



APT SATELLITE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 1045)

ANNOUNCEMENT

Subsequent to the submission of a settlement proposal to the IRD by APT (HK), through its tax adviser, with a view to compromising the tax assessment issue by the IRD in respect of the gain on transfer of transponders of APSTAR IIR, APT (HK), a wholly-owned subsidiary of the Company, has received on 22 September 2006 the Notice of Revised Assessment and Refund of Tax for the year of assessment 1999/2000 and a letter for the year of assessment 2000/2001 from IRD confirming that APT (HK) does not have any assessable profits for the years in question.

Investors and shareholders of the Company are advised to exercise caution when dealing in the securities of the Company.

Unless otherwise defined, terms used in the announcement of the Company dated 15 March 2006, in respect of the purchase of tax reserve certificate in the amount of HK\$78,385,377, should have the same meaning in this announcement.

BACKGROUND

In the 15 March 2006 announcement, the Company announced that

- (a) IRD has issued a notice to APT (HK), wholly-owned subsidiary of the Company, confirming that the tax in dispute in respect of transfer of the transponders of APSTAR IIR to Loral Asia (except one transponder) be held over on condition that the Company purchases the tax reserve certificate in the amount of HK\$78,385,377, with the balance of the tax assessed in the amount of HK\$134,461,032 being held over unconditionally pending the determination of the dispute; and
- (b) APT (HK) had purchased tax reserve certificate in the said amount.

RECENT DEVELOPMENT

Subsequent to the 15 March 2006 announcement, the Company considers that it would be in the best interest of the Company that the dispute be settled as soon as practicable to avoid further incurrence of time, effort and professional costs. Having considered the advice from the tax adviser, APT (HK) submitted a settlement proposal to the IRD, via its tax adviser, on 28 August 2006 with a view to compromising on the tax assessment dispute. Description of the arrangement has been set out in the notes on the financial report of the Company in its interim results announcement and the latest published interim report for the period ended 30 June 2006.

Under the proposal, the view that the transfer was a sale of capital assets is maintained but it was proposed to treat the sales proceeds of approximately HK\$2,114,758,000 (approximately US\$272,872,000) as lease income taxable over the remaining useful life of APSTAR IIR until the tax assessment year of 2012/2013. In addition, APT (HK) had requested for deduction of statutory depreciation allowances in respect of APSTAR IIR and other expenditure related to the transaction.

IMPACT OF THE FINAL DETERMINATION BY THE IRD

With the proposal accepted by IRD, the tax dispute in respect of the years of assessment of 1999/2000 and 2000/2001 is now settled. Based on the notice and letter received from IRD by APT (HK) on 22 September 2006,

- a. the net assessable profit for 1999/2000 is revised to nil and the tax previously charged for that year in the amount of HK\$21,589,259 is refunded; and
- b. net assessable profit for 2000/2001 is nil.

The purchased tax certificate in the amount of HK\$78,385,377, with interest from the date of purchase (i.e. 15 March 2006) until the date of final determination of the objection previously raised by APT (HK) which was notified by the IRD as 20 September 2006, is available for redemption as the tax previously held over conditionally is completely discharged. APT (HK) will redeem the tax certificates purchased in accordance with the redemption instructions.

With the final determination by the IRD, proceeds from the transfer of approximately HK\$217,320,000 is accounted for in the tax assessment years 1999/2000 and 2000/2001. The balance of the proceeds of approximately HK\$1,897,435,000 will be assessed as taxable income over the remaining useful life of APSTAR IIR until the tax assessment year of 2012/2013. At the same time, APT (HK) is entitled to statutory depreciation allowances in respect of APSTAR IIR to offset such income. The final tax position of APT (HK) for the years of assessment 2001/2002 to 2004/2005 would be advised by the IRD in due course.

Having considered the advice from the financial adviser, the Directors have decided to accept the final determination by the IRD which will have a positive impact on the cashflow for APT (HK) and the Group for the current financial year.

Investors and shareholders of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Dr. Brian Lo
Company Secretary

Hong Kong, 22 September 2006

The Directors as at the date of this announcement are as follows:

Executive Directors:

Ni Yifeng and Tong Xudong

Non-Executive Directors:

Liu Ji Yuan (Chairman), Zhang Hainan (Deputy Chairman), Lim Toon, Wu Zhen Mu, Yin Yen-liang, Ho Siaw Hong, and Tseng Ta-mon (Alternate Director to Yin Yen-liang).

Independent Non-Executive Directors:

Yuen Pak Yiu, Philip, Huan Guocang and Lui King Man