# APT SATELLITE HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*
(Stock code: 1045)

# 2011 INTERIM RESULTS ANNOUNCEMENT

## CHAIRMAN'S STATEMENT

The Board of Directors (the "Board") of APT Satellite Holdings Limited (the "Company") are pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011.

This interim result has been reviewed by the Company's Audit Committee and independent auditors.

## INTERIM RESULTS

For the first half of 2011, the Group's turnover and profit attributable to equity shareholders amounted to HK$372,125,000 (six months ended 30 June 2010: HK$363,157,000) and HK$103,134,000 (six months ended 30 June 2010: HK$97,507,000) representing 2.47% and 5.77% increases respectively as compared with corresponding periods in the previous financial year. Basic earnings per share was HK16.59 cents (six months ended 30 June 2010: HK15.71 cents) and diluted earnings per share was HK16.59 cents (six months ended 30 June 2010: HK15.71 cents).

## INTERIM DIVIDEND

Given the Group has achieved an increase of 5.77% in profit attributable to equity shareholders for the first half of 2011 and the need of the implementation of APSTAR 7 and APSTAR 7B Satellites for the replacement of APSTAR 2R, the Board has resolved to declare an interim dividend of HK2.00 cents per share for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil). The interim dividend will be paid on or about Thursday, 6 October 2011 to shareholders whose names appear on the register of members at the close of business on Wednesday, 28 September 2011.

## BUSINESS REVIEW

### In-Orbit Satellites

The Group's in-orbit satellites and their corresponding ground TT&C (telemetry, tracking and command) systems and earth station have been operating under normal condition during the period and continue providing reliable service to the Group's customers. As at 30 June 2011, the total transponder utilisation rate of the Group was 77.64%. During the period, the Group has maintained 81.8% in EBITDA Margin (profit before interest, income tax, depreciation and amortisation).

*APSTAR 2R*

APSTAR 2R satellite, which was based on the FS1300 model and launched in October 1997, contains 28 C-band transponders and 16 Ku-band transponders. The C-band transponders cover Europe, Asia, Africa, and Australia, approximately 75% of the world's population and Ku-band transponders mainly cover China and some adjacent countries and regions. As of 30 June 2011, its utilisation was 84.13%.

*APSTAR 5*

APSTAR 5 satellite, which was based on FS1300 model and launched in June 2004, is also one of the latest advanced high power satellites in the region. As at 30 June 2011, the Group has interest in 20 C-band transponders and 9 Ku-band transponders and its utilisation was 78.87%.

*APSTAR 6*

APSTAR 6 satellite, which was based on SB4100 C1 model and launched in April 2005, is one of the latest advanced high power satellites in the region with 38 C-band transponders and 12 Ku-band transponders. As of 30 June 2011, its utilisation was 72.58%.

The Group's in-orbit satellites, APSTAR 2R, APSTAR 5 and APSTAR 6, have integrated to form the strongest satellite service capability covering Asia, Australia, Middle East, Africa, Europe, and Asia Pacific region.

### Satellites on Construction

The implementation of APSTAR 7 and APSTAR 7B agreements have been smooth.

*APSTAR 7*

For the purpose of replacing APSTAR 2R in the end of 2012, the Group has invested for the construction of APSTAR 7, which is a Spacebus 4000 C2 Platform high power geostationary communication satellite with 28 C-band and 28 Ku-band transponders. The C-band transponders of APSTAR 7 provide the same coverage as APSTAR 2R to ensure seamless services transition for customers from APSTAR 2R to APSTAR 7. The Ku-band transponders are built with China Beam, Middle East and North Africa beam, African beam, and steerable beam, for even better coverage and capacity of satellite resources.

The construction progress of APSTAR 7 has been smooth and the satellite has entered into final assembly, integration and test stage. It is expected that APSTAR 7 will be delivered in January 2012 and launched by the Long March LM-3B Enhanced version launch vehicle of China in the first quarter of 2012.

The Pre-launch sales of APSTAR 7 has been successful, subsequent to the signing of service agreement with HBO, the Group has successfully signed new service agreements with customers for APSTAR 7 during the period.

*APSTAR 7B*

APSTAR 7B, the backup satellite for APSTAR 7, is built with Spacebus 4000 C2 Platform, the same platform as APSTAR 7, high power geostationary communication satellite with 28 C-band transponders and 23 Ku-band transponders. In the event that the launch of APSTAR 7 is unsuccessful, APSTAR 7B will be launched in the third quarter of 2012 or earlier to fulfill the mission replacing APSTAR 2R. Once APSTAR 7 is launched and replace APSTAR 2R successfully, the Group will transfer APSTAR 7B to China Satellite Communications Company Limited. This back-up satellite is a very successful arrangement because the Group can save up enormous amount of back-up satellite investment.

The construction progress of APSTAR 7B has been smooth and the satellite entered into the subsystem's assembly, integration and test stage. It is expected APSTAR 7B can be delivered in June 2012, if necessary.

*Launch Insurances*

The Group has secured the launch insurance for the launch of APSTAR 7 and APSTAR 7B (if necessary) at a very satisfactory insurance premium rate.

