ASIASAT

ASIA SATELLITE TELECOMMUNICATIONS HOLDINGS LIMITED
亞 洲 衛 星 控 股 有 限 公 司 *

(Incorporated in Bermuda with limited liability)
Stock Code: 1135

Announcement of Unaudited Results for the Six Months Ended 30 June 2019

The Board of Directors is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June	
		2019 HK$'000	2018 HK$'000
Revenue	4	**693,274**	730,126
Cost of services		**(338,729)**	(337,171)
Gross profit		**354,545**	392,955
Administrative expenses		**(53,214)**	(83,049)
Other gains - net	5	**6,928**	1,706
Operating profit	5	**308,259**	311,612
Finance expenses	6	**(49,456)**	(50,525)
Profit before income tax		**258,803**	261,087
Income tax expense	7	**(35,366)**	(46,160)
Profit and total comprehensive income for the period		**223,437**	214,927
Profit and total comprehensive income for the period attributable to:			
- Owners of the Company		**223,467**	214,959
- Non-controlling interests		**(30)**	(32)
		223,437	214,927
Earnings per share attributable to owners of the Company		**HK$ per share**	HK$ per share
Basic earnings per share	8	**0.57**	0.55
Diluted earnings per share	8	**0.57**	0.55

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited 30 June 2019 HK$'000	Audited 31 December 2018 HK$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights		**16,327**	16,619
Property, plant and equipment		**6,082,901**	6,369,696
Right-of-use assets		**19,922**	-
Unbilled receivables		**23,983**	24,986
Deposit	10	**2,851**	2,851
Total non-current assets		**6,145,984**	6,414,152
Current assets			
Unbilled receivables		**19,430**	12,576
Trade and other receivables	10	**223,172**	244,673
Cash and bank balances		**938,267**	546,896
Total current assets		**1,180,869**	804,145
Total assets		**7,326,853**	7,218,297
EQUITY			
Equity attributable to owners of the Company			
Share capital		**39,120**	39,120
Reserves			
- Retained earnings		**3,714,051**	3,568,823
- Other reserves		**26,935**	25,402
		3,780,106	3,633,345
Non-controlling interests		**773**	803
Total equity		**3,780,879**	3,634,148
LIABILITIES			
Non-current liabilities			
Bank borrowings	11	**2,097,577**	2,244,075
Lease liabilities		**9,694**	-
Deferred income tax liabilities		**433,004**	446,112
Contract liabilities		**220,432**	223,490
Total non-current liabilities		**2,760,707**	2,913,677
Current liabilities			
Bank borrowings	11	**360,668**	359,826
Lease liabilities		**10,374**	-
Construction payables		**4,745**	10,782
Dividend payable		**78,239**	-
Other payables and accrued expenses		**71,661**	63,885
Contract liabilities		**187,507**	163,607
Current income tax liabilities		**72,073**	72,372
Total current liabilities		**785,267**	670,472
Total liabilities		**3,545,974**	3,584,149
Total equity and liabilities		**7,326,853**	7,218,297

Notes

1. Independent review

The unaudited condensed consolidated interim financial information of the Company and its subsidiaries for the six months ended 30 June 2019 have been reviewed by the Company's independent auditor, PricewaterhouseCoopers, 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 Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the Interim Report to shareholders.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. Accounting policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period and the adoption of new and amended standards as set out below:

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting HKFRS 16 Leases.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(i) HKFRS 16 "Leases"

The Group has adopted HKFRS 16 from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

On adoption of HKFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.9%.

Notes

3 Accounting policies (Continued)

(a) New and amended standards adopted by the Group (Continued)

(i) HKFRS 16 “Leases” (Continued)

The Group leases its office premises with lease terms of 4 years. Until the 2018 financial year, leases of office premises were classified as operating leases. Payment made under operating leases were charged to profit or loss on a straight-line basis over the period of the leases.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Cash flows relating to leases should be presented as follows:

- cash payments for the principal portion of the lease liabilities as cash flows from financing activities;
- cash payments for the interest portion consistent with presentation of interest payments chosen by the Group; and
- short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities.

