending December 31, 2004..... | 19.78 | 18.27 | 15.60 |
| 2005 | 20.55 | 16.50 | 18.00 |
| Quarter Ending March 31, 2005..... | 19.09 | 18.20 | 15.10 |
| Quarter Ending June 30, 2005..... | 19.38 | 17.11 | 15.15 |
| Quarter Ending September 30, 2005..... | 20.55 | 17.60 | 16.40 |
| Quarter Ending December 31, 2005..... | 19.02 | 16.50 | 18.00 |
| 2006..... | 19.40 | 16.15 | 14.85 |
| January 2006..... | 18.10 | 16.28 | 14.00 |
| February 2006..... | 17.30 | 16.15 | 13.70 |
| March 2006..... | 19.40 | 17.05 | 14.85 |
| Quarter Ending March 31, 2006..... | 19.40 | 16.15 | 14.85 |
| April 2006..... | 18.35 | 16.85 | 13.75 |
| May 2006..... | 17.66 | 16.71 | 14.00 |

There has been no significant trading suspension in the past three years.

ITEM 10. ADDITIONAL INFORMATION.

CHARTER DOCUMENTS.

Information relating to the Company's charter documents is incorporated herein by reference to the Company's Annual Report on Form 20-F for fiscal year 2000, File No.3334856.

MATERIAL CONTRACTS.

The following is a summary of the material contracts concluded outside of the ordinary course of business to which the Company and other members of its group were a party. Copies of these contracts are filed as exhibits to this Form 20-F. Directions on how to obtain copies of these contracts are provided under "Item 10. -- Documents on Display."

- o Lease Agreement, dated March 12, 2001, between AsiaSat and the Hong Kong Industrial Estates Corporation (the "Tai Po Lease Agreement"). Pursuant to the Tai Po Lease Agreement, the Hong Kong Industrial Estates Corporation agreed to grant to AsiaSat rights to the Tai Po Site, for a period of sixty (60) months, for the purpose of constructing a satellite earth station and other structures, and thereafter to lease to

AsiaSat the Tai Po Site up to 2047. AsiaSat paid a lump sum of HK\$25.9 million (US\$3.3 million) for the lease of the Tai Po Site and agreed to pay an annual rent of 3% of the ratable value of the Tai Po Site as well as an annual sum of HK\$36,824 for management and maintenance charges.

- o Construction Contract Agreement (the "Construction Contract"), dated March 4, 2002, between AsiaSat and Leighton Contractors (Asia) Limited (the "Contractor"). Pursuant to the Construction Contract, the Contractor agreed to design and construct a new satellite earth station on the Tai Po Site. Costs related to the construction of the Tai Po Site (including consultancy fees but excluding amounts paid under the Lease Agreement) are estimated to be approximately HK\$119.7 million (US\$15.3 million).
- o Lease Agreement, dated January 26, 2005, between AsiaSat and Perfect Win Properties Limited (the "Office Lease Agreement"). Pursuant to the Office Lease Agreement, Perfect Win Properties Limited agreed to lease to AsiaSat the office premises in Causeway Bay, Hong Kong for a period of 36 months commencing March 1, 2005 for an annual rent of approximately HK\$2.7 million (US\$0.3 million).
- o Joint Venture Agreement, dated March 29, 2004, between AsiaSat and Sky Networks Communications Group Company Limited (the "Beijing Asia Joint Venture Agreement"). Pursuant to the Beijing Asia Joint Venture Agreement, the two parties agreed to participate in the joint venture Beijing Asia, and AsiaSat agreed to contribute HK\$12.5 million (US\$1.6 million) in cash to Beijing Asia and to provide transponder capacity payable on a deferred basis.
- o Subscription Agreement, dated November 30, 2004, among AsiaSat, Macau Cable TV, Limited, Pacific Satellite International Limited and Skywave (the "Skywave Subscription Agreement"). Pursuant to the Skywave Subscription Agreement, AsiaSat agreed to make a HK\$24.0 million (US\$3.1 million) contribution in return for an 80% interest in Skywave.
- o Shareholders Agreement, dated November 30, 2004, among AsiaSat, Macau Cable TV, Limited and Pacific Satellite International Limited (the "Skywave Shareholders Agreement"). The Skywave Shareholders Agreement regulates the rights and obligations of each of the parties in relation to their ownership in Skywave, including the transfer of shares in Skywave and the management and operation of Skywave.
- o AsiaSat 5 Contract for One Spacecraft Delivered On-Ground and Associated Equipment and Services (the "Construction Agreement"), dated April 28, 2006, between AsiaSat and Space Systems/Loral, Inc. (the "Construction Contractor"). Pursuant to the Construction Agreement, the Construction Contractor will design, assemble and construct AsiaSat 5. The estimated total consideration for the project and the launch is HK\$1,404.0 million (US\$180.0 million).
- o Contract for Land Launch Services (the "Launch Contract"), dated May 8, 2006, between AsiaSat and Sea Launch Limited Partnership (the "Launch Contractor"). Pursuant to the Launch Contract, the Launch Contractor will provide services associated with the launch of AsiaSat 5 in the Baikonur Space Centre in Kazakhstan.

EXCHANGE CONTROLS.

There are, except in limited embargo circumstances, no legal restrictions in Bermuda on international capital movements and foreign exchange transactions. There can be no assurance that the government of Bermuda will maintain the current foreign exchange policies.

TAXATION.

The Company is not required to make any tax withholding with respect to its shareholders.

For an additional discussion on taxation, see "Operating and Financial Review and Prospects - Taxation."

DOCUMENTS ON DISPLAY

The Company is subject to the informational reporting requirements of the Securities Exchange Act of 1934 and will file reports and other information with the Securities and Exchange Commission ("SEC"). You may examine the reports and other information that the Company files, without charge, at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C., 20549. You may also receive copies of these materials by mail from the SEC's Public Reference Branch at 450 Fifth Street, N.W., Washington, D.C., 20549. For more information on the public reference rooms, call the SEC at 1-800-SEC-0330.

SUBSIDIARY INFORMATION.

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

In the normal course of the Company's business, the Company's financial position is routinely exposed to a variety of risks, including market risks associated with interest rate movements on its outstanding debt, if any. The Company does not have significant exposure to commodity price risks or other market rate or price risks.

CURRENCY FLUCTUATIONS

A substantial portion of the Company's capital expenditure is denominated in US Dollars and HK Dollars. Revenues are denominated principally in US Dollars. A substantial portion of the cost of services and administrative expenses of the Company is incurred in Hong Kong dollars and a significant portion is incurred in Renminbi, the legal currency of the People's Republic of China. There has been wide-spread speculation about the potential appreciation of the Renminbi against the US Dollar in the near future and, given the close tie between Hong Kong's economy and the People's Republic of China, the potential impact of such appreciation on the link between the HK Dollar and US Dollar that has been in place since 1983. See "Key Information - Historical Exchange Rates Information." In the event of an appreciation of the Renminbi and, in particular, the HK Dollar, against the US Dollar, the profits of the Company will likely be adversely affected as the Company's revenues are principally denominated in US Dollars.

INTEREST RATE FLUCTUATIONS

As of December 31, 2005, no borrowings consisted of floating rate borrowings.

The Company will be exposed to interest rate fluctuations in the event of any borrowings under a future loan arrangement and any change in interest rate could affect its results of operations and cash flows. As of December 31, 2005 the Company had no outstanding borrowings.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.

The Company has not had any material default in the payment of principal, interest, or sinking purchase fund installments. The Company has not had any material default not cured within 30 days relating to indebtedness of AsiaSat or any of its significant subsidiaries that exceeds 5% of the Company's total assets on a consolidated basis.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.

Not Applicable.

PART III

ITEM 15. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer have reviewed the Company's disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 20-F. Based upon this review, these officers believe that the Company's disclosure controls and procedures are effective in ensuring that material information related to the Company is made known to them by others within the Company.

INTERNAL CONTROLS

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the period covered by this Annual Report on Form 20-F or from the end of the fiscal period to the date hereof, including any corrective actions with regard to significant deficiencies and material weaknesses.

ITEM 16. OTHER INFORMATION.

AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that Mr. Robert Sze, a member of the Company's audit committee, is a "financial expert" (as such term is used in

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Item 16 of Form 20-F) and is an "independent" director (as such term is defined under the listing rules of the NYSE).

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CODE OF ETHICS

The Company has adopted a code of ethics that requires all of its employees, particularly senior officers and general managers, including the principal financial officer, to maintain, at all times, the highest standards of integrity and honesty in conducting the Company's affairs. This code of ethics is posted on the Company's website, which is located at www.asiasat.com. The Company intends to satisfy the disclosure requirement under Item 16 of Form 20-F regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on its website, at the address specified above. Information contained in the Company's website, whether currently posted or posted in the future, is not part of this document or the documents incorporated herein by reference in this document.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Following the resignation of Deloitte Touche Tohmatsu ("DTT"), PricewaterhouseCoopers ("PwC") was appointed in November 2004 as the Company's principal accountant. As both DTT and PwC served as principal accountants of the Company (the "Principal Accountants") during 2004, the fees incurred and described below for 2004 were for both Principal Accountants.

AUDIT FEES

The aggregate fees incurred by the Company in each of 2004 and 2005 was HK\$0.7 million and HK\$0.8 million, respectively, for professional services rendered by the Principal Accountants, for the audit or review of the Company's financial statements.

AUDIT-RELATED FEES

The aggregate fees incurred by the Company in each of 2004 and 2005 was HK\$9,000 and HK\$142,000, respectively, for assurance and related services by the Principal Accountants that are reasonably related to the performance of the audit or review of the Company's financial statements and were not otherwise reported under the paragraph entitled "Audit Fees" above.

TAX FEES

The aggregate fees incurred by the Company in each of 2004 and 2005 was HK\$529,000 and HK\$89,000, respectively, for professional services rendered by the Principal Accountant(s) for tax compliance, tax advice and tax planning. The nature of the services includes services rendered in respect of tax in Hong Kong and, for 2004, services rendered by DTT in respect of tax in other jurisdictions amounted to HK\$449,000.

ALL OTHER FEES

The aggregate fees incurred by the Company in each of 2004 and 2005 was HK\$0.3 million and HK\$0.8 million, respectively, for products and services provided by the Principal Accountant(s), other than for services described in the paragraphs above. The nature of the services includes the provision of professional advisory services in relation to internal control assessment required by the Sarbanes-Oxley Act of the United States.

None of the services described above were provided under the de minimus exception set forth in Rule 2-01(c)(7)(i)(c) under Regulation S-X.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT AUDITORS

The audit committee has adopted terms of reference which address, among other matters, pre-approval of audit and non-audit services provided by the independent auditor. The terms of reference requires that all services to be provided by the independent auditors must be approved by the audit committee. To facilitate smaller projects that may arise between scheduled meetings of the audit committee, the audit committee may pre-approve the provision of audit and non-audit services by the independent auditors. For both types of pre-approvals, the audit committee considers whether such services are consistent with the rules of the U.S. Securities and Exchange Commission on auditor independence.

EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

The audit committee of the Company currently comprises of Messrs. Robert Sze (Chairman), Edward Chen, Wei Min Ju and Mark Rigolle. Messrs. Wei Min Ju and Mark Rigolle have only observer status on the audit committee and are non-voting members nominated by CITIC and SES GLOBAL, controlling shareholders of the Company. Their appointment to the audit committee is in reliance on an exemption from the audit committee independence requirements that is available to foreign private issuers under Rule 10A-3(b)(1)(iv)(D) promulgated under the Securities Exchange Act of 1934, as amended. Messrs. Wei Min Ju and Mark Rigolle are not executive officers of the Company and satisfy the "no compensation" requirement under Rule 10A-3(b)(1)(ii)(A). The Company believes that their appointment to the audit committee does not materially adversely affect the ability of the audit committee to act independently and to satisfy the other requirements of Rule 10A-3.

PART IV

ITEM 17. FINANCIAL STATEMENTS.

The Company has elected to provide the information required under Item 18 in lieu of Item 17.

ITEM 18. FINANCIAL STATEMENTS.