*Satellite TV Broadcasting and Uplink Services*

The Group's broadcasting services is delivered through its wholly-owned subsidiary, APT Satellite TV Development Limited, which will continue to provide broadcasting TV services under the Non-domestic Television Programme Service Licence. Broadcasting services are very important value-added services for transponder services. During the period, the Group has signed new channels through the existing MCPC Television Platform in APSTAR 6.

*Satellite-based Telecommunications Services*

APT Telecom Services Limited, a wholly-owned subsidiary of the Group, provides satellite-based external telecommunication services such as VSAT (Very small aperture terminal), facilities management services, satellite telecommunication and satellite television uplink services under the Fixed Carrier Licence of Hong Kong to telecommunication operators, satellite operators in the region.

The Group has re-formulated the business strategies of both TV broadcasting services and telecommunication services and has been strengthening the business activities and development of these two companies.

## BUSINESS PROSPECTS

The demand of transponder services in both broadcasting and telecommunication sectors have maintained high utilisation rates in the first half of 2011. While the Group will endeavor to maintain the high utilisation rates of APSTAR 2R, APSTAR 5 and APSTAR 6, we will continue to achieve growth potential from APSTAR 7 for maximising profit and future business growth.

APSTAR 7 is scheduled to be launched in the first quarter of 2012. APSTAR 7B will be the back up satellite of APSTAR 7. The Group will closely monitor the implementation of these two satellites ensuring business continuity of the Group.

## FINANCE

As at 30 June 2011, the Group's financial position remains sound. Please refer to financial section for detailed analysis.

## CORPORATE GOVERNANCE

The Group is committed to high standard of corporate governance especially in internal control and compliance.

## NOTE OF APPRECIATION

I would like to take this opportunity to thank all our customers and staff for their contributions to the Group during the period.

**Lei Fanpei**
*Chairman*

Hong Kong, 29 August 2011

## FINANCIAL REVIEW

As at 30 June 2011, the Group's financial position remains very strong and we have achieved continuous improvement in our operating result. The table below sets out the financial performance during the period:

| *HK$ thousand* | **Six months ended 30 June 2011** | Six months ended 30 June 2010 | Change |
|---|---|---|---|
| **Turnover** | **372,125** | 363,157 | +2% |
| **Gross profit** | **190,837** | 173,306 | +10% |
| **Profit before taxation** | **139,989** | 133,437 | +5% |
| **Profit attributable to shareholders** | **103,134** | 97,507 | +6% |
| **Basic earnings per share** | | | |
| ***(HK cents)*** | **16.59 cents** | 15.71 cents | +6% |
| | **At 30 June 2011** | At 31 December 2010 | |
| **Total assets** | **4,311,634** | 3,802,982 | +13% |
| **Total liabilities** | **1,716,156** | 1,315,420 | +30% |
| **EBITDA Margin (%)** | **82%** | 82% | – |
| **Gearing ratio (%)** | **40%** | 35% | +5% |
| **Liquidity ratio** | **1.05 times** | 0.58 times | +0.47 times |

The turnover of the Group in the first half of 2011 slightly increased by 2% from the same period of 2010 to HK$372,125,000 mainly due to increase of income from satellite transponder capacity and related services. The profit attributable to shareholders increased by 6% to HK$103,134,000 due to an increase of gross profit during the period.

## FINANCE COSTS

During the period, the Group entered into a swaption contract of notional amount of US$65,000,000. For the period ended 30 June 2011, the change in fair value of the contract of HK$9,768,000 was recognised in profit or loss. Excluding the above finance cost of swaption, the finance cost was HK$1,991,000 for the period ended 30 June 2011, representing a decrease by HK$1,691,000 as compared to finance cost of HK$3,682,000 for the same period in last year.

Finance cost of HK$7,342,000 directly related to the construction of APSTAR 7 and APSTAR 7B has been capitalised during the period.

## INCOME TAX

Income tax expenses for the period ended 30 June 2011 increased to HK$36,855,000, as compared to HK$35,930,000 for the same period in 2010. The increase was mainly due to the increase in the profit for the period. The details of income tax of the Group are set out in note 5 to this announcement.

## CAPITAL EXPENDITURE, LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

During the period, the Group's capital expenditure incurred for fixed assets was HK$467,553,000 (six months ended of 30 June 2010: HK$375,365,000). The increase was mainly due to the payment of HK$465,276,000 for the construction of the APSTAR 7 and APSTAR 7B and payment of HK$2,277,000 for addition of equipment. The Group expects to incur significant capital expenditures in the next year during construction of APSTAR 7 and its backup satellite APSTAR 7B. The Group expects to finance the above capital expenditures through internal funding, cash flows from operating activities and bank financing.

During 2010, the Group entered into a term loan facility (the "Banking Facility") with a syndicate of banks led by Bank of China (Hong Kong) Limited. The Banking Facility, up to a maximum loan amount of US$200,000,000, was applied to finance APSTAR 7 including its construction, launch costs and their related constructions and insurance premium. The Banking Facility is secured by the assignment of the construction and the termination payments under construction and launching contracts relating to APSTAR 7, the insurance claim proceeds relating to APSTAR 5 and APSTAR 7, assignment of the proceeds of all present and future transponder utilisation agreements of APSTAR 5 and APSTAR 7 and first fixed charge over certain bank accounts which will hold receipts of the transponder income of APSTAR 5 and APSTAR 7. During the period, the Group has drawn down US$61,700,000 (approximately HK$481,260,000) against the Banking Facility.