HKFRS 16 does not substantially change how a lessor accounts for leases under HKAS 17.

(b) New and amended standards not yet adopted by the Group

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group:

HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 3 (Amendment)	Definition of a business[1]
HKFRS 17	Insurance Contracts[2]

1 Effective for the Group for annual periods beginning on or after 1 January 2020
2 Effective for the Group for annual periods beginning on or after 1 January 2021
3 Effective date to be determined

Management is in the process of assessing the impact of these new standards, amendments to standards and interpretation to existing standards.

Notes

4. Revenue and segment information

a) Revenue

The Group's revenue is analysed as follows:

	Unaudited Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Income from provision of satellite transponder capacity	**680,123**	709,635
Sales of satellite transponder capacity	**3,192**	6,702
Other revenues	**9,959**	13,789
	693,274	730,126

b) Segment information

The chief operating decision-maker has been identified as the Chief Executive Officer of the Group. The Chief Executive Officer considers the business from a product perspective which is the operation, maintenance and provision of satellite telecommunication systems for broadcasting and telecommunication. As the Group has only one operating segment qualified as reporting segment under HKFRS 8 and the information that is regularly reviewed by the Chief Executive Officer for the purposes of allocating resources and assessing performance of the operating segment is the financial statements of the Group, no separate segmental analysis is presented in the condensed consolidated interim financial information.

Revenue reported in Note 4(a) above represented transactions with third parties and are reported to the Chief Executive Officer in a manner consistent with that in the condensed consolidated statement of comprehensive income.

The Group is domiciled in Hong Kong. The revenue from customers in Hong Kong and Greater China for the six months ended 30 June 2019 is HK$119,114,000 (30 June 2018: HK$112,397,000) and HK$179,234,000 (30 June 2018: HK$173,391,000) respectively, and the total revenue from customers in other countries is HK$394,926,000 (30 June 2018: HK$444,338,000). For the purpose of classification, the geographical source of revenue is determined based on the place of incorporation of the customers instead of the footprint of the satellites of the Group which may involve transmission to multiple geographical areas under a single satellite transponder capacity arrangement.

The amounts provided to the Chief Executive Officer with respect to total assets and total liabilities are measured in a manner consistent with that in the condensed consolidated statement of financial position. All assets and liabilities are related to the only operating segment of the Group whose operation is domiciled in Hong Kong.

Notes

5. Operating profit

The following items have been (credited)/charged to the operating profit during the interim period:

	Unaudited Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Interest income	**(7,247)**	(1,422)
Net gain on disposals of property, plant and equipment other than transponders	**319**	(25)
Others	**-**	(259)
Other gains - net	**(6,928)**	(1,706)
Salary and other benefits, including directors' remuneration	**54,126**	66,350
Share-based payment	**2,601**	2,370
Pension costs – defined contribution plans	**3,508**	4,278
Total staff costs	**60,235**	72,998
Auditors' remuneration	**875**	1,055
(Reversal of)/loss allowance of receivables (Note 10)	**(822)**	5,474
Depreciation		
- Property, plant and equipment	**287,824**	288,890
- Right-of-use assets	**5,223**	-
Amortisation of leasehold land and land use rights	**292**	292
Net exchange (gain)/loss	**(7,048)**	7,237

6. Finance expenses

	Unaudited Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Interest expenses and finance charges incurred on bank borrowings	**49,132**	50,525
Finance cost related to lease liabilities	**324**	-
	49,456	50,525

Notes

7. 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 tax has been provided at the rate of 16.5% (30 June 2018: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation, that range from 7% to 43.68% (30 June 2018: 7% to 43.68%), prevailing in the countries in which the profit is earned.