See Index to Financial Statements for a list of all financial statements filed as part of this Annual Report.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Index to Financial Statements:

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Consolidated Statement of Changes in Shareholders' Equity.....F-6

Consolidated Statements of Cash Flows.....F-7

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(b) Exhibits to this Annual Report:

| NUMBER | EXHIBIT |
|--------|---|
| 1.1. | Memorandum of Association and Bye-laws (incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form F-1, File No.3334856). |
| 4.1. | Service Agreement, dated June 5, 1996, between the Company and Peter Jackson (incorporated by reference to Exhibit 10.16 of the Company's Registration Statement on Form F-1, File No.3334856). |
| 4.2. | Service Agreement, dated June 3, 1996, between the Company and William D. Wade (incorporated by reference to Exhibit 10.17 of the Company's Registration Statement on Form F-1, File No.3334856). |
| 4.3. | Amendment 9 to Contract No. AsiaSat-3-001/95, dated March 6, 1998, between Hughes Space and Communications International, Inc. Asia Satellite Telecommunications Company Limited (incorporated by reference to Exhibit 1 on Form 20-F for fiscal year 1997, File No.3334856). |
| 4.4. | Contract for Launch Services, dated March 17, 1998, between Lockheed-Khrunichev-Energia International, Inc. and Asia Satellite Telecommunications Company Limited (incorporated by reference to Exhibit 2 on Form 20-F for fiscal year 1997, File No.3334856). |
| 4.5. | Subscription Agreement made on March 21, 2000, between Tech System Limited, Asia Satellite Telecommunications Company Limited and PhoenixNet Holdings Limited (incorporated by reference to Exhibit 2 on Form 20-F for fiscal year 1999, File No.3334856). |
| 4.6. | Shareholders' Agreement dated as of April 6, 2000, among Asia Satellite Telecommunications Company Limited, Tech System Limited, TVG Asia Communications Fund II and PhoenixNet Holdings Limited (incorporated by reference to Exhibit 3 on Form 20-F for fiscal year 1999, File No.3334856). |
| 4.9. | Amendment 5 to Contract No. AsiaSat-3B/4 dated September 7, 2000, between Asia Satellite Telecommunications Company Limited and Hughes Space and Communications International, Inc. (incorporated by reference to Exhibit 4.9 on Form 20-F for fiscal year 2000, File No.3334856).* |
| 4.10. | Contract for Launch Services LKEB-0009-0807 dated September 19, 2000, between AsiaSat and Lockheed Martin Commercial Launch Services, Inc. (incorporated by reference to Exhibit 4.10 on Form 20-F for fiscal year 2000, File No.3334856).* |
| 4.11. | Amended and Restated Deposit Agreement (incorporated by reference to Exhibit A to the Registration Statement on Form F-6, File No.333-13900, relating to the Company's American Depository Shares). |

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- 4.12. Share Option Scheme, dated January 25, 2002, of the Company (incorporated by reference to Exhibit 4.11 on Form 20-F for fiscal year 2001).
- 4.13. Lease Agreement, dated March 12, 2001, between AsiaSat and the Hong Kong Industrial Estates Corporation (incorporated by reference to Exhibit 4.12 on Form 20-F for fiscal year 2002).
- 4.14. Construction Contract Agreement, dated March 4, 2002, between AsiaSat and Leighton Contractors (Asia) Limited (incorporated by reference to Exhibit 4.13 on Form 20-F for fiscal year 2002).

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- 4.15. Lease Agreement, dated January 26, 2005, between Asia Satellite Telecommunications Company Limited and Perfect Win Properties Limited (incorporated by reference to Exhibit 4.15 on Form 20-F for fiscal year 2004).
- 4.16. Equity Joint Venture Contract, dated March 29, 2004, between Asia Satellite Telecommunications Company Limited and Sky Networks Communications Group Company Limited (incorporated by reference to Exhibit 4.16 on Form 20-F for fiscal year 2004).
- 4.17. Subscription Agreement, dated November 30, 2004, among Asia Satellite Telecommunications Company Limited, Macau Cable TV, Limited, Pacific Satellite International Limited and Skywave TV Company Limited (incorporated by reference to Exhibit 4.17 on Form 20-F for fiscal year 2004).
- 4.18. Shareholders Agreement, dated November 30, 2004, among Asia Satellite Telecommunications Company Limited, Macau Cable TV, Limited and Pacific Satellite International Limited (incorporated by reference to Exhibit 4.18 on Form 20-F for fiscal year 2004).
- 4.19. AsiaSat 5 Contract for One Spacecraft Delivered On-Ground and Associated Equipment and Services, dated April 28, 2006 between AsiaSat and Space Systems/Loral, Inc.*
- 4.20. Contract for Land Launch Services, dated May 8, 2006 between AsiaSat and Sea Launch Limited Partnership*
- 8.1. Subsidiaries of the Registrant (included on page 11 of this Annual Report). 12.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2. Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1. Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2. Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment pursuant to Rule 24B-2.

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SIGNATURES

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Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASIA SATELLITE TELECOMMUNICATIONS
HOLDINGS LIMITED

By: /s/ Peter Jackson

Peter Jackson
Director and Chief Executive Officer

Date: June 19, 2006

=====

ASIA SATELLITE TELECOMMUNICATIONS
HOLDINGS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005 AND
REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Asia Satellite Telecommunications Holdings Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in equity and cash flow statements present fairly, in all material respects, the financial position of Asia Satellite Telecommunications Holdings Limited and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in Hong Kong. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 2 to the consolidated financial statements, the Group adopted the Revised Hong Kong Financial Reporting Standards ("HKFRS") in 2005, which, with the exception of HKASs 2, 3 and 16, require retroactive application.

Accounting principles generally accepted in Hong Kong vary in certain significant respects from accounting principles generally accepted in the

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United States of America. Information relating to the nature and effect of such differences is presented in note 32 to the consolidated financial statements.

/s/ PricewaterhouseCoopers

Hong Kong

June 19, 2006

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Asia Satellite Telecommunications Holdings Limited

We have audited the accompanying consolidated statements of operations, changes in equity and cash flows of Asia Satellite Telecommunications Holdings Limited and subsidiaries for the year ended December 31, 2003, all expressed in Hong Kong dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results and the cash flows of Asia Satellite Telecommunications Holdings Limited and its subsidiaries for the year ended December 31, 2003, in conformity with accounting principles generally accepted in Hong Kong.

Accounting principles generally accepted in Hong Kong vary in certain significant respects from accounting principles generally accepted in the

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United States of America. The application of the latter would have affected the determination of net income for the year ended December 31, 2003, to the extent summarized in Note 32.

/s/ Deloitte Touche Tohmatsu

Hong Kong

March 11, 2004, except for consolidated statement of changes in equity for the year ended December 31, 2003 and notes 15, 19, 20, 23 and 27 which are dated June 5, 2006

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31

| | NOTE | 2005 US\$ '000 | 2005 HK\$ '000 | |
|---|------|-------------------|-------------------|-------|
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 7 | 336,014 | 2,620,911 | 2 |
| Leasehold land and land use rights | 6 | 3,102 | 24,199 | |
| Intangible assets | 8 | 172 | 1,339 | |
| Unbilled receivable | | 22,380 | 174,563 | |
| Interests in associates | 10 | 1,833 | 14,294 | |
| Amount paid to tax authority | 11 | 12,008 | 93,666 | |
| | | ----- | ----- | ----- |
| | | 375,509 | 2,928,972 | 3 |
| | | ----- | ----- | ----- |
| CURRENT ASSETS | | | | |
| Inventories | 13 | 56 | 434 | |
| Trade and other receivables | 12 | 15,204 | 118,598 | |
| Other loan receivable | | - | - | |
| Cash and cash equivalents | 14 | 209,683 | 1,635,526 | 1 |
| | | ----- | ----- | ----- |
| | | 224,943 | 1,754,558 | 1 |
| | | ----- | ----- | ----- |
| TOTAL ASSETS | | 600,452 | 4,683,530 | 4 |
| | | ===== | ===== | ===== |
| EQUITY | | | | |
| Capital and reserves attributable to the Company's equity holders | | | | |
| Share capital | 15 | 5,003 | 39,027 | |
| Share premium | | 592 | 4,614 | |
| Retained earnings | | | | |
| - Proposed final dividend | 26 | 13,509 | 105,372 | |
| - Others | | 507,074 | 3,955,175 | 3 |
| | | ----- | ----- | ----- |

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| | | | | |
|---------------------------------------|--------|----------------|--------------------|---|
| Minority interests | | 526,178 710 | 4,104,188 5,537 | 3 |
| TOTAL EQUITY | | 526,888 | 4,109,725 | 3 |
| LIABILITIES | | | | |
| NON-CURRENT LIABILITIES | | | | |
| Deferred income tax liabilities | 17 | 24,699 | 192,654 | |
| Deferred revenue | 16 | 11,238 | 87,654 | |
| | | 35,937 | 280,308 | |
| CURRENT LIABILITIES | | | | |
| Construction payables | | 397 | 3,096 | |
| Other payables and accrued expenses | | 8,220 | 64,118 | |
| Deferred revenue | 16 | 19,485 | 151,982 | |
| Current income tax liabilities | | 9,510 | 74,180 | |
| Dividend payable | | 15 | 121 | |
| | | 37,627 | 293,497 | |
| TOTAL LIABILITIES | | 73,564 | 573,805 | |
| TOTAL EQUITY AND LIABILITIES | | 660,452 | 4,683,530 | 4 |
| NET CURRENT ASSETS | | 187,316 | 1,461,061 | 1 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 562,825 | 4,390,033 | 4 |
| Commitments and contingencies | 28, 30 | | | |

The accompanying footnotes are an integral part of these consolidated financial statements.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS

| | NOTE | YEAR ENDED DECEMBER 31 | | |
|-------------------|------|------------------------|-------------------|-------------------|
| | | 2005 US\$ '000 | 2005 HK\$ '000 | 2004 HK\$ '000 |
| Sales | 5 | 112,783 | 879,705 | 1,004,982 |
| Cost of services | 19 | (53,722) | (419,029) | (420,490) |
| GROSS PROFIT | | 59,061 | 460,676 | 584,492 |
| Other gains - net | 18 | 5,604 | 43,711 | 21,982 |

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| | | | | |
|---|----|----------|----------|-----------|
| Administrative expenses | 19 | (10,754) | (83,880) | (102,477) |
| OPERATING PROFIT | | 53,911 | 420,507 | 503,997 |
| Finance costs | 21 | - | - | (1) |
| Share of loss of associates | | (496) | (3,872) | (12,380) |
| PROFIT BEFORE INCOME TAX | | 53,415 | 416,635 | 491,616 |
| Income tax expense | 22 | (6,573) | (51,270) | (60,536) |
| PROFIT FOR THE YEAR | | 46,842 | 365,365 | 431,080 |
| Attributable to: | | | | |
| Equity holders of the Company | 24 | 46,947 | 366,184 | 431,216 |
| Minority interests | | (105) | (819) | (136) |
| | | 46,842 | 365,365 | 431,080 |
| EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY DURING THE YEAR (expressed in US\$/HK\$ per share) | | | | |
| - basic | 25 | US\$0.12 | HK\$0.94 | HK\$1.10 |
| - diluted | 25 | US\$0.12 | HK\$0.94 | HK\$1.10 |
| DIVIDENDS | 26 | 17,512 | 136,593 | 136,593 |

The accompanying footnotes are an integral part of these consolidated financial statements.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | NOTE | ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | | |
|---|------|---|---------------------------|---------------------------|-------------------------------|
| | | NUMBER OF SHARES (in thousand) | SHARE CAPITAL HK\$'000 | SHARE PREMIUM HK\$'000 | RETAINED EARNINGS HK\$'000 |
| BALANCE AT JANUARY 1, 2003, as previously reported as equity | | 390,266 | 39,027 | 4,614 | 3,300 |
| BALANCE AT JANUARY 1, 2003, as previously separately reported as minority interests | | | - | - | |
| BALANCE AT JANUARY 1, 2003, as restated | | 390,266 | 39,027 | 4,614 | 3,300 |

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| | | | | |
|--|---------|--------|-------|------|
| Profit for the year | | - | - | 42 |
| Final dividend relating to 2002 | | - | - | (7) |
| Special dividend relating to 2002 | | - | - | (9) |
| Interim dividend relating to 2003 | 26 | - | - | (3) |
| Minority interests | | - | - | |
| | | - | - | 22 |
| BALANCE AT DECEMBER 31, 2003 | 390,266 | 39,027 | 4,614 | 3,52 |
| BALANCE AT JANUARY 1, 2004, as per above | 390,266 | 39,027 | 4,614 | 3,52 |
| Profit/(Loss) for the year | | - | - | 43 |
| Final dividend relating to 2003 | 26 | - | - | (9) |
| Interim dividend relating to 2004 | 26 | - | - | (3) |
| Minority interests | 29 | - | - | |
| | | - | - | 30 |
| BALANCE AT DECEMBER 31, 2004 | 390,266 | 39,027 | 4,614 | 3,83 |
| BALANCE AT JANUARY 1, 2005, as per above | 390,266 | 39,027 | 4,614 | 3,83 |
| Profit/(Loss) for the year | | - | - | 36 |
| Final dividend relating to 2004 | 26 | - | - | (10) |
| Interim dividend relating to 2005 | 26 | - | - | (3) |
| | | - | - | 22 |
| BALANCE AT DECEMBER 31, 2005 | 390,266 | 39,027 | 4,614 | 4,06 |

The accompany footnotes are an integral part of these consolidated financial statements.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

| | | YEAR ENDED DE | |
|--------------------------------------|------|---------------|----------|
| | NOTE | 2005 | 2005 |
| | | US\$'000 | HK\$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated from operations | 27 | 78,169 | 609,717 |

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| | | |
|--|----------|-----------|
| Hong Kong Profits Tax paid | (10,152) | (79,186) |
| Overseas tax paid | (2,075) | (16,181) |
| | ----- | ----- |
| Net cash generated from operating activities | 65,942 | 514,350 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (3,033) | (23,659) |
| Loan to an associate | 31 | - |
| Loan to an independent third party | - | - |
| Repayment of loan from an associate | 31 | 5,070 |
| Repayment of loan from an independent third party | 264 | 2,062 |
| Interest received | 5,107 | 39,833 |
| Interest expense | - | - |
| Proceeds from disposal of property, plant and equipment | 14 | 108 |
| Purchase of interests in associates | - | - |
| | ----- | ----- |
| Net cash from/(used in) investing activities | 3,002 | 23,414 |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | 26 | (136,593) |
| Cost of raising bank borrowing facility | - | - |
| | ----- | ----- |
| Net cash used in financing activities | (17,512) | (136,593) |
| | ----- | ----- |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | |
| | 51,432 | 401,171 |
| Cash and cash equivalents at beginning of the year | 158,251 | 1,234,355 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH | 14 | 1,635,526 |
| | ===== | ===== |

The accompany footnotes are an integral part of these consolidated financial statements.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Asia Satellite Telecommunications Holdings Limited (the Company) and its subsidiaries (together the Group) is engaged in the provision of transponder capacity.