In addition, during 2010, the Group entered into a loan agreement ("Loan Agreement") with a fellow subsidiary in relation to the provision of a facility for the progress payments under the APSTAR 7B Satellite Procurement Contract. The Loan Agreement is up to Euro100,000,000 or equivalent amount in United States dollar. During the period, the Group has drawn down US$8,000,000 (approximately HK$62,400,000) under the Loan Agreement.

As at 30 June 2011, the total borrowings amounted to approximately HK$1,169,718,000 (as at 31 December 2010: approximately HK$687,939,000). The Group recorded an increase of approximately HK$481,779,000 in the total borrowings during the period ended 30 June 2011, which were mainly used for the capital expenditures of APSTAR 7 and APSTAR 7B.

The debt maturity profile (net of unamortised finance cost) of the Group was as follows:

| **Year of Maturity** | *HK$* |
|---|---|
| Repayable within one year or on demand | 216,350,000 |
| Repayable after one year but within five years | 918,805,000 |
| Repayable after five years | 34,563,000 |
| | 1,169,718,000 |

As at 30 June 2011, the Group's total liabilities were HK$1,716,156,000, an increase of HK$400,736,000 as compared to 31 December 2010, which was mainly due to the borrowings as described above. As a result, the gearing ratio (total liabilities/total assets) has increased to 40%, representing a 5% increase as compared to 31 December 2010.

For the period ended 30 June 2011, the Group recorded a net cash inflow of HK$190,419,000 (six months ended 30 June 2010: net cash outflow of HK$89,601,000) which included net cash inflow from operating activities of HK$270,410,000, net cash inflow of HK$472,308,000 generated from financing activities and HK$29,000 increase in cash due to the change in foreign exchange rates. This was offset by the net cash outflow of HK$552,328,000 used in investing activities.

The increase in cash inflow from operating activities as compared to the same period in last year was due to the increase in receipt of transponder income. The increase in cash used in investing activities was mainly due to progress payment made for the construction of APSTAR 7 and APSTAR 7B during the period. The increase in net cash inflow from financing activities was mainly due to the increase in net borrowings in 2011 as compared to the same period in 2010.

As at 30 June 2011, the Group has approximately HK$311,904,000 cash and cash equivalents and HK$51,710,000 pledged bank deposits. Together with cash flow to be generated from operations, the Group could meet with ease all the debt repayments scheduled in the coming year.

## CAPITAL STRUCTURE

The Group consistently adheres to conservative fund management. The solid capital structure and financial strength continue to provide a solid foundation for the Group's future development.

## FOREIGN EXCHANGE EXPOSURE

The Group's revenue and operating expenses are mainly denominated in United States dollar and Renminbi. Capital expenditures except for satellite procurement contracts in relation to APSTAR 7 and APSTAR 7B are denominated in United States dollar. The effect of exchange rate fluctuation in the United States dollar is insignificant as the Hong Kong dollar is pegged to the United States dollar. The foreign exchange rate of the Renminbi has appreciated by 2.0% against the Hong Kong dollar during the period ended 30 June 2011. The management does not foresee a material adverse foreign exchange risk to the Group.

The Group had entered into satellite procurement contracts in relation to APSTAR 7 and APSTAR 7B in a contract price of approximately Euro128,500,000 and Euro114,600,000 respectively. In order to meet the coming progress payment, the Group has entered into the Banking Facility, where the Group is able to purchase foreign currency forward contract up to maximum of US$150,000,000. Given the volatile exchange rates movements experienced, Euro/USD exchange rate in particular, the Group has entered into forward exchange contracts to hedge against its exposure to potential exchange rate risks. As at 30 June 2011, outstanding Euro forward contracts amounted to Euro6,339,000 which will be applied to next progress payment of APSTAR 7 and APSTAR 7B. The Group continues to adopt a conservative approach on monitoring foreign exchange exposure.

## INTEREST RATE EXPOSURE

In respect of the Group's cash flow exposure to interest rate risk arising primarily from long-term borrowings at floating LIBOR rate, the management's strategy is to use financial instruments to manage its exposure to the floating LIBOR rate. During the period, the Group has entered into a contract which is a swaption to enter into a swap transaction to fix the 3-month LIBOR interest rate at 1.4% p.a of notional amount of US$65,000,000 for the period from 3 July 2012 to 3 July 2017. The latest exercise date of this swaption is 28 June 2012. The Group continues to adopt a conservative approach on monitoring interest rate exposure.

## CHARGES ON GROUP ASSETS

At 30 June 2011, the pledged bank deposits of HK$51,710,000 (31 December 2010: HK$76,917,000) are related to certain commercial arrangements and banking facilities during the period.

At 30 June 2011, a letter of guarantee issued by a bank to a subsidiary of the Company is secured by the Group's land and buildings with a net book value of approximately HK$4,131,000 (31 December 2010: HK$4,189,000).