	Unaudited Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Current income tax		
- Hong Kong profits tax	**31,518**	30,356
- Overseas taxation (Note)	**16,956**	24,944
Total current tax	**48,474**	55,300
Deferred income tax	**(13,108)**	(9,140)
Income tax expense	**35,366**	46,160

Note: The Group had been in dispute with the Indian tax authority ("IR") in respect of revenues earned from provision of satellite transponder capacity for a number of years.

In May 2012, the Finance Act was passed by the Indian Parliament and certain amendments were enacted with retrospective effect. Under the Indian Income Tax Act (as amended by the aforesaid Finance Act), revenues received from the provision of satellite transponder capacity to Indian resident customers or from certain non-resident Indian customers which carry on business in India or earn income from any source in India is chargeable to tax in India subject to the judicial interpretation of the amended provision by the courts in India. As the Finance Act introduced certain amendments with retrospective effect, the Group had recognised a provision for income tax in India since the financial year of 2012 reflecting an appropriate conservative view based on the historical information currently available, while defending the Group's position in the tax proceedings in the Indian courts.

All the Indian income tax liabilities for assessment years from 1997/98 to 2012/13 were fully settled in the prior years. For the subsequent assessment years (i.e. assessment year 2013/14 and onwards), the Group may still contest the assessment orders of the IR, to the extent relevant.

Based on the latest assessment orders received and on the advice from the Group's advisers in India, the Group has made its best estimate to record a provision of approximately HK$4,000,000 for the six months ended 30 June 2019 (30 June 2018: HK$13,000,000).

Notes

8. Earnings per share

Basic

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

	Unaudited Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Profit attributable to owners of the Company	**223,467**	214,959
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousands)	**390,947**	390,656
Basic earnings per share (HK$)	**0.57**	0.55

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held under the Share Award Scheme.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

<u>Share Award Schemes</u>

The Company has restricted shares under the Share Award Schemes which would have dilutive effects. The calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the period) based on the monetary value of outstanding restricted shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the restricted shares were fully vested.

<u>Share Options Scheme</u>

The Company has share options, issued in October 2016, which would have dilutive effects. A calculation is done to determine the number of shares that could have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price of the Company's shares for the period) for the same total proceeds as the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

Notes

8. Earnings per share (Continued)

Diluted (Continued)

	Unaudited Six months ended 30 June 2019 HK$'000	2018 HK$'000
Profit attributable to owners of the Company	**223,467**	214,959
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousands)	**390,947**	390,656
Effect of Share Award Schemes (in thousands)	**709**	-
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share (in thousands)	**391,656**	390,656
Diluted earnings per share (HK$)	**0.57**	0.55

There are no share options outstanding during the six months ended 30 June 2019 and 2018.

9. Dividends

The Board has declared an interim dividend of HK$0.18 per share (HK$0.18 per share for six months ended 30 June 2018).

	Unaudited Six months ended 30 June 2019 HK$'000	2018 HK$'000
Interim dividend for the six months ended 30 June 2019 of HK$0.18 per share (HK$0.18 per share for the six months ended 30 June 2018)	**70,415**	70,415

This interim dividend has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year ending 31 December 2019.

Notes

10. Trade and other receivables

	Unaudited 30 June 2019 HK$'000	Audited 31 December 2018 HK$'000
Trade receivables	**116,859**	106,257
Trade receivables from related parties	**111,717**	142,045
Less: loss allowance for third parties	**(18,186)**	(19,267)
Less: loss allowance for related parties	**(4,856)**	(4,597)
Trade receivables – net	**205,534**	224,438
Other receivables – net	**1,089**	1,236
Deposits and prepayments	**19,400**	21,850
	226,023	247,524
Less non-current portion: Deposit	**(2,851)**	(2,851)
Current portion	**223,172**	244,673

The Group usually bills its trade customers quarterly in advance in accordance with its agreements. The ageing analysis of net trade receivables based on due date is stated as follows:

	Unaudited 30 June 2019 HK$'000	Audited 31 December 2018 HK$'000
Not yet due	**54,959**	60,350
1 to 30 days	**47,285**	35,645
31 to 60 days	**26,745**	33,030
61 to 90 days	**39,073**	18,676
91 to 180 days	**21,286**	55,284
181 days or above	**16,186**	21,453
	205,534	224,438

Movement on the loss allowance of trade receivables are as follows:

	Six months ended 30 June	
	2019 HK$'000	2018 HK$'000
At 1 January (Audited)	**23,864**	19,524
(Reversal of)/loss allowance of receivables	**(822)**	5,474
At 30 June (Unaudited)	**23,042**	24,998

Notes

11. Bank borrowings

	Unaudited 30 June 2019 HK$'000	Audited 31 December 2018 HK$'000
Current	**360,668**	359,826
Non-current	**2,097,577**	2,244,075
	2,458,245	2,603,901

The Group utilised banking facilities of approximately HK$2,483,796,000 (31 December 2018: HK$2,635,427,000) as at 30 June 2019. The carrying amount of the bank borrowings was approximately HK$2,458,245,000 (31 December 2018: HK$2,603,901,000), after netting off unamortised transaction costs of approximately HK$25,551,000 (31 December 2018: HK$31,526,000).

Bank borrowings are denominated in United States Dollars ("USD").

The bank borrowings amounting to HK$1,137,011,000 (2018: HK$1,280,195,000) are secured by a charge on insurance claim proceeds relating to AsiaSat 6 and AsiaSat 8 satellites. They are repayable semi-annually commencing from February 2015 with the final repayment in April 2023 and with coupon rate of 2.65% per annum (31 December 2018: 2.65% per annum). During the six month period ended 30 June 2019, the effective interest rate on these bank borrowings was 3.52% per annum (31 December 2018: 3.52% per annum). The fair values of these bank borrowings are based on cash flows discounted using a rate based on the effective interest rate of 4.18% (31 December 2018: 5.12%) and were within level 2 of the fair value hierarchy.

On 12 July 2017, the Group obtained the New Syndicated Facilities comprising a term loan of HK$1,406,520,000 and revolving credit facilities of HK$312,560,000 respectively with final maturity in July 2022, secured by a charge on insurance claim proceeds relating to certain satellites other than AsiaSat 6 and AsiaSat 8 satellites. The New Syndicated Facilities are used to refinance the term loan and revolving credit facilities obtained in 2015 in full.

Under the New Syndicated Facilities, the term loan is repayable annually commencing from July 2018 with the final repayment in July 2022. The revolving credit facilities are available for drawdown for a period from 1 to 6 months until June 2022, and any outstanding balances will be repaid in full by July 2022. These bank borrowings carry floating rates at London Interbank Offered Rate ("LIBOR") plus a margin and the exposure of these bank borrowings to interest rate changes and the contractual repricing dates are six months or less. During the six months ended 30 June 2019, the weighted effective interest rate on these bank borrowings under the New Syndicated Facilities was 4.17% (31 December 2018: 3.66%).

Notes

11. Bank borrowings (Continued)

At 30 June 2019, the Group's bank borrowings were repayable as follows:

	Unaudited 30 June 2019 HK$'000	Audited 31 December 2018 HK$'000
Within 1 year	**360,668**	359,826
Between 1 and 2 years	**358,318**	358,177
Between 2 and 5 years	**1,739,259**	1,885,898
	2,458,245	2,603,901

The interest expense on bank borrowings during the six months ended 30 June 2019 was HK$49,132,000 (30 June 2018: HK$50,525,000).

As at 30 June 2019, the Group had available unutilised banking facilities of approximately HK$312,428,000 (31 December 2018: HK$313,276,000) which will be expired in June 2022.