The Company is a limited liability company incorporated in Bermuda as an exempted company under the Companies Act 1981 of Bermuda (as amended). The address of its registered office is 17th Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong.

The Company's shares are listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited (hereafter collectively referred to as the "Stock Exchange").

These consolidated financial statements are presented in thousands of units of HK dollars (HK\$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on March 16, 2006 and signed on its behalf by Mr. JU Wei Min (Director) and Mr. Peter JACKSON (Director).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) and have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

THE ADOPTION OF NEW / REVISED HKFRSS

In 2005, the Group adopted the new / revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

| | |
|---------|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 31 | Investments in Joint Ventures |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKFRS 2 | Share-based Payments |
| HKFRS 3 | Business Combinations |

ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

The adoption of new / revised HKASs did not result in substantial changes to the Group's existing accounting policies under HK GAAP. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures in the consolidated balance sheet, consolidated statement of operations and consolidated statement of changes in equity;
- HKASs 2, 8, 16, 21, 28 and 36 have affected certain disclosures in the financial statements;
- HKASs 7, 10, 12, 14, 18, 19, 23, 27, 31, 33 and 37 did not have any material impact as the Group's existing accounting policies have already complied with the standards in all material respects; and
- HKAS 24 has affected the identification of related parties and the disclosure of related-party transactions.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the statement of operations on a straight-line basis over the period of the lease. In prior years, the leasehold land was accounted for at cost less accumulated depreciation.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until December 31, 2004, the provision of share options to employees did not result in an expense in the statements of operations. Effective on January 1, 2005, the Company expenses the cost of share options in the statement of operations. As no share option was granted after November 7, 2002, no adjustment was required in the statement of operations of the respective years (note 2.15).

The adoption of HKFRS 3, HKASs 36 and 38 results in a change in the accounting policy for goodwill. Until December 31, 2004, goodwill was:

- Amortized on a straight line basis over a period of 2 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (note 2.7):

- The Group ceased amortization of goodwill from January 1, 2005;
- Accumulated amortization as at December 31, 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- For the year ended December 31, 2005 and onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 16 - the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKFRS 2 - only retrospective application for all equity instruments granted after November 7, 2002 and not vested at January 1, 2005;
- HKFRS 3 - prospectively after the adoption date.

There was no impact on opening retained earnings at January 1, 2004 from the adoption of HKASs 31 and 38, HKFRSs 2 and 3.

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 ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

THE ADOPTION OF REVISED HKAS 17

| | 2005 | 2004 |
|--|----------|----------|
| | HK\$'000 | HK\$'000 |
| Decrease in property, plant and equipment | (24,199) | (24,782) |
| Increase in leasehold land and land use rights | 24,199 | 24,782 |

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

HKFRS-Int 4 Determining whether an Arrangement contains a Lease
 HKFRS 7 Financial Instruments: Disclosures

2.2 CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to December 31.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of operations.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the statement of operations, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of operations.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of operations are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

2.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Buildings in the course of development for production, rental or administrative purposes or for purposes not yet determined, are carried at cost, less an identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the statement of operations during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, at the following rates per annum:

| | |
|----------------------------------|---------|
| Satellites: | |
| - AsiaSat 2 | 8% |
| - AsiaSat 3S | 6.25% |
| - AsiaSat 4 | 6.67% |
| Buildings | 4% |
| Tracking facilities | 10%-20% |
| Furniture, fixtures and fittings | 20%-33% |
| Other equipment | 25%-33% |
| Motor vehicles | 25% |
| Plant and machinery | 20% |

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 PROPERTY, PLANT AND EQUIPMENT (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on the disposal of property, plant and equipment are included in other gains - net.

2.6 INTANGIBLE ASSETS - LICENCE

The licence is shown at historical cost. The licence has a definite useful life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the licence over its estimated useful life (112 months).

2.7 IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.8 GOODWILL

Goodwill represents the excess of the cost of an investment over the fair value of the Group's share of the net identifiable assets of the acquired associates at the date of investment. Goodwill on investment of associates is included in interests in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2.9 INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method, comprises all costs of purchase and other costs incurred in bringing the inventories to their present locations and conditions. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognized initially at fair value less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognized in the statement of operations.

2.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of operations over the period of the borrowings using the effective interest method.

2.14 DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 EMPLOYEE BENEFITS

(a) Pension obligations

The Group participates in defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The pension plans are generally funded by payments from employees and by the relevant Group companies. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the statement of operations, and a corresponding adjustment to equity over the remaining vesting period.

(c) Profit-sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 PROVISIONS

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.17 REVENUE RECOGNITION

Revenue from transponder utilization is recognized on a straight-line basis over the period of the agreements. The excess of revenue recognized on a straight-line basis over the amount received and receivable from customers in accordance with the contract terms is shown as unbilled receivable.

Revenue from the sale of transponder capacity under transponder purchase agreements is recognized on a straight-line basis from the date of

delivery of the transponder capacity until the end of the estimated useful life of the satellite.

Deposits received in advance in connection with the provision of transponder capacity are deferred and included in other payables.

Services under transponder utilization agreements are generally billed quarterly in advance. Such amounts received in advance and amounts received from the sale of transponder capacity under transponder purchase agreements in excess of amounts recognized as revenue are recorded as deferred revenue. Deferred revenue which will be recognized in the following year is classified under current liabilities and amounts which will be recognized after one year are classified as non-current.

Interest income is accrued on a time basis, by reference to the principal amounts outstanding and at the interest rate applicable.

2.18 OPERATING LEASES (AS THE LESSEE)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the statement of operations on a straight-line basis over the period of the lease.

2.19 DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

3. FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

During the year, almost all of the Group's revenues, premiums for satellite insurance coverage and substantially all capital expenditure were denominated in U.S. Dollars. The Group's remaining expenses were primarily denominated in Hong Kong Dollars. At December 31, 2005, almost all the Group's transponder utilization agreements, transponder purchase agreement, loan agreements, obligations to purchase telemetry, tracking and control equipment were denominated in U.S. Dollars. Hence, the Group does not have any significant currency exposure and does not need to hedge.

(b) Credit risk

The Group has no significant concentrations of credit risk. The Group

maintains provision for impairment of receivables and for estimated losses that result from the inability of its customers to make the required payments. The Group bases its provision on the likelihood of recoverability of account receivables based on past experience and current collection trends that are expected to continue. The Group's evaluation also includes the length of time the receivables are past due and the general business environment.

(c) Cash flow interest-rate risk

As the Group has no significant interest-bearing assets or liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The issue of Indian tax is covered under Contingencies in note 28 below.

(c) Useful lives of in-orbit satellites

The Group's operations are capital intensive and it has significant investments in satellites. The carrying value of the Group's in-orbit satellites (AsiaSat 2, AsiaSat 3S and AsiaSat 4) represented 52% of its

total assets as of December 31, 2005 (December 31, 2004: 59%). The Group estimates the useful lives of satellites in order to determine the amount of depreciation expense to be recorded during the reported period. The useful lives are estimated at the time satellites are put into orbit and are based on historical experience with other satellites as well as the anticipated technological evolution or other environmental changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these satellites may need to be shortened, resulting in the recognition of increased depreciation in a future period. Similarly, if the actual lives of satellites are longer than the Group has estimated, the Group would have a smaller depreciation expense. As a result, if the Group's estimations of the useful lives of its satellites are not accurate or are required to be changed in the future, the Group's net income in future periods would be affected.

(d) Realizability of the carrying amounts of long-lived assets

The Group is required to evaluate at each balance sheet date whether there is any indication that the carrying amounts of long-lived assets (primarily its satellites) may be impaired. If any such indication exists, the Group should estimate the recoverable amount of the long-lived assets. An impairment loss is recognized for the excess of the carrying amount of such long-lived assets over their recoverable amounts. The value in use is the discounted present value of the cash flows expected to arise from the continuing use of long-lived assets and cash arising from its disposal at the end of its useful life. The estimates of the cash flows are based on the terms and period of existing transponder utilization agreements ("Existing Agreements").

Modifications to the terms of the Existing Agreements that result in shorter utilization periods than previously agreed and/or those that result in the reduction in agreed rates will result in a lower recoverable amount (if the discount rate used is not changed); which may, in turn, result in a situation wherein the recoverable amounts are less than the carrying amounts (therefore, an impairment loss would need to be recognized).

(e) Provision for impairment of receivables

The issue is covered under credit risk in note 3.1 (b) above.

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 ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SALES AND SEGMENT INFORMATION

SALES:

The Group's sales is analyzed as follows:

| | 2005 HK\$ '000 | 2004 HK\$ '000 |
|------------------------------------|-------------------|-------------------|
| Income from provision of satellite | 850,436 | 982,464 |

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| | | |
|---|---------|-----------|
| transponder capacity | | |
| Sales of satellite transponder capacity | 24,491 | 20,518 |
| Other revenue | 4,778 | 2,000 |
| | ----- | ----- |
| | 879,705 | 1,004,982 |
| | ===== | ===== |

The Group has only one business segment, namely the operation, maintenance and provision of satellite telecommunication systems for broadcasting and telecommunications. The Group's primary reporting format for segment reporting purposes under HKAS 14 "Segment Reporting" is the geographical basis. For the purpose of classification, the country where the customer is incorporated is deemed to be the source of sales. However, the Group's operating assets consist primarily of its satellites which are used, or are intended for use, for transmission to multiple geographical areas and therefore cannot be allocated between geographical segments. Accordingly, no geographical analysis of expenses, assets and liabilities has been presented.

The following table provides an analysis of the Group's sales by geographical markets:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---------------------------------|------------------|------------------|
| Hong Kong | 341,698 | 323,133 |
| Greater China, including Taiwan | 202,730 | 197,936 |
| United States of America | 78,205 | 183,750 |
| United Kingdom | 49,401 | 46,073 |
| British Virgin Islands | 9,706 | 40,897 |
| Others | 197,965 | 213,193 |
| | ----- | ----- |
| | 879,705 | 1,004,982 |
| | ===== | ===== |

6. LEASEHOLD LAND AND LAND USE RIGHTS - GROUP

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analyzed as follows:

| | 2005 HK\$'000 |
|----------------------------------|------------------|
| In Hong Kong held on: | |
| Leases of over 50 years | - |
| Leases of between 10 to 50 years | 24,199 |
| | ----- |
| | 24,199 |
| | ===== |

| | 2005 HK\$'000 |
|---------|------------------|
| Opening | 24,782 |

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| | | |
|---|--------|-------|
| Amortization of prepaid operating lease payment | (583) | ----- |
| Closing | 24,199 | ===== |

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

7. PROPERTY, PLANT AND EQUIPMENT - GROUP

SATELLITES AND TRACKING FACILITIES

| | IN OPERATION | UNDER CONSTRUCTION | BUILDINGS | FURNITURE, FIXTURE AND FITTINGS | OFFICE EQUIPMENT | MOT VEHICLE |
|------------------------------|-----------------|-----------------------|-----------|--|---------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| AT JANUARY 1, 2004 | | | | | | |
| Cost | 4,167,029 | 41,837 | 117,866 | 10,558 | 6,925 | 3,427 |
| Accumulated depreciation | (1,191,719) | - | (393) | (8,962) | (5,335) | (2,125) |
| Net book amount | 2,975,310 | 41,837 | 117,473 | 1,596 | 1,590 | 1,302 |
| YEAR ENDED DECEMBER 31, 2004 | | | | | | |
| Opening net book amount | 2,975,310 | 41,837 | 117,473 | 1,596 | 1,590 | 1,302 |
| Additions | 14,953 | 22,826 | 34 | 1,291 | 1,055 | 1,722 |
| Transfer | 55,028 | (55,028) | - | - | - | - |
| Disposals (note 27) | - | - | - | (16) | (1) | (71) |
| Depreciation | (280,171) | - | (4,716) | (716) | (762) | (797) |
| Closing net book amount | 2,765,120 | 9,635 | 112,791 | 2,155 | 1,882 | 2,156 |
| AT DECEMBER 31, 2004 | | | | | | |
| Cost | 4,232,629 | 9,635 | 117,900 | 10,854 | 7,646 | 3,871 |
| Accumulated depreciation | (1,467,509) | - | (5,109) | (8,699) | (5,764) | (1,715) |
| Net book amount | 2,765,120 | 9,635 | 112,791 | 2,155 | 1,882 | 2,156 |
| YEAR ENDED DECEMBER 31, 2005 | | | | | | |
| Opening net book amount | 2,765,120 | 9,635 | 112,791 | 2,155 | 1,882 | 2,156 |
| Additions | 1,337 | 10,309 | 98 | 7,377 | 1,584 | 865 |
| Transfer | 19,539 | (19,539) | - | - | - | - |
| Disposals (note 27) | - | - | - | (7) | (2) | - |
| Depreciation | (286,032) | - | (4,716) | (2,178) | (1,068) | (907) |
| Closing net book amount | 2,499,964 | 405 | 108,173 | 7,347 | 2,396 | 2,114 |

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| AT DECEMBER 31, 2005 | | | | | | |
|--------------------------|-------------|-----|---------|---------|---------|---------|
| Cost | 4,253,504 | 405 | 117,998 | 11,142 | 8,928 | 4,137 |
| Accumulated depreciation | (1,753,540) | - | (9,825) | (3,795) | (6,532) | (2,023) |
| Net book amount | 2,499,964 | 405 | 108,173 | 7,347 | 2,396 | 2,114 |

Depreciation expense of HK\$295,117,000 (2004: HK\$287,382,000) has been expensed in cost of services.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

8. INTANGIBLE ASSETS - GROUP

| | LICENCE HK\$'000 |
|---|---------------------|
| AT JANUARY 1, 2004 AND DECEMBER 31, 2004 | |
| Cost | - |
| Accumulated amortization and impairment | - |
| Net book amount | - |
| YEAR ENDED DECEMBER 31, 2005 | |
| Additions | 1,500 |
| Amortization expense (a) (note 19) | (161) |
| Closing net book amount | 1,339 |
| AT DECEMBER 31, 2005 | |
| Cost | 1,500 |
| Accumulated amortization and impairment (b) | (161) |
| Net book amount | 1,339 |

Note:

(a) Amortization expense of HK\$161,000 is included in the administrative expenses in the statement of operations.