## CAPITAL COMMITMENTS

As at 30 June 2011, the Group has outstanding capital commitments of HK$1,853,519,000 (31 December 2010: HK$2,200,662,000), which was contracted but not provided for in the Group's financial statements, mainly in respect of the progress payment for the construction of satellites APSTAR 7 and APSTAR 7B.

## CONTINGENT LIABILITIES

The details of contingent liabilities of the Group are set out in note 18 of this announcement.

## POST BALANCE SHEET EVENT

The details of post balance sheet event of the Group are set out in note 19 of this announcement.

**Unaudited consolidated income statement**
**For the six months ended 30 June 2011**
*(Expressed in Hong Kong dollars)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Note* | ***$'000*** | *$'000* |
| **Turnover** | 3 | **372,125** | 363,157 |
| Cost of services | | **(181,288)** | (189,851) |
| **Gross profit** | | **190,837** | 173,306 |
| Other net income | | **2,847** | 3,062 |
| Valuation gains on investment property | 9 | **84** | 53 |
| Administrative expenses | | **(42,020)** | (39,302) |
| **Profit from operations** | | **151,748** | 137,119 |
| Finance costs | 4(a) | **(11,759)** | (3,682) |
| **Profit before taxation** | 4 | **139,989** | 133,437 |
| Income tax | 5 | **(36,855)** | (35,930) |
| **Profit for the period and attributable to equity shareholders of the Company** | | **103,134** | 97,507 |
| **Earnings per share** | 6 | | |
| – Basic | | **16.59 cents** | 15.71 cents |
| – Diluted | | **16.59 cents** | 15.71 cents |

**Unaudited consolidated statement of comprehensive income**
**For the six months ended 30 June 2011**
*(Expressed in Hong Kong dollars)*

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***$'000*** | *$'000* |
| **Profit for the period** | **103,134** | 97,507 |
| **Other comprehensive income for the period** | | |
| Exchange differences on translation of: | | |
| – financial statements of overseas subsidiaries | **1,562** | (46) |
| Cash flow hedge: movement in hedging reserve | **3,220** | (4,979) |
| **Total comprehensive income for the period** | **107,916** | 92,482 |

## Unaudited consolidated balance sheet
## As at 30 June 2011

*(Expressed in Hong Kong dollars)*

| | Note | At 30 June 2011 $'000 | At 31 December 2010 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **3,667,054** | 3,363,090 |
| Investment property | 9 | **2,749** | 2,665 |
| Intangible asset | 10 | **133,585** | 133,585 |
| Club memberships | | **5,537** | 5,537 |
| Derivative financial instrument | 11 | **9,732** | – |
| Prepaid expenses | | **20,530** | 21,890 |
| | | **3,839,187** | 3,526,767 |
| **Current assets** | | | |
| Trade receivables, net | 12 | **89,691** | 59,903 |
| Deposits, prepayments and other receivables | | **17,805** | 17,624 |
| Amount due from immediate holding company | | **350** | 286 |
| Derivative financial instrument | 11 | **987** | – |
| Pledged bank deposits | 13 | **51,710** | 76,917 |
| Cash and cash equivalents | | **311,904** | 121,485 |
| | | **472,447** | 276,215 |
| **Current liabilities** | | | |
| Payables and accrued charges | 14 | **67,679** | 177,394 |
| Rentals received in advance | | **65,841** | 58,645 |
| Amount due to a fellow subsidiary | | **97** | 65 |
| Secured bank borrowings due within one year | 15 | **216,350** | 139,016 |
| Derivative financial instrument | 11 | **–** | 2,233 |
| Current taxation | | **101,061** | 99,557 |
| | | **451,028** | 476,910 |
| **Net current asset/(liabilities)** | | **21,419** | (200,695) |
| **Total assets less current liabilities carried forward** | | **3,860,606** | 3,326,072 |

**Unaudited consolidated balance sheet (continued)**
**As at 30 June 2011**
*(Expressed in Hong Kong dollars)*

| | Note | **At 30 June 2011 $'000** | At 31 December 2010 $'000 |
|---|---|---|---|
| **Total assets less current liabilities brought forward** | | **3,860,606** | 3,326,072 |
| **Non-current liabilities** | | | |
| Secured bank borrowings due after one year | 15 | **867,568** | 525,523 |
| Loan from a fellow subsidiary | 16 | **85,800** | 23,400 |
| Deposits received | | **44,049** | 35,157 |
| Deferred income | | **143,302** | 160,718 |
| Deferred tax liabilities | | **124,409** | 93,712 |
| | | **1,265,128** | 838,510 |
| **NET ASSETS** | | **2,595,478** | 2,487,562 |
| **Capital and reserves** | | | |
| Share capital | 17 | **62,181** | 41,454 |
| Share premium | | **1,273,812** | 1,294,539 |
| Contributed surplus | | **511,000** | 511,000 |
| Capital reserve | | **–** | 4,926 |
| Revaluation reserve | | **368** | 368 |
| Exchange reserve | | **1,902** | 340 |
| Hedging reserve | | **987** | (2,233) |
| Other reserves | | **345** | 345 |
| Accumulated profits | | **744,883** | 636,823 |
| **TOTAL EQUITY** | | **2,595,478** | 2,487,562 |