The carrying amounts and fair values of the bank borrowings are as follows:

	Carrying amount		**Fair value**	
	Unaudited 30 June 2019 HK$'000	Audited 31 December 2018 HK$'000	**Unaudited 30 June 2019 HK$'000**	Audited 31 December 2018 HK$'000
Current	**360,668**	359,826	**304,195**	242,957
Non-current	**2,097,577**	2,244,075	**2,078,844**	2,181,501
	2,458,245	2,603,901	**2,383,039**	2,424,458

12. Contingent liabilities

In mid-April 2019, the Group received a notice of arbitration in which its partner that co-built a satellite with the Group asserting its right to use its fourteen transponders at the satellite for video broadcast. In mid-May 2019, the Group filed a response to the notice of arbitration, denying that such partner had such rights. The tribunal for hearing was formed in early June 2019. It is expected the hearing would be no earlier than December 2019. The notice of arbitration did not disclose any claim amount.

13. Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2019, the Trust, which was set up to administer the Company's Share Award Scheme, has purchased a total of 163,000 ordinary shares of HK$0.10 each of the Company at an average price of HK$6.55 per share on the Stock Exchange. The purchase involved a total cash outlay of HK$1,068,000. The aggregate price of the purchased shares was charged to equity as "Shares held under Share Award Scheme".

Save as disclosed above, neither the Company nor any of its subsidiary companies has purchased or sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

Notes

14. Corporate governance

The Company is committed to maintaining high standards of corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality Board, sound internal controls and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the CG Code throughout the six months ended 30 June 2019 except as below:

Under Rule 3.10A of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), every board of directors of a listed issuer must appoint independent non-executive directors representing at least one-third of the board. Following the resignation of Ms. Maura Wong Hung Hung ("Ms. Wong"), an Independent Non-executive Director ("INED") on 15 May 2019, the Company has only three INEDs, thus falling below the minimum number of one-third of the Board as required under Rule 3.10A of the Listing Rules. The Board is still in the process of identifying a suitable candidate to replace Ms. Wong.

Save as the above, to the best knowledge of the Board, the Company had complied with the code provisions in the CG Code throughout the six months ended 30 June 2019.

The Company has adopted procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry by the Company, all Directors have confirmed that they fully complied with the Model Code throughout the period from 1 January 2019 to 30 June 2019.

15. Audit committee

Following the resignation of Ms. Wong on 15 May 2019, the Audit Committee now only comprises five members, three of whom are INEDs who satisfy independence, financial literacy and experience requirements, whilst the other two members are Non-executive Directors and have only observer status with no voting rights. The Committee is chaired by an INED, who possesses appropriate professional qualifications and experience in financial matters.

The Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial information for the six months ended 30 June 2019 in conjunction with management and the independent auditors of the Company. The Committee recommended to the Board that it should approve the unaudited condensed consolidated interim financial information for the six months ended 30 June 2019.

16. Charges on assets

Saved as disclosed in Note 11, there was no charge over the Group's assets.

17. Miscellaneous

The Directors are not aware of any material changes from the information published in the annual report for the year ended 31 December 2018, other than disclosed in this announcement.

18. Closure of register of members

The Register of members of the Company will be closed from 30 August 2019 onwards. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrars, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 29 August 2019. The interim dividend will be paid on or about 12 September 2019.

Chairman's Statement

OVERALL PERFORMANCE

As the global satellite transponder market remains in the doldrums, the Group's revenue for the first half of 2019 was HK$693 million (2018: HK$730 million), down 5% compared to the prior period. This decrease was largely due to the non-renewal of certain customer contracts in mid-2018, which was exacerbated by pricing pressures from capacity oversupply in key country markets and increased competition from terrestrial networks.

As of 30 June 2019, our core fleet of AsiaSat 5, AsiaSat 6, AsiaSat 7, AsiaSat 8 and AsiaSat 9 provided a total of 183 C-band and Ku-band transponders and achieved an overall capacity utilisation of 70% (31 December 2018: 72%). The total number of transponders leased or utilised was 128 (31 December 2018: 131). The capacity utilisation of our satellite fleet has remained relatively stable due to enhanced efforts to attract new high-valued customers.