(b) The aggregate amortization expense for each of the next 5 fiscal years is approximately HK\$161,000.

9. INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries

| | COMPANY | |
|--|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 |
| Unlisted shares in subsidiaries, at cost | 429,054 | 429,054 |

=====

The cost of the unlisted shares is based on the book value of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the Group reorganization in 1996.

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 ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries and a controlled partnership at December 31, 2005:

| NAME | PLACE OF INCORPORATION AND KIND OF LEGAL ENTITY | PRINCIPAL ACTIVITIES AND PLACE OF OPERATION | PARTICULARS OF ISSUED SHARE CAPITAL AND DEBT SECURITIES |
|--|---|--|---|
| ----- | ----- | ----- | ----- |
| AsiaSat BVI Limited | British Virgin Islands, limited liability company | Investment holding in Hong Kong | 3,000 ordinary shares of US\$1 each |
| Asia Satellite Telecommunications Company Limited | Hong Kong, limited liability company | Provision of satellite transponder capacity worldwide | 30,000 ordinary shares and 20,000 non-voting deferred shares of HK\$10 each |
| Hanbury International Limited | British Virgin Islands, limited liability company | Inactive in Hong Kong | 1 ordinary share of HK\$1 each |
| SAT Limited | Republic of Mauritius, limited liability company | Inactive in Republic of Mauritius | 100 ordinary shares of US\$1 each |
| Skywave TV Company Limited (formerly known as Auspicious City Limited) | Hong Kong, limited liability company | Provision of DTH broadcasting services in Hong Kong and Mainland China | 3,000,002 ordinary shares of HK\$10 each |
| Sornico Limited | Hong Kong, | Inactive in Hong | 2 ordinary shares |

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| | | | |
|---|--|-----------------------|--------------------------------|
| | limited liability company | Kong | of HK\$10 each |
| The First Asian Satellite Leasing Limited Partnership (the "Partnership") | Hong Kong, limited liability partnership | Inactive in Hong Kong | N/A |
| Auspicious Colour Limited | Hong Kong, limited liability company | Inactive in Hong Kong | 1 ordinary share of HK\$1 each |

The Company continues to control the Partnership as it is a general partner and accordingly continues to consolidate it.

*Shares held directly by the Company.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INTERESTS IN ASSOCIATES - GROUP

| | 2005 HK\$'000 |
|------------------------------|------------------|
| Share of net assets | |
| Beginning of the year | 11,551 |
| Share of associates' losses | (3,872) |
| Amortization of goodwill | - |
| | ----- |
| End of the year | 7,679 |
| | ----- |
| Amount due from an associate | |
| Beginning of the year | 1,846 |
| Additions | 4,769 |
| | ----- |
| End of the year | 6,615 |
| | ----- |
| Total | 14,294 |
| | ===== |

Interests in associates at December 31, 2005 include goodwill of HK\$442,000 (2004: HK\$442,000).

The Group's interest in its principal associates, all of which are unlisted, were as follows:

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| NAME | PARTICULARS OF ISSUED SHARES HELD | COUNTRY OF INCORPORATION | ASSETS | LIABILITIES | REVENUES | PRO |
|--|--|-----------------------------|----------|-------------|----------|-------|
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | | | HK\$'000 | HK\$'000 | HK\$'000 | H |
| 2004 | | | | | | |
| Beijing Asia Sky Telecommunications Technology Company Limited | N/A | China | 48,785 | 25,183 | 888 | |
| SpeedCast Holdings Limited | Ordinary shares of US\$0.0001 each | Cayman Islands | 35,418 | 21,740 | 49,825 | (|
| SpeedCast Limited (note 1) | Ordinary shares of HK\$0.01 each | Hong Kong | N/A | N/A | N/A | |
| | | | ----- | ----- | ----- | ----- |
| | | | 84,203 | 46,923 | 50,713 | (|
| | | | ===== | ===== | ===== | ===== |
| 2005 | | | | | | |
| Beijing Asia Sky Telecommunications Technology Company Limited | N/A | China | 42,011 | 25,945 | 2,721 | |
| SpeedCast Holdings Limited | Ordinary shares of US\$0.0001 each | Cayman Islands | 39,392 | 25,345 | 82,673 | |
| SpeedCast Limited (note 1) | Ordinary shares of HK\$0.01 each | Hong Kong | N/A | N/A | N/A | |
| | | | ----- | ----- | ----- | ----- |
| | | | 81,403 | 51,290 | 85,394 | |
| | | | ===== | ===== | ===== | ===== |

The Group has not recognized profit amounting to HK\$174,000 (2004: loss HK\$5,363,000) for SpeedCast Holdings Limited as the Group's share of loss exceeds its interest in SpeedCast. The accumulated losses not recognized were HK\$12,034,000 (2004: HK\$12,208,000).

Note:

(1) SpeedCast Limited is the wholly-owned subsidiary of SpeedCast Holdings Limited. Accordingly, assets, liabilities, revenues and profit/(loss) are not disclosed again.

11. AMOUNT PAID TO TAX AUTHORITY - GROUP

At the balance sheet date, an amount of approximately HK\$93,666,000 (2004:

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HK\$67,023,000) had been paid to the Government of India. For details, please refer to note 28.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. TRADE AND OTHER RECEIVABLES - GROUP

| | 2005 HK\$'000 | HK |
|--|------------------|-------|
| Trade receivables | 90,653 | 9 |
| Trade receivables from related parties (note 31) | 7,678 | |
| Less: provision for impairment of receivables | (30,930) | (2) |
| | ----- | ----- |
| Trade receivables - net | 67,401 | 7 |
| Receivables from related parties (note 31) | 15,503 | 1 |
| Other receivables | 10,831 | |
| Deposits and prepayments | 24,863 | 3 |
| Loan receivable from an associate (note 31) | - | |
| | ----- | ----- |
| | 118,598 | 13 |
| Less non-current portion: loans to related parties | - | |
| | ----- | ----- |
| Current portion | 118,598 | 13 |
| | ===== | ===== |

(a) The Group does not normally provide credit terms to its trade customers. The Company usually bills its trade customers quarterly in advance in accordance with its agreements. The aged analysis of trade receivables is stated as follows:

| | 2005 HK\$'000 | HK |
|-------------------|------------------|-------|
| 0 to 30 days | 27,768 | 3 |
| 31 to 60 days | 8,652 | 1 |
| 61 to 90 days | 14,315 | 1 |
| 91 to 180 days | 10,074 | |
| 181 days or above | 6,592 | |
| | ----- | ----- |
| | 67,401 | 7 |
| | ===== | ===== |

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

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 ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. INVENTORIES - GROUP

| | | |
|-------------|------------------|--|
| | 2005 HK\$'000 | |
| Merchandise | 434 | |
| | ===== | |

The cost of inventories recognized as expense and included in cost of services amounted to HK\$500,000 (2004: Nil).

14. CASH AND CASH EQUIVALENTS - GROUP

| | | |
|--------------------------|------------------|--|
| | 2005 HK\$'000 | |
| Cash at bank and in hand | 13,173 | |
| Short-term bank deposits | 1,622,353 | |
| | ----- | |
| | 1,635,526 | |
| | ===== | |

The effective interest rate on short-term bank deposits was 3.1% (2004: 2.3%); these deposits have an average maturity of 17 days.

Cash includes the following for the purposes of the cash flow statement:

| | | |
|---------------------------|------------------|--|
| | 2005 HK\$'000 | |
| Cash and cash equivalents | 1,635,526 | |
| | ===== | |

15. SHARE CAPITAL

| | NUMBER OF SHARES (thousands) | ORDINARY SHARES HK\$'000 | SHARE PREMIUM HK\$'000 | |
|--|------------------------------------|--------------------------------|------------------------------|--|
| AT DECEMBER 31, 2005 AND DECEMBER 31, 2004 | 390,266 | 39,027 | 4,614 | |
| | ===== | ===== | ===== | |

The total authorized number of ordinary shares is 550,000,000 shares (2004: 550,000,000 shares) with a par value of HK\$0.10 per share (2004: HK\$0.10 per share). All issued shares are fully paid.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. SHARE CAPITAL (continued)

SHARE OPTION SCHEME

A share option scheme is adopted to provide incentives to employees and directors and to promote the long term financial success of the Company. The details of the scheme are as follows:

SCHEME ADOPTED ON JUNE 3, 1996

In accordance with the Company's share option scheme (the "1996 Scheme") adopted pursuant to a resolution passed on June 3, 1996, the Board of Directors of the Company may at their discretion grant options to all permanent, full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company. The primary purpose of the 1996 Scheme was to provide incentives to eligible employees.

The total number of shares in respect of which options may be granted under the 1996 Scheme (including options already exercised) was not permitted to exceed 10% of the issued share capital of the Company at any point in time. The maximum number of share options issued to any employee, based on the subscription price of the options, shall not exceed four times the annual basic salary (excluding bonuses and allowances) of that employee.

Options granted must be taken up within 28 days from the date of grant upon payment of HK\$1 per each grant of share options. An option may be exercisable up to 50% on or after the third anniversary of the date of grant, up to 75% on or after the fourth anniversary and fully on or after the fifth anniversary but before the tenth anniversary of the date of offer unless the Board of Directors specifies other periods. The exercise price was determined by the Board of Directors and was based on the average closing price of the shares for the five trading days immediately preceding the date of grant.

The 1996 Scheme was terminated on January 25, 2002 pursuant to a resolution passed on that date.

SCHEME ADOPTED ON JANUARY 25, 2002

A new share option scheme (the "2002 Scheme") was adopted pursuant to a resolution passed on January 25, 2002 for the primary purpose of attracting and retaining the best personnel for the development of the Company's businesses, and providing incentives to employees, Directors, consultants, agents, representatives and advisors, and promoting the long term financial success of the Company. The 2002 Scheme will expire on

January 24, 2012.

Under the 2002 Scheme, the Board of Directors of the Company may at their discretion grant options to the employees, including Directors, of the Company or any company that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Company, to subscribe for shares in the Company. Options granted to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Independent Non-executive Directors of the Company (excluding any Independent Non-executive Director who is also the grantee).

No options have been granted during 2003. At December 31, 2002, the number of shares in respect of which options had been granted under the 2002 Scheme was 7,149,500 representing 1.83% of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes is not permitted to exceed 30% of the issued share capital of the Company from time to time. In addition, the total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes must not, in aggregate, exceed 10% of the issued share capital of the Company at the adoption date of the 2002 Scheme, being 39,026,550 shares, without prior approval from the Company's shareholders.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to a substantial shareholder, or an Independent Non-executive Director of the Company, or any of their respective associates under the 2002 Scheme and any other schemes in any one year in excess of 0.1% of the Company's issued share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days from the date of grant upon payment of HK\$1 per each grant of share options. The exercise period of the share options granted under the 2002 Scheme shall be determined by the Board of Directors when such options are granted, provided that such period shall not end later than 10 years from the date of grant. The exercise price is determined by the Board of Directors and will not be less than the higher of the closing price of the Company's shares on the date of grant, or the average closing price of the shares for the five trading days immediately preceding the date of grant, or the nominal value of a share of the Company.

No options were granted during 2003. Total consideration received in 2002 from employees for taking up the options granted amounted to HK\$105.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognized in the statement of operations in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or are cancelled prior to their exercise dates are deleted from the register of outstanding options.

 ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. SHARE CAPITAL (continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

OPTION A:

| | 2005 | | 2004 | | 2003 | |
|----------------|--|-----------|--|-----------|--|---------|
| | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS |
| AT JANUARY 1 | 17.48 | 1,691,500 | 17.48 | 1,691,500 | 17.48 | 1,7 |
| Granted | - | - | - | - | - | - |
| Forfeited | - | - | - | - | - | - |
| Exercised | - | - | - | - | - | - |
| Lapsed | 17.48 | (57,500) | - | - | - | (|
| AT DECEMBER 31 | 17.48 | 1,634,000 | 17.48 | 1,691,500 | 17.48 | 1,6 |

OPTION B:

| | 2005 | | 2004 | | 2003 | |
|----------------|--|-----------|--|-----------|--|---------|
| | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS |
| AT JANUARY 1 | 17.48 | 1,753,000 | 17.48 | 1,768,000 | 17.48 | 1,8 |
| Granted | - | - | - | - | - | - |
| Forfeited | - | - | - | - | - | - |
| Exercised | - | - | - | - | - | - |
| Lapsed | 17.48 | (98,000) | 17.48 | (15,000) | 17.48 | (|
| AT DECEMBER 31 | 17.48 | 1,655,000 | 17.48 | 1,753,000 | 17.48 | 1,7 |

OPTION C:

| | 2005 | | 2004 | | 2003 | |
|--------------|--|-----------|--|-----------|--|---------|
| | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS |
| AT JANUARY 1 | 14.35 | 3,481,500 | 14.35 | 3,481,500 | 14.35 | 3,5 |

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| | | | | | | |
|----------------|-------|-----------|---|-------|-----------|-----------|
| Granted | - | - | - | - | - | - |
| Forfeited | - | - | - | - | - | - |
| Exercised | - | - | - | - | - | - |
| Lapsed | 14.35 | (170,000) | - | - | - | (1) |
| | | ----- | | | ----- | |
| AT DECEMBER 31 | 14.35 | 3,311,500 | | 14.35 | 3,481,500 | 14.35 3,4 |
| | | ===== | | | ===== | ===== |

Out of the 6,600,500 outstanding options (2004: 6,926,000 options; 2003: 6,941,000), no. of exercisable options are as follows:

| | 2005 | | 2004 | | 2003 | |
|----------|--|-----------|--|-----------|--|---------|
| | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS | AVERAGE EXERCISE PRICE IN HK\$ PER SHARE | OPTIONS |
| Option A | 17.48 | 1,634,000 | 17.48 | 1,691,500 | 17.48 | 1,6 |
| Option B | 17.48 | 1,655,000 | 17.48 | 1,753,000 | 17.48 | 1,3 |
| Option C | 14.35 | 1,655,750 | 14.35 | 870,375 | 14.35 | |
| | | ----- | | ----- | | ----- |
| Total | | 4,944,750 | | 4,314,875 | | 3,0 |
| | | ===== | | ===== | | ===== |

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. SHARE CAPITAL (continued)

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| EXPIRY DATE | EXERCISE PRICE IN HK\$ PER SHARE | SHARE OPTIONS | |
|--------------------|----------------------------------|---------------|-----------|
| | | 2005 | 2004 |
| November 25, 2006 | 17.48 | 1,634,000 | 1,691,500 |
| September 30, 2009 | 17.48 | 1,655,000 | 1,753,000 |
| February 3, 2012 | 14.35 | 3,311,500 | 3,481,500 |
| | | ----- | ----- |
| | | 6,600,500 | 6,926,000 |
| | | ===== | ===== |

Details of specific categories of options are as follows:

| | | | |
|--------|---------------|----------------|-----------------|
| Option | Date of grant | Vesting period | Exercise period |
|--------|---------------|----------------|-----------------|

type

2002 Scheme

| | | |
|------------|--|--------------------------------------|
| A (note a) | February 4, 2002 - | February 4, 2002 - November 25, 2006 |
| B (note b) | February 4, 2002 February 4, 2002 - September 30, 2002 | October 1, 2002 - September 30, 2009 |
| C (note c) | February 4, 2002 February 4, 2002 - February 3, 2004 | February 4, 2004 - February 3, 2012 |

1996 Scheme

| | | |
|------------|--|---------------------------------------|
| D (note a) | November 26, 1996 November 26, 1996 - November 25, 1999 | November 26, 1999 - November 25, 2006 |
| E (note b) | September 20, 1999 September 20, 1999 - September 30, 2002 | October 1, 2002 - September 30, 2009 |

Notes:

- a. Pursuant to a resolution passed in the special general meeting of the Company held on January 25, 2002, the 1996 Scheme was terminated and all existing options under that scheme were cancelled. New options were issued on February 4, 2002 under the 2002 Scheme with the same exercise price and exercise periods to replace the options granted under the 1996 Scheme.

Option type A

100% between February 4, 2002 and November 25, 2006

The exercise periods of the following option types are divided into 3 tranches, as detailed below:

Option type D

1. Up to 50% between November 26, 1999 and November 25, 2006 2. Up to 75% between November 26, 2000 and November 25, 2006 3. Up to 100% between November 26, 2001 and November 25, 2006

Option types B and E

1. Up to 50% between October 1, 2002 and September 30, 2009 2. Up to 75% between October 1, 2003 and September 30, 2009 3. Up to 100% between October 1, 2004 and September 30, 2009

- b. Additional share options were issued on February 4, 2002 under the 2002 Scheme.

The exercise period is divided into 3 tranches, as detailed below:

Option type C

1. Up to 25% between February 4, 2004 and February 3, 2012 2. Up to 50% between February 4, 2005 and February 3, 2012 3. Up to 100% between February 4, 2006 and February 3, 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. DEFERRED REVENUE - GROUP

| | 2005 HK\$'000 |
|---|------------------|
| The maturity of deferred revenue is as follows: | |
| Within one year | 151,982 |
| More than one year but not exceeding five years | 87,654 |
| | ----- |
| | 239,636 |
| Less: amount shown as current | (151,982) |
| | ----- |
| | 87,654 |
| | ===== |

17. DEFERRED INCOME TAX - GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Deferred tax assets: | | |
| - Deferred tax assets to be recovered after more than 12 months | - | - |
| - Deferred tax assets to be recovered within 12 months | - | - |
| | ----- | ----- |
| | - | - |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| - Deferred tax liabilities to be recovered after more than 12 months | 192,654 | 205,258 |
| - Deferred tax liabilities to be recovered within 12 months | - | - |
| | ----- | ----- |
| | 192,654 | 205,258 |
| | ----- | ----- |
| | 192,654 | 205,258 |
| | ===== | ===== |

The gross movement on the deferred income tax account is as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 |
|--|------------------|------------------|
| Beginning of the year | 205,258 | 213,522 |
| Recognized in the statement of operations (note 22) | (12,604) | (8,264) |
| Effect of change in tax rate recognized in the statement of operations | - | - |

End of the year

192,654 205,258

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. DEFERRED INCOME TAX - GROUP (continued)

The movement in deferred tax liabilities/(assets) during the year is as follows:

DEFERRED TAX LIABILITIES/(ASSETS):

| | ACCELERATED TAX DEPRECIATION HK\$'000 | OTHERS HK\$'000 | TAX LOSS HK\$'000 | HK\$ |
|--|--|--------------------|----------------------|------|
| AT JANUARY 1, 2003 | 185,949 | - | - | 1 |
| Recognized in the statement of operations | 10,527 | (311) | (76) | |
| Effect of change in tax rate recognized in the statement of operations | 17,433 | - | - | |
| Charged to equity | - | - | - | |
| Exchange differences | - | - | - | |
| AT DECEMBER 31, 2003 | 213,909 | (311) | (76) | 2 |
| Recognized in the statement of operations | (6,884) | (1,456) | 76 | |
| Charged to equity | - | - | - | |
| Exchange differences | - | - | - | |
| AT DECEMBER 31, 2004 | 207,025 | (1,767) | - | 2 |
| Recognized in the statement of operations | (13,730) | 1,126 | - | (|
| Charged to equity | - | - | - | |
| Acquisition of subsidiary | - | - | - | |
| Exchange differences | - | - | - | |
| AT DECEMBER 31, 2005 | 193,295 | (641) | - | 1 |

18. OTHER GAINS - NET

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Interest income | 43,606 | 21,813 |
| Gain on disposal of property, plant and equipment other than transponders | 99 | 169 |

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| | | |
|--------|--------|--------|
| Others | 6 | - |
| | ----- | ----- |
| | 43,711 | 21,982 |
| | ===== | ===== |

19. EXPENSES BY NATURE

| | 2005 HK\$'000 | 2004 HK\$'000 | HK |
|--|------------------|------------------|-------|
| Expenses included in cost of services and administrative expenses are analyzed as follows: | | | |
| Auditors' remuneration | 769 | 697 | |
| Impairment of receivables | 2,987 | - | |
| Provision for impairment of receivables | 7,700 | 17,690 | |
| Depreciation, amortization and impairment expenses (notes 7 and 8) | 295,278 | 287,382 | 2 |
| Employee benefit expense (note 20) | 65,092 | 75,427 | |
| Operating leases | | | |
| - premises | 5,872 | 5,380 | |
| - leasehold land & land use rights | 583 | 583 | |
| Net exchange loss | 547 | 288 | |
| | ===== | ===== | ===== |

Expenses deducted from administrative expenses are analyzed as follows:

| | | | |
|--|-------|-------|-------|
| Write-back of provision for impairment of receivables | - | - | |
| | ===== | ===== | ===== |

20. EMPLOYEE BENEFIT EXPENSE

| | 2005 HK\$'000 | 2004 HK\$'000 | HK |
|---|------------------|------------------|-------|
| Salary and other benefits, including directors' remuneration | 60,748 | 71,071 | |
| Pension costs - defined contribution plans | 4,344 | 4,356 | |
| Total staff costs | 65,092 | 75,427 | |
| | ===== | ===== | ===== |

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. EMPLOYEE BENEFIT EXPENSE (continued)

(a) PENSIONS - DEFINED CONTRIBUTION PLANS

Forfeited contributions totaling HK\$292,000 (2004: HK\$37,000; 2003: HK\$178,000) were utilized during the year leaving HK\$43,000 available at the year-end to reduce future contributions.

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No contributions (2004 and 2003: HK\$Nil) were payable to the fund at the year-end.

(b) DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The remuneration of every Director for the year ended December 31, 2005 is set out below:

| NAME OF DIRECTOR | FEES HK\$'000 | SALARY HK\$'000 | DISCRETIONARY BONUSES HK\$'000 | INDUCEMENT FEES HK\$'000 | EMPLOYER'S CONTRIBUTION TO | |
|------------------------------|------------------|--------------------|--------------------------------------|--------------------------------|-----------------------------------|-------------------------------|
| | | | | | OTHER BENEFITS (a) HK\$'000 | PENSION SCHEME HK\$'000 |
| Romain BAUSCH (g) | 200 | - | - | - | - | - |
| Robert BEDNAREK (g) | 150 | - | - | - | - | - |
| Edward CHEN | 225 | - | - | - | - | - |
| Cynthia DICKINS (b) & (g) | 12 | - | - | - | - | - |
| DING Yu Cheng (h) | 100 | - | - | - | - | - |
| R. Donald FULLERTON | 200 | - | - | - | - | - |
| JU Wei Min (h) | 100 | - | - | - | - | - |
| KO Fai Wong (h) | 100 | - | - | - | - | - |
| MI Zeng Xin (h) | 200 | - | - | - | - | - |
| Mark RIGOLLE (g) | 100 | - | - | - | - | - |
| Robert SZE | 250 | - | - | - | - | - |
| Peter JACKSON | - | 2,672 | 390 | - | 1,961 | 401 |
| William WADE | - | 2,074 | 302 | - | 1,485 | 311 |
| Total | 1,637 | 4,746 | 692 | - | 3,446 | 712 |

The remuneration of every Director for the year ended December 31, 2004 is set out below:

| NAME OF DIRECTOR | FEES HK\$'000 | SALARY HK\$'000 | DISCRETIONARY BONUSES HK\$'000 | INDUCEMENT FEES HK\$'000 | EMPLOYER'S CONTRIBUTION TO | |
|-----------------------------|------------------|--------------------|--------------------------------------|--------------------------------|-----------------------------------|-------------------------------|
| | | | | | OTHER BENEFITS (a) HK\$'000 | PENSION SCHEME HK\$'000 |
| Romain BAUSCH (g) | 200 | - | - | - | - | - |
| Robert BEDNAREK (g) | 150 | - | - | - | - | - |
| Edward CHEN | 175 | - | - | - | - | - |
| DING Yu Cheng (h) | 100 | - | - | - | - | - |
| R. Donald FULLERTON | 175 | - | - | - | - | - |
| JU Wei Min (h) | 125 | - | - | - | - | - |
| KO Fai Wong (c) & (h) | 81 | - | - | - | - | - |
| LI Ting Zhou (d) & (h) | 19 | - | - | - | - | - |
| MI Zeng Xin (h) | 200 | - | - | - | - | - |
| Mark RIGOLLE (e) & (g) | 15 | - | - | - | - | - |
| Jurgen SCHULTE (f) & (g) | 110 | - | - | - | - | - |
| Robert SZE | 175 | - | - | - | - | - |
| Peter JACKSON | - | 2,619 | 2,619 | - | 1,817 | 393 |
| William WADE | - | 2,033 | 2,033 | - | 1,405 | 305 |

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| | | | | | | |
|-------|-------|-------|-------|-------|-------|-------|
| Total | 1,525 | 4,652 | 4,652 | - | 3,222 | 698 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

The remuneration of every Director for the year ended December 31, 2003 is set out below:

| NAME OF DIRECTOR | FEES HK\$'000 | SALARY HK\$'000 | DISCRETIONARY BONUSES HK\$'000 | INDUCEMENT FEES HK\$'000 | OTHER BENEFITS (a) HK\$'000 | EMPLOYER'S CONTRIBUTION TO PENSION SCHEME |
|---------------------|------------------|--------------------|--------------------------------------|--------------------------------|-----------------------------------|---|
| | | | | | | HK\$'000 |
| Romain BAUSCH (g) | 200 | - | - | - | - | - |
| Robert BEDNAREK (g) | 150 | - | - | - | - | - |
| Edward CHEN | 125 | - | - | - | - | - |
| DING Yu Cheng (h) | 100 | - | - | - | - | - |
| R. Donald FULLERTON | 175 | - | - | - | - | - |
| JU Wei Min (h) | 125 | - | - | - | - | - |
| LI Ting Zhou (h) | 100 | - | - | - | - | - |
| MI Zeng Xin (h) | 200 | - | - | - | - | - |
| Jurgen SCHULTE (g) | 125 | - | - | - | - | - |
| Robert SZE | 175 | - | - | - | - | - |
| Peter JACKSON | - | 2,619 | - | - | 1,802 | 393 |
| William WADE | - | 2,033 | - | - | 1,377 | 305 |
| Total | 1,475 | 4,652 | - | - | 3,179 | 698 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. EMPLOYEE BENEFIT EXPENSE (continued)

(b) DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

Notes:

- (a) Other benefits include accommodation, car, leave passage, insurance premium and club membership.
- (b) Appointed on November 17, 2005.
- (c) Appointed on March 11, 2004.
- (d) Resigned on March 11, 2004.
- (e) Appointed on November 17, 2004.
- (f) Resigned on November 17, 2004.
- (g) Paid to SES GLOBAL and its subsidiary.
- (h) Paid to a subsidiary of CITIC.