## Unaudited consolidated statement of changes in equity
## For the six months ended 30 June 2011
*(Expressed in Hong Kong dollars)*

| | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital<br>*$'000* | Share premium<br>*$'000* | Contributed surplus<br>*$'000* | Capital reserve<br>*$'000* | Revaluation reserve<br>*$'000* | Exchange reserve<br>*$'000* | Hedging reserve<br>*$'000* | Other reserves<br>*$'000* | Accumulated profits<br>*$'000* | Total equity<br>*$'000* |
| **Balance at 1 January 2010** | 41,327 | 1,287,536 | 511,000 | 9,217 | 368 | 1,720 | – | 212 | 437,777 | 2,289,157 |
| **Changes in equity for the six months ended 30 June 2010** | | | | | | | | | | |
| Profit for the period | – | – | – | – | – | – | – | – | 97,507 | 97,507 |
| Other comprehensive income | – | – | – | – | – | (46) | (4,979) | – | – | (5,025) |
| Total comprehensive income | – | – | – | – | – | (46) | (4,979) | – | 97,507 | 92,482 |
| Cancellation of share options | – | – | – | (368) | – | – | – | – | 368 | – |
| Proceeds from exercise of share options | 120 | 6,601 | – | (3,404) | – | – | – | – | – | 3,317 |
| **Balance at 30 June 2010** | 41,447 | 1,294,137 | 511,000 | 5,445 | 368 | 1,674 | (4,979) | 212 | 535,652 | 2,384,956 |
| **Balance at 1 January 2011** | **41,454** | **1,294,539** | **511,000** | **4,926** | **368** | **340** | **(2,233)** | **345** | **636,823** | **2,487,562** |
| **Changes in equity for the six months ended 30 June 2011** | | | | | | | | | | |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **103,134** | **103,134** |
| Other comprehensive income | **–** | **–** | **–** | **–** | **–** | **1,562** | **3,220** | **–** | **–** | **4,782** |
| Total comprehensive income | **–** | **–** | **–** | **–** | **–** | **1,562** | **3,220** | **–** | **103,134** | **107,916** |
| Share options lapsed | **–** | **–** | **–** | **(4,699)** | **–** | **–** | **–** | **–** | **4,699** | **–** |
| Cancellation of share options | **–** | **–** | **–** | **(227)** | **–** | **–** | **–** | **–** | **227** | **–** |
| Bonus issue *(note 17(iii))* | **20,727** | **(20,727)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Balance at 30 June 2011** | **62,181** | **1,273,812** | **511,000** | **–** | **368** | **1,902** | **987** | **345** | **744,883** | **2,595,478** |

**Unaudited condensed consolidated cash flow statement**
**For the six months ended 30 June 2011**
*(Expressed in Hong Kong dollars)*

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***$'000*** | *$'000* |
| Cash generated from operations | **275,064** | 238,176 |
| Tax paid | **(4,654)** | (1,263) |
| Net cash generated from operating activities | **270,410** | 236,913 |
| Net cash used in investing activities | **(552,328)** | (459,611) |
| Net cash generated from financing activities | **472,308** | 153,773 |
| Net increase/(decrease) in cash and cash equivalents | **190,390** | (68,925) |
| Cash and cash equivalents at 1 January | **121,485** | 275,930 |
| Effect of foreign exchange rates changes | **29** | (20,676) |
| Cash and cash equivalents at 30 June | **311,904** | 186,329 |

## Notes

*(Expressed in Hong Kong dollars unless otherwise indicated)*

### 1. BASIS OF PREPARATION

This interim financial report of APT Satellite Holdings Limited (the "Company") and its subsidiaries (the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, "Interim financial reporting", issued by the International Accounting Standards Board ("IASB") and Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 29 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2010 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") or Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by the Company's auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2010 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2011.

## 2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. The equivalent amendments to HKFRSs and interpretation, consequently issued by the HKICPA have the same effective date as those issued by the IASB and are in all material respects identical to the pronouncements issued by the IASB. Of these, the following developments are relevant to the Group's financial statements:

- IAS/HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs/HKFRSs (2010)
- IFRIC/HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*

IFRIC/HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The remaining developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 3. SEGMENTAL REPORTING

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major operations.

The Group's operating business are organised and managed separately according to the nature of satellite services, which each segment representing a strategic business segment that offers different services in the global market. However, the Group's executive directors considered that over 90% of the Group's revenue, operating results and assets during the period ended 30 June 2011 and 2010 were mainly derived from provision of satellite transponder capacity and related services. Consequently, no operating segment analysis is presented.

**Segment results, assets and liabilities**

*Geographical segments*

The Group's operating assets consist primarily of its satellites which are used, or are intended for use, for transmission to multiple countries but not located within a specific geographical area. Accordingly, no segment analysis of the carrying amount of segment assets by location of assets is presented.