Market Conditions

With extended C-band satellite spectrum coming under the threat of being repurposed for 5G (the fifth-generation mobile networks) in several key Asia-Pacific markets, the supply of high-quality C-band capacity is under pressure. As our C-band transponder supply begins to reach full capacity, we have resorted to technical and commercial solutions such as 'traffic re-grooming' to optimise the available capacity for video distribution. This has allowed us to broaden our broadcast customer base, while reinforcing our market positioning as Asia's most watched TV distribution platform for premium international content.

Amid the rapid transformation of the video market, driven by an evolution in consumer behaviour and the rise of new technologies, we continue to see downward pressures on pricing caused by terrestrial infrastructure buildout, the anticipated roll-out of 5G services as well as advances in broadcast technologies that are bringing disruptive changes and posing further challenges to traditional broadcasting over satellites.

Business Review

The value of contracts on hand as of 30 June 2019 was HK$2,628 million (31 December 2018: HK$2,976 million), a reduction attributable to the prevailing market's wait-and-see attitude and reluctance to commit to longer-term contracts.

New video businesses generated during the first half of 2019 included long-term strategic partnerships with video customers for the distribution of regional and local language television services in high-definition (HD) format. These new services, encompassing news, entertainment, drama and cinema films, have further enhanced our superior video neighbourhood that serves more than 840 million homes via rebroadcast platforms and numerous hotel networks across the region.

Our initiative of transforming our AsiaSat 9 into a video 'hotbird' has continued to gain traction. During the period under review, the satellite has diversified its customer base to include new channels in Mandarin, Korean and Nepali, to complement the existing South Asian television services. With these new services, AsiaSat 9 has rapidly gained market access via key television platforms in East Asia, South Asia, Southeast Asia and the Pacific. In addition, the superior performance of the satellite is attracting the interest of 4K channels that are looking for highly efficient transmission solutions in Asia.

In terms of the data market, international and domestic customers from South Asia, East Asia and Southeast Asia have continued to take up new capacity for aviation, mobile backhaul, corporate networks and other VSAT applications for wide area coverages.

As we continue to see attractive opportunities coming from some of the fastest growing countries across Asia, we are committed to expanding into new markets and deepening our penetration regionally and locally by leveraging on the high-quality capacity and unrivalled coverage of our satellites.

Occasional Use

AsiaSat has continued to distribute a wide range of sports, news and special events using our occasional use (OU) video distribution services, with AsiaSat 5 reinforcing its role as a leading distribution platform for live sports and special events, including the English Premier League (EPL), J League and K League soccer tournaments, Australian Open Tennis, Cricket World Cup, AFC Asian Cup, Formula E motorsport as well as the annual Academy Awards and MTV Movie & TV Awards.

AsiaSat's fleet has been chosen for the delivery of news-making world events such as the G20 Summit, the Boao Forum for Asia, the annual plenary session of China's National People's Congress (NPC) and the Chinese People's Political Consultative Congress (CPPCC) and the North Korea-U.S. Summit.

The 5G Challenge

In anticipation of the imminent roll-out of 5G services in the Asia-Pacific, AsiaSat has conducted multiple studies and tests with regulators to explore various mitigation measures to ensure that our customers' C-band traffic are sufficiently protected against out-of-band interference due to 5G network deployment. These mitigation measures include traffic migration, use of bandpass filters, proper site selection and shielding.

Recently, AsiaSat co-developed a 5G bandpass filter which has been deployed at various satellite receiving sites and has been proven to work effectively within the developed guidelines. These filters will be available for volume distribution in September 2019. This, along with AsiaSat's strong technical knowledge of the co-existing requirements vis-a-vis 5G services, has made us confident that the impact of 5G deployment on our standard C-band customers' services could be kept to a minimum.