(c) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include two (2004 and 2003: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004 and 2003: three) individuals during the years presented are as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 | HK |
|--|------------------|------------------|-------|
| Basic salaries, housing allowances, share options, other allowances and benefits in kind | 8,450 | 8,313 | |
| Contributions to retirement benefits scheme | 701 | 687 | |
| Performance related incentive payments | 606 | 3,666 | |
| | ----- | ----- | ----- |
| | 9,757 | 12,666 | ===== |
| | ===== | ===== | ===== |

The emoluments fell within the following bands:

| Emolument bands | NUMBER OF INDIVIDUALS | | |
|-------------------------------|-----------------------|-------|-------|
| | 2005 | 2004 | |
| HK\$2,500,001 - HK\$3,000,000 | 1 | - | |
| HK\$3,000,001 - HK\$3,500,000 | 1 | - | |
| HK\$3,500,001 - HK\$4,000,000 | 1 | 1 | |
| HK\$4,000,001 - HK\$4,500,000 | - | 1 | |
| HK\$4,500,001 - HK\$5,000,000 | - | 1 | |
| | ----- | ----- | ----- |
| | 3 | 3 | ===== |
| | ===== | ===== | ===== |

21. FINANCE COSTS

| | 2005 HK\$'000 | 2004 HK\$'000 | HK |
|---|------------------|------------------|-------|
| Cost of raising bank borrowing facility | - | - | |
| Less: Amount capitalized in assets under construction | - | - | (|
| | ----- | ----- | ----- |
| Interest expense: | | | |
| - bank borrowings: bank loans and overdrafts | - | 1 | |
| | ----- | ----- | ----- |
| | - | 1 | ===== |
| | ===== | ===== | ===== |

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. INCOME TAX EXPENSE

A significant portion of the Group's profit is treated as earned outside Hong Kong and is not subject to Hong Kong profits tax. Hong Kong profits

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tax has been provided at the rate of 17.5% (2004 and 2003: 17.5%) on the estimated assessable profit for these years.

Overseas tax, including the Foreign Enterprises Income Tax in the People's Republic of China, is calculated at 5% to 20% of the gross revenue earned in certain of the overseas jurisdictions.

Details of deferred taxation are set out in note 17.

The Group currently has a tax case in dispute with the Indian tax authorities. Details of this area set out in note 28.

| | 2005 HK\$'000 | 2004 HK\$'000 | HK\$'000 |
|---|------------------|------------------|----------|
| Current income tax | | | |
| - Hong Kong profits tax | 45,056 | 49,574 | 3 |
| - Overseas taxation | 18,818 | 19,226 | 2 |
| | ----- | ----- | ----- |
| | 63,874 | 68,800 | 6 |
| | ----- | ----- | ----- |
| Deferred income tax (note 17) | | | |
| - Current year | (12,604) | (8,264) | 1 |
| - Attributable to an increase in tax rate in Hong Kong | - | - | 1 |
| | ----- | ----- | ----- |
| | (12,604) | (8,264) | 2 |
| | ----- | ----- | ----- |
| | 51,270 | 60,536 | 8 |
| | ===== | ===== | ===== |

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 | HK\$'000 |
|--|------------------|------------------|----------|
| Profit before tax | 416,635 | 491,616 | 51 |
| | ===== | ===== | ===== |
| Tax calculated at tax rate of 17.5% (2004 and 2003: 17.5%) | 72,911 | 86,033 | 8 |
| Tax effect of income not subject to tax | (84,164) | (91,475) | (7) |
| Tax effect of expenses not deductible for tax purposes | 43,027 | 44,585 | 3 |
| Tax effect of tax losses of associates not recognized | 678 | 2,167 | |
| Effect of income tax rate differential between Hong Kong and overseas locations | 18,818 | 19,226 | 2 |
| Increase in deferred tax liability resulting from an increase in Hong Kong Profits Tax rate | - | - | 1 |
| Other | - | - | |
| | ----- | ----- | ----- |
| Tax expense | 51,270 | 60,536 | 8 |
| | ===== | ===== | ===== |

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23. NET FOREIGN EXCHANGE LOSSES

The exchange differences recognized in the statement of operations are included as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 | HK\$'000 |
|-------------------------|------------------|------------------|----------|
| Administrative expenses | 547 | 288 | HK\$'000 |
| | ===== | ===== | ===== |

24. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$136,977,000 (2004: HK\$125,358,000; 2003: HK\$202,578,000).

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. EARNINGS PER SHARE

BASIC

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2005 HK\$'000 | 2004 HK\$'000 | HK\$'000 |
|---|------------------|------------------|----------|
| Profit attributable to equity holders of the Company | 366,184 | 431,216 | 42,184 |
| | ===== | ===== | ===== |
| Weighted average number of ordinary shares in issue (thousands) | 390,266 | 390,266 | 39,026 |
| | ===== | ===== | ===== |
| Basic earnings per share (HK\$ per share) | 0.94 | 1.10 | 1.10 |
| | ===== | ===== | ===== |

DILUTED

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options of dilutive potential ordinary shares. The calculation is done to determine the number of shares that could have been acquired at fair value (determined as the

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average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | 2005 HK\$'000 | 2004 HK\$'000 | |
|---|------------------|------------------|---|
| Profit used to determine diluted earnings per share | 366,184 | 431,216 | 4 |
| Weighted average number of ordinary shares in issue (thousands) | 390,266 | 390,266 | 3 |
| Adjustments for - share options (thousands) | 26 | - | |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | 390,292 | 390,266 | 3 |
| Diluted earnings per share (HK\$ per share) | 0.94 | 1.10 | |

26. DIVIDENDS

The dividends paid during the years ended 2005, 2004 and 2003 were HK\$136,593,000 (HK\$0.35 per share), HK\$124,885,000 (HK\$0.32 per share) and HK\$202,938,000 (HK\$0.52 per share included special dividend of HK\$0.25 per share) respectively. A dividend in respect of 2005 of HK\$0.27 per share, amounting to a total dividend of HK\$105,372,000 is to be proposed at the Annual General Meeting on May 19, 2006. These financial statements do not reflect this dividend payable.

| | 2005 HK\$'000 | 2004 HK\$'000 | |
|---|------------------|------------------|---|
| Interim dividend paid of HK\$0.08 (2004: HK\$0.08; 2003: HK\$0.08) per ordinary share | 31,221 | 31,221 | |
| Proposed final dividend of HK\$0.27 (2004: HK\$0.27; 2003: HK\$0.24) per ordinary share | 105,372 | 105,372 | |
| | 136,593 | 136,593 | 1 |

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. CASH GENERATED FROM OPERATIONS

| | 2005 US\$'000 | 2005 HK\$'000 | 2004 HK\$'000 | |
|--|------------------|------------------|------------------|---|
| Profit for the year | 46,842 | 365,365 | 431,080 | 4 |
| Adjustments for: | | | | |
| - Tax (note 22) | 6,573 | 51,270 | 60,536 | |
| - Bad debt expenses | 383 | 2,987 | - | |
| - Provision for impairment of receivables (written back) made | 987 | 7,700 | 17,690 | |
| - Depreciation (note 7) | 37,836 | 295,117 | 287,382 | 2 |
| - Amortization of prepaid operating lease payment (note 6) | 75 | 583 | 583 | |
| - Amortization of licence (note 8) | 21 | 161 | - | |
| - Profit on sale of property, plant and equipment (see below) | (13) | (99) | (169) | |
| - Impairment loss recognized in respect of goodwill of associates | - | - | - | |
| - Interest income (note 18) | (5,591) | (43,606) | (21,813) | |
| - Finance costs (note 21) | - | - | 1 | |
| - Share of loss from associates (note 10) | 496 | 3,872 | 12,380 | |
| Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation): | | | | |
| - Unbilled receivable | 90 | 704 | 6,357 | (|
| - Amount paid to tax authority | (3,416) | (26,643) | (42,535) | |
| - Inventories | (2) | (18) | (416) | |
| - Trade and other receivables | 100 | 779 | (27,136) | (|
| - Other payables and accrued expenses | (154) | (1,204) | 47,964 | |
| - Deferred revenue | (6,058) | (47,251) | 7,509 | (|
| Cash generated from operations | 78,169 | 609,717 | 779,413 | 6 |

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

| | 2005 US\$'000 | 2005 HK\$'000 | 2004 HK\$'000 | |
|--|------------------|------------------|------------------|--|
| Net book amount (note 7) | 1 | 9 | 88 | |
| Profit on sale of property, plant and equipment | 13 | 99 | 169 | |
| Proceeds from sale of property, plant and equipment | 14 | 108 | 257 | |

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. CONTINGENCIES

Under Indian tax regulations, the Group may be subject to Indian income tax on revenues received by the Group in respect of income from provision of satellite transponder capacity to the Group's customers for purposes of those customers carrying on business in India or earning income from any source in India.

The Indian tax authorities have assessed the Group for income tax as follows:

| Assessment year | Amount HK\$ (approximate) | Amount INR (approximate) |
|-----------------|------------------------------|-----------------------------|
| 1997-98 | 20 million | 115 million |
| 1998-99 | 23 million | 141 million |
| 1999-00 | 22 million | 127 million |
| 2000-01 | 14 million | 84 million |
| 2001-02 | 29 million | 171 million |
| 2002-03 | 38 million | 210 million |
| 2003-04 | 43 million | 247 million |
| | ----- | ----- |
| Total | 189 million | 1,095 million |
| | ===== | ===== |

The Group has filed appeals for each of the assessment years 1997-98 to 2003-04.

No assessment has yet been made for the 2004-05 or 2005-06 assessment years.

The Income Tax Appellate Tribunal (the "Tribunal") in an earlier appeal filed against the original assessment for the assessment year 1997-98 held that the Group is liable for Indian income tax under certain circumstances. The Group does not believe that it is liable for the Indian income tax as held by the Tribunal and has filed an appeal against the Tribunal's decision. The tax authorities have also filed an appeal against the Tribunal's decision. Both the appeals have been admitted by the High Court.

In order to obtain a stay of recovery proceedings, the Group has made payments as follows and has recorded these payments as an asset on the assumption that the amounts are recoverable:

| Assessment year | Amount HK\$ (approximate) | Amount INR (approximate) |
|-----------------|------------------------------|-----------------------------|
| 1997-98 | 13 million | 78 million |
| 1998-99 | 15 million | 88 million |
| 1999-00 | 10 million | 62 million |
| 2000-01 | 9 million | 50 million |
| 2001-02 | 20 million | 119 million |
| 2002-03 | 27 million | 148 million |
| 2003-04 | 24 million | 135 million |
| | ----- | ----- |
| Total | 118 million | 680 million |
| | ===== | ===== |

In addition, based on the general principles set forth by the Tribunal, the amount of income taxable in India depends on the payments made by the Group's customers to the Group for the purpose of those customers carrying

on business in India or earning income from any source in India. As such information is proprietary in nature and has not been provided by the Group's customers, the Group cannot reasonably estimate the taxable income and therefore also cannot estimate the amount of income tax to which the Group may be assessed. Furthermore, as stated above, the Group has filed an appeal against the Tribunal's decision. The appeal has been admitted by the High Court and is pending before the Court. Accordingly, no provision has been recognized for Indian income tax in the Group's financial statements. Any related legal costs are expensed as incurred.

29. MAJOR NON-CASH TRANSACTIONS

On November 30, 2004, the Group decreased its equity interest in Skywave TV Company Limited ("Skywave") from 100% to 80% when two independent third parties made a contribution in kind of HK\$3 million each in return for 10% stake in the Skywave. There was no major non-cash transaction during 2005 and 2003.

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 ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. COMMITMENTS - GROUP

CAPITAL COMMITMENTS

Capital expenditure at the balance sheet date but not yet incurred is as follows:

| | 2005 HK\$'000 | |
|-----------------------------------|------------------|--|
| A satellite earth station | | |
| Contracted but not provided for | - | |
| Other investment projects | | |
| Authorized but not contracted for | 10,140 | |
| Other assets | | |
| Contracted but not provided for | 5,750 | |
| | ----- | |
| | 15,890 | |
| | ===== | |

OPERATING LEASE COMMITMENTS - WHERE THE GROUP IS THE LESSEE

The Group leases certain of its office and residential premises under non-cancellable operating leases. Leases are negotiated for an average term of two to four years. The lease expenditure expensed in the statements of operations during the years presented are disclosed in note 19.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 2005 HK\$'000 | |
|--|------------------|-------|
| Not later than 1 year | 4,376 | |
| Later than 1 year and not later than 5 years | 4,773 | |
| Later than 5 years | - | |
| | ----- | ----- |
| | 9,149 | |
| | ===== | ===== |

OPERATING LEASE COMMITMENTS - WHERE THE GROUP IS THE LESSOR

The Group leases its office premises under non-cancellable operating leases. The lease is negotiable for four years. The lease income recognized in the statement of operations during the year was HK\$552,000 (2004: HK\$368,000; 2003: Nil).