The following table represents aggregate turnover based on geographical locations of customers for the six months ended 30 June 2011 and 2010.

| For the six months ended 30 June | Hong Kong | | Other regions in the PRC | | Singapore | | Indonesia | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* | ***$'000*** | *$'000* |
| Turnover from external customers | **36,735** | 37,147 | **86,844** | 86,022 | **50,985** | 43,697 | **73,844** | 72,910 | **123,717** | 123,381 | **372,125** | 363,157 |

## 4. PROFIT BEFORE TAXATION

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

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***$'000*** | *$'000* |
| **(a) Finance costs** | | |
| Interest on bank borrowings and loan from a fellow subsidiary | **9,185** | 2,733 |
| Less: amount capitalised into construction in progress | **(7,342)** | (300) |
| | **1,843** | 2,433 |
| Change in fair value on interest rate swaption *(note 11(a))* | **9,768** | – |
| Other borrowing costs | **148** | 61 |
| Interest expense on deferred consideration | **–** | 1,188 |
| | **11,759** | 3,682 |

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***$'000*** | *$'000* |
| **(b) Other items** | | |
| Depreciation | **155,744** | 163,154 |
| Interest income | **(802)** | (420) |
| Rental income | **(264)** | (151) |
| Loss/(gain) on disposal of property, plant and equipment | **39** | (5) |
| Foreign currency exchange loss | **1,643** | 7,836 |

## 5. INCOME TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***$'000*** | *$'000* |
| Current tax – Overseas | **6,158** | 6,267 |
| Deferred tax | **30,697** | 29,663 |
| Actual tax expenses | **36,855** | 35,930 |

The provision for Hong Kong Profits Tax was calculated at 16.5% (six months ended 30 June 2010: 16.5%) of the estimated assessable profits for the period. No provision for Hong Kong Profits Tax has been made in the interim financial report as the subsidiaries operating in Hong Kong utilised tax losses brought forward from prior years. Taxation for the overseas subsidiaries is calculated using the estimated annual effective tax rates of taxation that are expected to be applicable in the relevant countries. Overseas tax includes the withholding tax paid or payable in respect of the Group's income derived from the provision of satellite transponder capacity to customers which are located outside Hong Kong.

## 6. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of $103,134,000 (six months ended 30 June 2010: $97,507,000) and the weighted average of 621,807,000 ordinary shares (30 June 2010: 620,549,000 shares after adjusting for the bonus issue in 2011) in issue during the interim period, calculated as follows:

(i) Weighted average number of ordinary shares

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 (Restated) |
| | **Number of shares** | Number of shares |
| Issued ordinary shares at 1 January | **414,538,000** | 413,265,000 |
| Effect of share options exercised | **–** | 434,000 |
| Effect of bonus issues on shares *(note 17(iii))* | **207,269,000** | 206,850,000 |
| Weighted average number of ordinary shares at 30 June | **621,807,000** | 620,549,000 |

**(b) Diluted earnings per share**

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of $103,134,000 (six months ended 30 June 2010: $97,507,000) and the weighted average of 621,807,000 ordinary shares (30 June 2010: 620,760,000 shares after adjusting for the bonus issue in 2011) during the interim period, calculated as follows:

(i) Weighted average number of ordinary shares (diluted)

| | **Six months ended 30 June** | |
|---|---|---|
| | **2011** | 2010 (Restated) |
| | ***Number of shares*** | *Number of shares* |
| Weighted average number of shares at 30 June | **621,807,000** | 620,549,000 |
| Effect of deemed issue of ordinary shares under the Company's share option scheme for nil consideration | **–** | 211,000 |
| Weighted average number of ordinary shares (diluted) as at 30 June | **621,807,000** | 620,760,000 |

## 7. DIVIDEND

Subsequent to the end of the interim period, the Board has declared the payment of 2.00 cents (six months ended 30 June 2010: $nil) per ordinary share totaling $12,436,000 (six months ended 30 June 2010: $nil) as the interim dividend in respect of 2011. As the interim dividend is declared after the balance sheet date, such dividend has not been recognised as a liability as at 30 June 2011.

## 8. PROPERTY, PLANT AND EQUIPMENT

**(a) Acquisitions and disposals**

During the six months ended 30 June 2011, the Group acquired property, plant and equipment with a cost of $467,553,000 (six months ended 30 June 2010: $375,365,000). Property, plant and equipment with a net book value of $46,000 was disposed of during the six months ended 30 June 2011 (six months ended 30 June 2010: $12,000), resulting in a loss on disposal of $39,000 (six months ended 30 June 2010: gain of $5,000).

**(b) Effect of cost adjustment**

According to an agreement signed with Thales Alenia Space France ("Thales") on 8 December 2001 ("Agreement"), the Group is entitled to a payment of US$1,500,000 (approximately $11,700,000) upon successful delivery of a satellite by Thales to its own customers with technical designs that are identical to APSTAR 6 satellite.

Pursuant to an amendment to the Agreement entered into with Thales on 21 April 2010 ("Amended Agreement"), the Group is entitled to payment in respect of satellites contracts entered into by Thales which have the identical technical design to APSTAR 6 satellite. During the six months ended 30 June 2011, $7,800,000 (six months ended 30 June 2010: $15,600,000) was recognised from Thales and treated as a reduction to the cost of property, plant and equipment – communication satellites.

**(c) Impairment loss**

During the six months period ended 30 June 2011 and 2010, the Group conducted a review of its property, plant and equipment and it was concluded that no impairment is required.