As mobile operators begin to deploy commercial 5G networks, new opportunities will emerge for satellite operators to complement 5G network buildout as part of the network design. With this, AsiaSat is working in conjunction with our satellite industry colleagues, mobile network operators and regulators to protect existing services while pursuing other new business/service opportunities offered by 5G networks.

OUTLOOK

It is useful to note that satellite remains as the video delivery method of choice in the Asia-Pacific while new terrestrial services such as over-the-top (OTT), video-on-demand (VOD) and subscription video-on-demand (SVOD) continue to operate at a low revenue base. As of now, though the impact of OTT and other digital terrestrial platforms remains limited, we expect them to grow rapidly and the Group will continue to evaluate and explore various opportunities with our customers to provide new OTT services as value added extensions of our existing video distribution services.

In the first half of 2019, low-flexibility high-throughput satellite (HTS) capacity has been deployed by some regional operators, causing an increase in supply vis-à-vis demand for data services. Such excess of low-flexibility capacity has put pressures on the commercial viability of this type of HTS and some applications in traditional fixed satellite service (FSS) data services, thus reaffirming the Group's decision to adopt a cautious approach to our plans for future data satellites to be designed with a cost-effective HTS architecture that could meet market needs for customised data services.

INTERIM FINANCIAL RESULTS

Revenue

Revenue for the first half of 2019 was HK$693 million (2018: HK$730 million), down 5% compared to the prior period. This decrease was substantially due to the non-renewal of certain customer contracts in mid-2018, which was exacerbated by continued pricing pressures and lower revenue contribution from AsiaSat 3S, which is currently operating in inclined orbit.

Operating Expenses

Excluding depreciation, the operating expenses in the first half of 2019 totalled HK$99 million (2018: HK$131 million), a decrease of HK$32 million, attributable to currency fluctuations, the recovery of previously impaired receivables, lower staff costs and the adoption of a new accounting standard which now treats office rental as depreciation of right-of-use assets rather than operating expense as in prior period. These cost-savings and reallocation were partially offset by higher legal and professional fees resulting from increased corporate activities during the reported period.

Other Gains

Other gains totalled HK$7 million (2018: HK$2 million), an increase of HK$5 million, mainly due to interest earned on higher bank balances.

Finance Expenses

Finance expenses were HK$49 million (2018: HK$51 million), a decrease of HK$2 million.

Depreciation

Depreciation in the first half of 2019 was HK$293 million (2018: HK$289 million), an increase attributable to the inclusion of office rent within depreciation of right-of-use assets following the adoption of a new accounting standard that became effective during the reported period.

Income Tax Expenses

Income tax expenses were HK$35 million (2018: HK$46 million), a decrease of HK$11 million.

Profit

Profit attributable to the owners for the first half of 2019 was HK$223 million (2018: HK$215 million), up HK$8 million. Cost controls, favourable currency fluctuations and reduced tax expenses contributed to higher profits.

Cash Flow

For the first six months of the year, the Group generated net cash inflow of HK$392 million (2018: HK$271 million), including capital expenditure of HK$9 million (2018: HK$66 million) and repayment of bank borrowings of HK$144 million (2018: HK$144 million). As at 30 June

2019, the Group had cash and bank balances totalling HK$938 million (31 December 2018: HK$547 million).

Dividend

The Board declares an interim dividend of HK$0.18 per share (2018: HK$0.18 per share) for this interim period. The interim dividend will become payable on or about 12 September 2019 to equity holders on the share register as at 30 August 2019. The share register will be closed from 30 August 2019 onwards.

SATELLITE FLEET

During the first half of 2019, our satellite fleet continued to provide high quality satellite capacity supported by an unmatched level of customer service. The Group's ongoing commitment to the provision of premium services within a highly dynamic technical and economic environment served to attract an expanded and diverse customer base from the video and data sectors.