The Group had contracted with the customer for the following future minimum lease payments:

| | 2005 HK\$'000 | |
|---------------------|------------------|-------|
| Within one year | 552 | |
| One to two years | 552 | |
| Two to three years | 184 | |
| Three to four years | - | |
| | ----- | ----- |
| | 1,288 | |
| | ===== | ===== |

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. RELATED-PARTY TRANSACTIONS

The Group is controlled by Bowenvale Limited (incorporated in British Virgin Islands), which owns 68.9% of the Company's shares. The remaining 31.1% of the shares are widely held. The ultimate parents of the Group are CITIC Group (incorporated in China) and SES GLOBAL S.A. (incorporated in Luxembourg).

The following transactions were carried out with related parties:

i) INCOME FROM PROVISION OF SATELLITE TRANSPONDER CAPACITY

The Group has entered into agreements for the provision of transponder capacity to a subsidiary of CITIC, CITIC Guoan Information Industry Company Limited. CITIC is a substantial shareholder of the Company throughout the years presented.

During the years presented, the Group recognized income from provision of satellite transponder capacity from its associate, SpeedCast.

| | 2005 HK\$'000 | 2004 HK\$'000 | HK\$ |
|--|------------------|------------------|-------|
| CITIC Guoan Information Industry Company Limited | 2,461 | 3,101 | 3 |
| SpeedCast Limited (an associate) | 32,202 | 18,793 | 20 |
| | ----- | ----- | ----- |
| | 34,663 | 21,894 | 24 |
| | ===== | ===== | ===== |

ii) AGENCY FEE

In addition, the Group has entered into an agreement with CITIC Technology Company Limited, a subsidiary of CITIC, for collecting money from China customers on behalf of the Group.

| | 2005 HK\$'000 | 2004 HK\$'000 | HK\$ |
|----------------------------------|------------------|------------------|-------|
| CITIC Technology Company Limited | 723 | 686 | |
| | ===== | ===== | ===== |

iii) KEY MANAGEMENT COMPENSATION

Information for other management personnel is set out in note 20.

The Group made payments to SES GLOBAL and its subsidiary and a subsidiary of CITIC for certain Non-executive Directors representing SES GLOBAL and CITIC.

| | 2005 HK\$'000 | 2004 HK\$'000 | HK\$ |
|-------------------------------|------------------|------------------|-------|
| SES GLOBAL and its subsidiary | 462 | 475 | |
| A subsidiary of CITIC | 500 | 525 | |
| | ----- | ----- | ----- |
| | 962 | 1,000 | 1 |
| | ===== | ===== | ===== |

iv) OTHER FEES

| | 2005 HK\$'000 | 2004 HK\$'000 | HK\$ |
|------------------|------------------|------------------|-------|
| Licence fee: | | | |
| SES ASTRA S.A. | - | 49 | |
| | ===== | ===== | ===== |
| Consultancy fee: | | | |
| SES ASTRA S.A. | - | - | |
| | ===== | ===== | ===== |

SES ASTRA S.A. is a wholly-owned subsidiary of SES GLOBAL. SES GLOBAL was a substantial shareholder of the Company throughout the years presented.

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 ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. RELATED-PARTY TRANSACTIONS (continued)

v) INTEREST INCOME ON LOAN RECEIVABLE FROM AN ASSOCIATE

| | 2005 HK\$'000 | 2004 HK\$'000 | HK\$'000 |
|----------------------------------|------------------|------------------|----------|
| SpeedCast Limited (an associate) | 176 | 419 | |
| | ===== | ===== | ===== |

vi) YEAR-END BALANCES ARISING FROM THESE TRANSACTIONS

| | 2005 HK\$'000 | HK\$'000 |
|---|------------------|----------|
| Trade receivables from related parties (note 12): | | |
| CITIC Guoan Information Industry Company Limited | 39 | |
| SpeedCast Limited (an associate) | 7,639 | |
| | ----- | ----- |
| | 7,678 | |
| | ===== | ===== |
| Receivables from related parties (note 12): | | |
| CITIC Technology Company Limited | 15,503 | 1 |
| | ===== | ===== |
| Payables to related parties: | | |
| CITIC Technology Company Limited | 455 | |
| | ===== | ===== |

vii) LOAN RECEIVABLE FROM AN ASSOCIATE

| | 2005 HK\$'000 | HK\$'000 |
|---|------------------|----------|
| Loan receivable from SpeedCast Limited: | | |
| Beginning of the year | 5,070 | |
| Loans advanced during the year | - | |
| Loan repayments received | (5,070) | (|
| | ----- | ----- |
| End of the year (note 12) | - | |
| | ===== | ===== |

The amount was secured, bearing interest at 6% per annum and was fully repaid as at December 31, 2005.

The above transactions were entered into on commercial terms determined

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and agreed by the Group and the relevant parties.

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 ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. SUMMARY OF DIFFERENCES BETWEEN HONG KONG ("HK") AND UNITED STATES ("US")
 GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")

The accompanying consolidated financial statements are prepared in accordance with HK GAAP, which differs in certain significant respects from USGAAP as follows:

The following table summarizes the effect on profit (net income) of differences between HK GAAP and US GAAP for the years presented:

| | YEAR ENDED DECEMBER 31 | | | HK\$ |
|---|------------------------|------------------|------------------|------|
| | 2005 US\$'000 | 2005 HK\$'000 | 2004 HK\$'000 | |
| Profit for the year (net income) as reported under HK GAAP | 46,947 | 366,184 | 431,216 | 42 |
| US GAAP adjustments: | | | | |
| Amortization of interest and borrowing costs (a) | (1,035) | (8,072) | (8,072) | (1) |
| Amortization of goodwill (b) | - | - | 221 | |
| Impairment loss of goodwill (b) | - | - | - | (1) |
| Tax effect on reconciling items (c) | 90 | 706 | 706 | |
| Profit for the year (net income) under US GAAP | 46,002 | 358,818 | 424,071 | 40 |
| Basic earnings per share under US GAAP | US\$0.12 | HK\$0.92 | HK\$1.09 | HK\$ |
| Diluted earnings per share under US GAAP | US\$0.12 | HK\$0.92 | HK\$1.09 | HK\$ |
| Basic earnings per American Depositary Share ("ADS") under US GAAP | US\$1.18 | HK\$9.19 | HK\$10.86 | HK\$ |
| Diluted earnings per American Depositary Share ("ADS") under US GAAP | US\$1.18 | HK\$9.19 | HK\$10.86 | HK\$ |
| Shares used in computation of basic earnings per share (in thousands) | 390,266 | 390,266 | 390,266 | 39 |
| Shares used in computation of diluted earnings per share (in thousands) | 390,292 | 390,292 | 390,266 | 39 |

The following table summarizes the effect on shareholders' equity of the differences between HK GAAP and US GAAP:

AS AT DECEMBER 31

| | 2005 US\$'000 | 2005 HK\$'000 | |
|--|------------------|------------------|-----|
| Shareholders' equity as reported under HK GAAP | 526,178 | 4,104,188 | 3,8 |
| US GAAP adjustments: | | | |
| Capitalization of interest and borrowing costs (a) | 15,767 | 122,980 | 1 |
| Amortization of interest and borrowing costs (a) | (10,336) | (80,617) | (|
| Amortization of goodwill (b) | 1,452 | 11,325 | |
| Impairment loss of goodwill (b) | (1,424) | (11,104) | (|
| Tax effect of reconciling items (c) | (1,004) | (7,831) | |
| Shareholders' equity under US GAAP | 530,633 | 4,138,941 | 3,9 |

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. SUMMARY OF DIFFERENCES BETWEEN HONG KONG ("HK") AND UNITED STATES ("US")
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") (continued)

(a) Capitalization of interest and borrowing costs

Under HK GAAP, interest on bank loans and related costs of obtaining the loans (including costs incurred in connection with loan facilities) taken out to finance construction of satellites is capitalized during the period of construction. Under US GAAP, the interest cost incurred during the period of construction that could have been avoided if the construction of satellites had not been made, is capitalized. The interest capitalized is computed by applying an average borrowing rate of outstanding debt to the total amount of qualifying assets under construction, not to exceed total interest costs incurred.

In addition, under US GAAP, certain related borrowing costs payable to lenders are excluded from the amounts capitalized.

(b) Amortization and impairment loss of goodwill

Under HK GAAP, HKFRS 3 requires all business combinations for which the agreement date is on or after January 1, 2005 to be accounted for using the purchase method. Goodwill acquired in a business combination will no longer be amortized but will be subject to impairment tests at least annually in accordance with HKAS 36. Upon the adoption of HKFRS 3, the net carrying amount of goodwill carried on the balance sheet is frozen and will be tested for impairment. Goodwill previously taken directly to reserves will no longer be subject to impairment testing and will not be recognized in the statement of operations when all or part of the business to which the goodwill relates is disposed of. Accordingly, goodwill previously taken directly to reserves will not impact the statement of operations in the future upon the adoption of HKAS 36.

Under US GAAP, effective from January 1, 2002, goodwill is: (i) no longer

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amortized, (ii) assigned to a reporting unit and (iii) tested for impairment at least annually. Prior to January 1, 2002, goodwill was amortized over its estimated useful life, not to exceed 40 years under US GAAP.

(c) The amounts included in the reconciliation show the income tax effects of the differences between HK GAAP and US GAAP as described above.

(d) Interest income

Under HK GAAP, interest income is included in profit from operations. Under US GAAP, interest income is excluded from operating income and is included in net income as other income.

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ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. SUMMARY OF DIFFERENCES BETWEEN HONG KONG ("HK") AND UNITED STATES ("US")
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") (continued)

The changes in shareholders' equity based on US GAAP are as follows:

| | AS AT DECEMBER 31 | | |
|-------------------------------|-------------------|-----------|-------|
| | 2005 | 2005 | |
| | US\$'000 | HK\$'000 | |
| Balance, beginning of year | 502,143 | 3,916,716 | 3,6 |
| Transactions during the year: | | | |
| i) Net income | 46,002 | 358,818 | 4 |
| ii) Dividend paid | (17,512) | (136,593) | (1 |
| Balance, end of year | 530,633 | 4,138,941 | 3,9 |
| | ===== | ===== | ===== |

Note: One ADS is equivalent to 10 ordinary shares.

A reconciliation of the significant balance sheet accounts under HK GAAP and to the amounts determined under US GAAP is as follows:

| | AS AT DECEMBER 31 | | |
|--|-------------------|-----------|----|
| | 2005 | 2005 | |
| | US\$'000 | HK\$'000 | |
| Property, plant and equipment | | | |
| Amount under HK GAAP | 336,014 | 2,620,911 | 2, |
| US GAAP adjustments: | | | |
| Capitalization of interest and borrowing costs | 15,767 | 122,980 | |

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| | | | |
|--|----------|-----------|-----------|
| Amortization of interest and borrowing costs | (10,336) | (80,617) | |
| | ----- | ----- | --- |
| Amount under US GAAP | 341,445 | 2,663,274 | 2,663,274 |
| | ===== | ===== | ===== |
| Interests in associates | | | |
| Amount under HK GAAP | 1,833 | 14,294 | |
| US GAAP adjustments: | | | |
| Amoritsation of goodwill | 1,452 | 11,325 | |
| Impairment loss of goodwill | (1,424) | (11,104) | |
| | ----- | ----- | --- |
| Amount under US GAAP | 1,861 | 14,515 | |
| | ===== | ===== | ===== |
| Deferred income tax liabilities | | | |
| Amount under HK GAAP | 24,699 | 192,654 | |
| US GAAP adjustments: | | | |
| Tax effect of reconciling items | 1,004 | 7,831 | |
| | ----- | ----- | --- |
| Amount under US GAAP | 25,703 | 200,485 | |
| | ===== | ===== | ===== |

The amounts of total assets determined using US GAAP, as a result of the foregoing adjustments, are HK\$4,726,114,000 (US\$605,912,000) and HK\$4,599,903,000 as of December 31, 2005 and 2004, respectively. The amounts of total liabilities (excluding minority interests) determined using US GAAP, as a result of the foregoing adjustments, are HK\$581,636,000 (US\$74,569,000) and HK\$676,831,000 as of December 31, 2005 and 2004, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. SUMMARY OF DIFFERENCES BETWEEN HONG KONG ("HK") AND UNITED STATES ("US")
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") (continued)

| | AS AT DECEMBER 31 | | | HK\$ |
|--|-------------------|------------------|------------------|---------|
| | 2005 US\$'000 | 2005 HK\$'000 | 2004 HK\$'000 | |
| Net cash generated from operating activities | | | | |
| Amount under HK GAAP | 65,942 | 514,350 | 750,812 | 627,000 |
| US GAAP adjustments: | | | | |
| Interest received | 5,107 | 39,833 | 20,290 | 4,000 |
| Cost of raising bank borrowing facility | - | - | - | (6,000) |
| | ----- | ----- | ----- | ----- |
| Amount under US GAAP | 71,049 | 554,183 | 771,102 | 625,000 |
| | ===== | ===== | ===== | ===== |

| | | | | |
|---|----------|-----------|-----------|-------|
| Net cash used in investing activities | | | | |
| Amount under HK GAAP | 3,002 | 23,414 | (50,909) | (164) |
| US GAAP adjustments: | | | | |
| Interest received | (5,107) | (39,833) | (20,290) | (4) |
| | ----- | ----- | ----- | ----- |
| Amount under US GAAP | (2,105) | (16,419) | (71,199) | (169) |
| | ===== | ===== | ===== | ===== |
| Net cash used in financing activities | | | | |
| Amount under HK GAAP | (17,512) | (136,593) | (124,885) | (209) |
| US GAAP adjustments: | | | | |
| Cost of raising bank borrowing facility | - | - | - | 6 |
| | ----- | ----- | ----- | ----- |
| Amount under US GAAP | (17,512) | (136,593) | (124,885) | (202) |
| | ===== | ===== | ===== | ===== |

The reclassification for US GAAP consolidated statements of cash flows pertains to interest received and costs for bank borrowings facility which are presented as investing and financing activities under HK GAAP, respectively (as opposed to operating activities and investing activities under US GAAP, respectively).