## 9. INVESTMENT PROPERTY

Investment properties carried at fair value was revalued at 30 June 2011 at $2,749,000 (31 December 2010: $2,665,000) by Savills Valuation and Professional Services Limited, an independent professional property appraiser, on an open market value basis by reference to net rental income allowing for reversionary income potential. The valuation gain of $84,000 (six months ended 30 June 2010: $53,000) has been recognised in the profit or loss during the six months ended 30 June 2011.

During the period ended 30 June 2010, an investment property was transferred to property, plant and equipment at the fair value at the date of the transfer, when the Group commenced its self-occupancy of such property. There was no addition, disposal or transfer of investment property during the period ended 30 June 2011.

## 10. INTANGIBLE ASSET

The Group has obtained the right to operate a satellite at an orbital slot in 2009 in respect of APSTAR 2R. Such intangible asset is considered to have an indefinite life.

During the six months ended 30 June 2011 and 2010, the Group conducted a review for indicators of impairment of the intangible asset and concluded no impairment is required.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

| | **At 30 June 2011** | At 31 December 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| **Non-current asset** | | |
| Interest rate swaption, at fair value through profit or loss *(note 11 (a))* | **9,732** | – |
| **Current assets/(liabilities)** | | |
| Forward foreign exchange contracts held as cash flow hedging instruments *(note 11 (b))* | **987** | (2,233) |

**(a) Interest rate swaption, at fair value through profit or loss**

During the six months period ended 30 June 2011, the Group entered into a contract with an option to enter into an interest rate swap on notional amount of US$65,000,000. The latest exercise date of this option is 28 June 2012. Once the option is exercised, the Group will enter into an interest rate swap with effective date on 3 July 2012 by paying a fixed rate interest in return with the right to receive a floating LIBOR rate of such amount on a quarterly basis until 3 July 2017. The contract is recognised initially at fair value in the balance sheet and changes in its fair value are recognised in profit or loss at the end of each reporting period.

**(b) Forward foreign exchange contracts held as cash flow hedging instruments**

The Group entered into certain forward exchange contracts to hedge the risk from upcoming progress payment in Euros for procurement. The forward exchange contract would be executed on 30 November 2011 to 30 March 2012 with an option of early execution. At 30 June 2011, the maximum purchase commitment of the Group under this contract amounted to US$8,982,000. The Group has classified the aforementioned forward exchange contracts as cash flow hedge. When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

The fair value of the foreign exchange contract is marked to market by deducting the current spot rate from the contractual forward price directly, given the discounting impact is considered immaterial.

## 12. TRADE RECEIVABLES, NET

The following is an ageing analysis of trade receivables (net of allowance for doubtful debts) at the balance sheet date:

| | **At 30 June 2011** | At 31 December 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| 0 – 30 days | **61,173** | 44,735 |
| 31 – 60 days | **21,285** | 10,424 |
| 61 – 90 days | **2,510** | 3,910 |
| 91 – 120 days | **124** | 204 |
| Over 120 days | **4,599** | 630 |
| | **89,691** | 59,903 |

The Group allows a credit period of 30 days to its trade customers. The trade receivables are expected to be recovered within one year.

## 13. PLEDGED BANK DEPOSITS

At 30 June 2011, the pledged bank deposits of $51,710,000 (31 December 2010: $76,917,000) are primarily related to certain commercial arrangements and secured bank borrowings during the period.

## 14. PAYABLES AND ACCRUED CHARGES

Trade payables are all due within three months and all payables and accrued charges are expected to be settled within one year.

## 15. SECURED BANK BORROWINGS

| | **At 30 June 2011** | At 31 December 2010 |
|---|---|---|
| | ***$'000*** | *$'000* |
| Bank loans | **1,083,918** | 664,539 |
| Less: amount due within one year included under current liabilities | **(216,350)** | (139,016) |
| Amount due after one year | **867,568** | 525,523 |

The bank borrowings are repayable as follows:

| | | |
|---|---|---|
| Within one year or on demand | **216,350** | 139,016 |
| After one year but within five years | **833,005** | 525,523 |
| After five years | **34,563** | – |
| | **1,083,918** | 664,539 |

For the period ended 30 June 2011, the Group complied with all of the covenants under the banking facilities arrangement entered into by the Group's subsidiary.

At 30 June 2011, a letter of guarantee issued by a bank to a subsidiary of the Company is secured by the Group's land and buildings with a net book value of approximately $4,131,000 (31 December 2010: $4,189,000).

## 16. LOAN FROM A FELLOW SUBSIDIARY

The balance represents financing provided by a fellow subsidiary of the Company with respect to the procurement of APSTAR 7B. The loan is secured by the assignment of the procurement contract of APSTAR 7B (including but not limited to all related right and services). As at 30 June 2011, the loan is interest bearing at LIBOR plus 2% to 2.2% mark-up and due for payment on 31 December 2012. Early payment of all or part of the balance may be made at any time before the repayment date without penalty.