As at 30 June 2019, the number of leased or utilised AsiaSat transponders on our core fleet went down slightly to 128 (31 December 2018: 131 transponders), with overall transponder utilisation standing at 70% (31 December 2018: 72%).

AsiaSat 4, with 28 C-band and 20 Ku-band transponders, is being leased in its entirety to a single customer under the terms of a four-year utilisation contract, with Tracking, Telemetry & Command (TT&C) fully controlled by AsiaSat. The satellite has been deployed at the customer's designated orbital slot since November 2017.

AsiaSat 5 at 100.5 degrees East is the Company's primary distribution platform for live sports and news from around the world targeting viewers in the region. Besides delivering news and events such as regional business forums and government leaders summits, soccer tournaments of golf, cricket, tennis, badminton and baseball series, AsiaSat 5 also serves aviation and telecommunications customers through the delivery of innovative and high demand VSAT services.

AsiaSat 6 at 120 degrees East provides a high-value platform for the distribution of High Definition TV (HDTV) service in China.

AsiaSat 7 at 105.5 degrees East is the regional platform of choice for the distribution of premium content from South Asia, East Asia and global TV networks. AsiaSat 7 is also an anchor satellite for in-flight connectivity services within China, as well as for maritime services across the South China Sea region.

AsiaSat 8, with 24 high-powered Ku-band transponders, is being leased to a single customer for a minimum of four years, with its TT&C fully controlled by AsiaSat. The satellite has been deployed at the customer's designated orbital position since February 2017.

AsiaSat 9 at 122 degrees East carries 28 high performance C-band and 32 high-powered Ku-band transponders to provide TV broadcast distribution, direct-to-home (DTH) and broadband services across the Asia-Pacific. This satellite also serves as a high-value distribution platform to support a growing number of OU sports and news events delivered in ultra high-definition (UHD) and HD formats.

AsiaSat 3S is currently at 147 degrees East pending service to new customers.

CORPORATE DEVELOPMENT

On 27 June 2019, the Company and Bowenvale Limited (the "Offeror", a substantial shareholder of the Company) made a joint announcement in relation to the proposed privatisation of the Company by way of a scheme of arrangement (the "Proposal") and de-listing from the Stock Exchange of Hong Kong Limited. A detailed timetable for the Proposal has been set out in the scheme document despatched to shareholders on 31 July 2019.

It is the intention of the Offeror for the Group to maintain its existing business following the implementation of the Proposal. The Offeror has no immediate plans, in the event the scheme becomes effective, to make any material changes to the business and/or disposal or redeployment of assets of the Group.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank past Board Members Mr. JU Wei Min and Ms. Maura WONG Hung Hung, for their leadership and service to the Board. Mr. JU is the longest-serving Board member in AsiaSat's history, having joined the Board in October 1998 and provided more than 20 years of service to the Group. I would also like to welcome Mr. LIU Zhengjun on joining the Board.

On behalf of the Group, I thank our customers and partners for their continuing support to the Group and the satellite industry. I would also like to express our appreciation for the hard work and dedication of our employees and the management team. Finally, we thank you, our shareholders, for your trust, support and confidence in AsiaSat.

Gregory M. ZELUCK
Chairman

8 August 2019

As at the date of this announcement, the Board comprises 10 directors. The Executive Director is Dr. Roger Shun-hong TONG. The Non-executive Directors are Mr. Gregory M. ZELUCK (Chairman), Mr. LIU Zhengjun (Deputy Chairman), Mr. LUO Ning, Dr. DING Yucheng, Mr. Herman CHANG Hsiuguo and Mr. FAN Jui-Ying. The Independent Non-executive Directors are Mr. Marcel R. FENEZ, Mr. Steven R. LEONARD and Ms. Philana Wai Yin POON. The Alternate Director is Mr. CHONG Chi Yeung (alternate to Mr. LUO Ning).

** For identification purpose only*