Additional disclosures as required by US GAAP:

- (a) US GAAP requires that all items that are required to be recognized as components of comprehensive income be reported in a separate financial statement. There are no material differences between total recognized gains and losses for the periods shown in the consolidated statements of changes in Equity presented under HK GAAP comprehensive income, except for the differences between HK GAAP and US GAAP profit attributable to shareholders shown above.
- (b) The Company applies Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations in accounting for options granted under the 1996 Scheme and 2002 Scheme (see note 20). No compensation cost has been recognized on options granted under the 1996 Scheme and the 2002 Scheme.

The Company, on September 8, 1999, cancelled 2,161,000 share options (granted under the 1996 Scheme) exercisable from November 26, 1999 to November 25, 2006 at an exercise price of HK\$19.00 per share. The Company had, simultaneous to the cancellation, issued 2,022,000 replacement share options to the same employees with similar exercise period but at a lower exercise price of HK\$17.48 per share. The 139,000 share options cancelled but not replaced were those share options held by resigned employees. There was no change in the number of shares to be issued to satisfy the exercise of the replacement share options. The Company, through December 31, 2002, did not account for the option modification under a variable plan accounting that would have been required under Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation". There would be no impact on the Company's 2003 consolidated financial statements and on 2004 and 2005 consolidated financial statements when the Company accounted for the option modification under a variable plan required under FIN 44 as the fair value of the underlying shares was less than the exercise price of the share options as at December 31, 2003, 2004 and 2005, respectively.

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32. SUMMARY OF DIFFERENCES BETWEEN HONG KONG ("HK") AND UNITED STATES ("US")
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") (continued)

Had compensation cost for the Company's share option schemes been determined based on the fair value at the grant dates for awards under the share option schemes consistent with the method of Statement of Financial Accounting Standards ("SFAS") No. 123 "ACCOUNTING FOR STOCK-BASED COMPENSATION", the Company's net income and earnings per share would have been as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
|---|---------------------------|---------------------------|---------------------------|
| Net income as reported under US GAAP | 358,818 | 424,071 | 408,255 |
| Add: Stock compensation as reported | | | |
| Less: Stock compensation determined using the fair value method | (3,589) | (6,983) | (10,952) |
| Pro forma net income under US GAAP | ----- 355,229 ===== | ----- 417,088 ===== | ----- 397,303 ===== |
| Shares used in computation of basic earnings per share (thousands) | ----- 390,266 ===== | ----- 390,266 ===== | ----- 390,266 ===== |
| Shares used in computation of diluted earnings per share (thousands) | ----- 390,292 ===== | ----- 390,266 ===== | ----- 390,266 ===== |
| Net income per share under US GAAP | | | |
| Basic, as reported (HK\$ per share) | 0.92 | 1.09 | 1.05 |
| Diluted, as reported (HK\$ per share) | 0.92 | 1.09 | 1.05 |
| Basic, pro forma (HK\$ per share) | 0.91 | 1.07 | 1.02 |
| Diluted, pro forma (HK\$ per share) | 0.91 | 1.07 | 1.02 |

The weighted average fair value of options granted during 2002 (Option Types A, B and C) was HK\$8, using the Black-Scholes option-pricing model based on the following assumptions:

| | |
|--------------------------------|----------|
| Expected life of options | 10 years |
| Expected volatility | 51.00% |
| Risk-free rate | 5.99% |
| Expected annual dividend yield | 1.62% |

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not

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necessarily provide a reliable single measure of the fair value of the share options.

Share option with Option Types A and B issued in 2002 represent replacement share options to Option Types D and E, respectively. There would be no impact on pro forma net income, assuming SFAS No. 123 is used with respect to issuance of the replacement share options as the fair value of share options prior to and subsequent to the replacement remained the same.

Compensation expense resulting from the fair value method of SFAS No. 123 may not be representative of compensation expense to be incurred on a pro forma basis in future years.

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32. SUMMARY OF DIFFERENCES BETWEEN HONG KONG ("HK") AND UNITED STATES ("US")
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") (continued)

A summary of the status of the Company's 2002 Scheme and 1996 Scheme as of December 31, 2005, 2004 and 2003, and changes during the years then ended is presented below:

| | 2005 | | 2004 | | 2003 | |
|--|-----------|---|-----------|---|-----------|---|
| | SHARES | WEIGHTED- AVERAGE EXERCISE PRICE | SHARES | WEIGHTED- AVERAGE EXERCISE PRICE | SHARES | WEIGHTED- AVERAGE EXERCISE PRICE |
| | ----- | HK\$ | ----- | HK\$ | ----- | ----- |
| Outstanding, beginning of year | 6,926,000 | 15.91 | 6,941,000 | 15.91 | 7,149,500 | 15.91 |
| Granted | - | - | - | - | - | - |
| Exercised | - | - | - | - | - | - |
| Forfeited/cancelled/lapsed | (325,500) | 15.85 | (15,000) | 17.48 | (208,500) | 15.91 |
| Outstanding, end of year | 6,660,500 | 15.91 | 6,926,000 | 15.91 | 6,941,000 | 15.91 |
| Options exercisable at year-end | 4,944,750 | 17.48 | 4,314,875 | 17.48 | 3,017,500 | 17.48 |
| Weighted-average fair value of options | | N/A | | N/A | | N/A |

granted during
the year

The following table summarizes information on the 2002 Scheme and 1996 Scheme outstanding at December 31, 2005:

| Options outstanding | | | Options exercisable | |
|---------------------|-------------------|---|---------------------|-------------------|
| EXERCISE PRICE | NUMBER OF OPTIONS | WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE | EXERCISE PRICE | NUMBER OF OPTIONS |
| HK\$ 14.35 | 3,311,500 | 6.09 years | HK\$ 14.35 | 1,655,750 |
| HK\$ 17.48 | 3,289,000 | 2.33 years | HK\$ 17.48 | 3,289,000 |
| | 6,600,500 | 4.22 years | | 4,944,750 |

(c) Recent changes in accounting standards

SFAS NO. 154. In May 2005, the Financial Accounting Standards Board ("FASB") issued the US Statement of Financial Accounting Standards ("SFAS") No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements (SFAS 154). SFAS 154 changes the requirements for the accounting for, and reporting of, a change in accounting principles. Previously, voluntary changes in accounting principles were generally required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. SFAS 154 requires retrospective application to financial statements of prior periods, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after 15 December 2005; but the statement does not change the transitional provisions of any existing accounting pronouncements. The Company does not believe that the adoption of SFAS 154 will have a material effect on its financial position, cash flows or results of operations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. SUMMARY OF DIFFERENCES BETWEEN HONG KONG ("HK") AND UNITED STATES ("US") GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") (continued)

(c) Recent changes in accounting standards (continued)

FASB NO. 109. In July 2005, the FASB issued a proposed Interpretation

of FASB Statement No. 109 (the "Interpretation"), "Accounting for Income Taxes" which clarified accounting for uncertain tax positions. Under the Interpretation, an enterprise is required to recognize, in its financial statements, the best estimate of the impact of a tax position only if that position would probably be sustained in an audit, based solely on the technical merits of the position. In evaluating whether or not the "probable recognition" threshold has been met, the Interpretation requires the presumption that the tax position will be evaluated during an audit by taxing authorities. The term probable, as defined in FASB Statement No. 5, "Accounting for Contingencies" means "the future event or events are likely to occur." Individual tax positions that fail to meet the probable recognition threshold will generally result in either (a) a reduction in the deferred tax asset or an increase in a deferred tax liability or (b) an increase in the liability for income taxes payable or the reduction of an income tax refund receivable. The impact may also include both (a) and (b). The increase in the income tax liability would not be classified as a deferred tax liability unless it resulted from a taxable temporary difference created by a tax position that has met the probable recognition threshold. For enterprises that present classified statements of financial position, the income tax liability would be classified as current to the extent that a payment is anticipated within one year or the operating cycle, if longer. The Interpretation also would provide guidance on disclosure, accrual of interest and penalties, accounting in interim periods, and transition. The Interpretation is currently in draft, and thus any effects on the current accounting treatment of the Indian income tax liability or the PRC withholding tax cannot be assessed at this point in time.

SAB 107. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107 Share Based Payment, which offers guidance on SFAS No. 123(R). SAB No. 107 was issued to assist preparers by simplifying some of the implementation challenges of SFAS No. 123(R) while enhancing the information that investors receive. SAB No. 107 creates a framework that is premised on two overarching themes: (i) considerable judgment will be required by preparers to successfully implement SFAS No. 123(R), specifically when valuing employee stock options; and (ii) reasonable individuals, acting in good faith, may reach different conclusions on the fair value of employee stock options. Key topics covered by SAB No. 107 include valuation models, expected volatility and expected term. The Company will adopt SAB No. 107 concurrently with the adoption of SFAS No. 123(R) with effect from January 1, 2006. The Group does not expect the adoption of this SAB to have a material impact on its consolidated financial position or results of operations.

- (d) Details of the movements of the provision for impairment of receivables made for the years ended December 31, 2005, 2004 and 2003 are as follows:

| | 2005 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
|----------------------|------------------|------------------|------------------|
| At beginning of year | 23,230 | 5,540 | 15,012 |
| Bad debt expense | 7,700 | 17,690 | - |
| Bad debt recovered | - | - | (6,279) |
| Amount written off | - | - | (3,193) |
| | ----- | ----- | ----- |
| At end of year | 30,930 | 23,230 | 5,540 |
| | ===== | ===== | ===== |

- (e) Major customers

The Company has one customer accounting for 10% or more of its service revenue. Service revenue from such customer represents 25.7%, 22.4% and 24.9% of revenues in 2005, 2004 and 2003, respectively.

(f) Income tax

The Company is subject to Hong Kong Profits Tax on its operations deemed to be located in Hong Kong. It is also subject to an overseas tax on its operations in certain overseas jurisdictions.

The Group's operating assets consist primarily of its satellites which are used, or are intended for use, for transmission to multiple geographical areas and therefore cannot be allocated between tax jurisdictions. Accordingly, no analysis of income tax and profit from operations by jurisdiction has been presented.

(g) Fair value of financial instruments

The carrying value of cash and cash equivalents, other receivables, other payables and customer deposits approximates fair value because of the relatively short maturities of these financial instruments. It is not practical to determine the fair value of unbilled rental receivable as it involves high volume of transactions.

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32. SUMMARY OF DIFFERENCES BETWEEN HONG KONG ("HK") AND UNITED STATES ("US")
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(h) Concentration of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents and trade receivables. The Company believes that no significant credit risk exists relative to cash and cash equivalents as substantially all of these financial instruments are held in the form of term deposits at a major bank.

The Company performs on-going credit evaluations of its customers. The Company believes that no significant credit risk exists for these assets as credit losses, when realized, is expected to be within the range of management's expectations.

(i) Concentration - industry and major customers

| | 2005 | 2004 | 2003 |
|---|-------|-------|-------|
| | ---- | ---- | ---- |
| Broadcasting | 65.7% | 70.6% | 70.4% |
| Telecommunications, Internet and Multimedia | 34.3% | 29.4% | 29.6% |

The five largest customers accounted for 39.3%, 46.0% and 42.0% of the Company's total revenue for the years ended December 31, 2005, 2004

and 2003, respectively.

The trade receivables from the five customers with the largest receivables balances represent 75.9% and 71.5% of total trade receivables as of December 31, 2005 and 2004, respectively.

(j) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and certain disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

(k) Earnings per share

As of December 31, 2005, 2004 and 2003 the Company had share options outstanding of 6,600,500, 6,926,000 and 6,941,000, which could potentially dilute basic earnings per share in the future, but were excluded in the computation of diluted earnings per share in such periods, as their effect would have been antidilutive.

(l) Segment information

SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" establishes standards for reporting information about operating segments and related disclosures products and services, geographic areas, and major customers. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. The chief operating decision-maker of the Company allocates resources and assess performance on the basis its consolidated financial statements. No other financial information that presents segment profit or loss is generated by the Company that is used by its chief operating decision-maker in allocating resources and assessing performance. Thus, the Company is a single operating segment under SFAS No. 131 and the geographical segments disclosed in note 5 do not represent operating segments under SFAS No. 131.

33. SUBSEQUENT EVENTS

On March 16, 2006, the Board approved to procure a new satellite, AsiaSat 5, to replace AsiaSat 2 before its retirement. On April 28, 2006 and May 8, 2006, the Group entered into a Construction Agreement and a Launch Contract respectively with two independent third parties for the construction and launching of AsiaSat 5. The consideration of the above contracts together with the insurance cost is estimated at approximately US\$180 million (approximately HK\$1,404 million).

34. CONVENIENT TRANSLATION TO UNITED STATES DOLLARS

The translation of Hong Kong dollar amounts into United States dollars are for convenience and have been made at a rate of HK\$7.8 to US\$1, the approximate rate of exchange at December 31, 2005. Such transactions should not be construed as representations that the Hong Kong dollars amounts represent, or have been, or could be converted into United States dollars at that or any other rate.