## 17. SHARE CAPITAL

### (i) Authorised and issued share capital

| | At 30 June 2011 | | At 31 December 2010 | |
|---|---|---|---|---|
| | ***Number of shares*** | ***$'000*** | *Number of shares* | *$'000* |
| ***Authorised:*** | | | | |
| Ordinary shares of $0.10 each | **1,000,000,000** | **100,000** | 1,000,000,000 | 100,000 |
| Increase in authorised share capital | **1,000,000,000** | **100,000** | – | – |
| | **2,000,000,000** | **200,000** | 1,000,000,000 | 100,000 |
| ***Ordinary shares, issued and fully paid:*** | | | | |
| At 1 January 2011/2010 | **414,538,000** | **41,454** | 413,265,000 | 41,327 |
| Shares issued under share option scheme | **–** | **–** | 1,273,000 | 127 |
| Bonus issue | **207,269,000** | **20,727** | – | – |
| At 30 June 2011/31 December 2010 | **621,807,000** | **62,181** | 414,538,000 | 41,454 |

### (ii) Increase in authorised share capital

By an ordinary resolution passed at the annual general meeting held on 24 May 2011, the Company's authorised ordinary share capital was increased to $200,000,000 by creation of an additional 1,000,000,000 ordinary shares of $0.1 each, ranking pari passu in all respects with the existing ordinary shares of the Company.

### (iii) Bonus issue

On 25 May 2011, an amount of $20,727,000 standing to the credit of the share premium account was applied in paying up in full 207,269,000 ordinary shares of $0.1 each which were allotted and distributed as fully paid to existing shareholders in the proportion of one for every two shares then held.

## 18. CONTINGENT LIABILITIES

(a) In the years before 1999, overseas withholding tax was not charged in respect of the Group's transponder utilisation income derived from the overseas customers. From 1999, overseas withholding tax has been charged on certain transponder utilisation income of the Group and full provision for such withholding tax for the years from 1999 onwards has been made in the financial statements. Directors of the Company are of the opinion that the new tax rules should take effect from 1999 onwards and, accordingly, no provision for the withholding tax in respect of the years before 1999 is necessary. The Group's withholding tax in respect of 1998 and before, calculated at the applicable rates based on the relevant income earned in those years, not provided for in the financial statements amounted to approximately $75,864,000.

(b) The Company has given bank guarantees in respect of certain secured banking facilities granted to a subsidiary of the Company. The extent of such facilities utilised at 30 June 2011 amounted to $1,097,460,000 (31 December 2010: $678,600,000).

## 19. POST BALANCE SHEET EVENT

Subsequent to the end of the interim period, the directors declared an interim dividend of $12,436,000. Further details are disclosed in note 7.

## HUMAN RESOURCES

As at 30 June 2011, the Group had 92 employees (2010: 90). With regard to the emolument policy, the Group remunerates its employees in accordance with their respective responsibilities and current market trends. During the period, the Group has increased the salary of employees. On 19 June 2001, the Company first granted share options ("Scheme 2001") to its employees including executive directors. The Scheme 2001 was lapsed on 21 May 2011. On 22 May 2002, the Group adopted a new share option scheme ("Scheme 2002") to comply with the requirements of the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). To further motivate employees for better contribution to the Group, the Group has also established an incentive bonus scheme. The Group provides on the job training to employees to update and upgrade their knowledge on related job fields.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 26 September 2011 to Wednesday, 28 September 2011, both days inclusive, during which no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates and transfer froms must be lodged with the Company's share registrars in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 23 September 2011.

## PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2011, the Company has met the code provisions ("Code Provision") set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, save for the following Code Provisions:

A4.1: the non-executive directors of the Company are not appointed for a specific term given they shall retire from office by rotation once every three years except the Chairman of the Board and the President in accordance with the Bye-laws of the Company; and

A4.2: the Chairman of the Board and the President are not subject to retirement by rotation given that would help the Company in maintaining its consistency of making business decisions.

E1.2: the then Chairman of the Board, Mr. Rui Xiaowu, was unable to attend the Company's annual general meeting held on 24 May 2011 (which was required under the Code Provision E1.2) as he had to attend a governmental meeting in Beijing. However, other representatives of the Board including Executive Directors and the Chairman of Audit Committee (Independent Non-executive Directors) attended the meeting to anwser any possible questions in relation to the Group's affairs.

## AUDIT COMMITTEE

In the meeting on 26 August 2011, the Audit Committee reviewed with the management the accounting principles and practices adopted by the Group and the Company's unaudited interim financial report for the six months ended 30 June 2011, and discussed auditing and internal control matters. The Audit Committee comprises of three independent non-executive directors including Dr. Lui King Man, Dr. Lam Sek Kong and Mr. Cui Liguo.

## INTERIM REPORT

The Company's 2011 Interim Report containing information required by Appendix 16 of the Listing Rules is to be published on the Stock Exchange's website and the Company's website (www.apstar.com) in due course.

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

*Executive Directors:*
Cheng Guangren (President) and Qi Liang (Vice President)

*Non-Executive Directors:*
Lei Fanpei (Chairman), Lim Toon, Yin Yen-liang, Wu Zhen Mu, Yong Foo Chong, Zhuo Chao and Tseng Ta-mon (Alternate Director to Yin Yen-liang)

*Independent Non-Executive Directors:*
Lui King Man, Lam Sek Kong and Cui Liguo