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## 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 2014

The Board of Directors is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2014 as follows:

#### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited	
		Six months ended 30 June	
		2014	2013
		HK\$'000	HK\$'000
Sales	4	693,564	767,383
Cost of services		(286,456)	(252,173)
<b>Gross profit</b>		<b>407,108</b>	515,210
Administrative expenses		(74,132)	(46,784)
Other gains - net		21,612	11,403
<b>Operating profit</b>	5	<b>354,588</b>	479,829
Finance expenses	6	(2,493)	-
<b>Profit before income tax</b>		<b>352,095</b>	479,829
Income tax expense	7	(68,740)	(79,210)
<b>Profit and total comprehensive income for the period</b>		<b>283,355</b>	400,619
<b>Profit and total comprehensive income for the period attributable to:</b>			
- Owners of the Company		283,414	400,678
- Non-controlling interests		(59)	(59)
		<b>283,355</b>	400,619
<b>Earnings per share attributable to owners of the Company</b>		<b>HK\$ per share</b>	<b>HK\$ per share</b>
Basic earnings per share	8	<b>0.73</b>	1.03
Diluted earnings per share	8	<b>0.72</b>	1.02
		<b>HK\$'000</b>	<b>HK\$'000</b>
Interim dividend	9	<b>70,415</b>	46,943

Note 1 to Note 11 form an integral part of these condensed consolidated interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Leasehold land and land use rights		19,242	19,534
Property, plant and equipment		6,803,225	6,604,655
Unbilled receivables		6,666	3,005
Deposit	10	2,616	2,616
<b>Total non-current assets</b>		<u>6,831,749</u>	<u>6,629,810</u>
<b>Current assets</b>			
Trade and other receivables	10	364,291	405,813
Cash and banks		3,405,646	1,501,110
<b>Total current assets</b>		<u>3,769,937</u>	<u>1,906,923</u>
<b>Total assets</b>		<u>10,601,686</u>	<u>8,536,733</u>
<b>EQUITY</b>			
Equity attributable to owners of the Company			
Ordinary shares		39,120	39,120
Reserves			
- Retained earnings		6,839,505	7,456,691
- Other reserves		20,116	25,059
		<u>6,898,741</u>	<u>7,520,870</u>
Non-controlling interests		842	901
<b>Total equity</b>		<u>6,899,583</u>	<u>7,521,771</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Bank borrowings	11	1,681,540	-
Deferred income tax liabilities		389,579	389,307
Deferred revenue		46,825	54,377
Other amounts received in advance		1,377	1,377
<b>Total non-current liabilities</b>		<u>2,119,321</u>	<u>445,061</u>
<b>Current liabilities</b>			
Bank borrowings	11	101,891	-
Construction payables		6,880	12,882
Other payables and accrued expenses		63,119	65,210
Deferred revenue		178,021	199,166
Current income tax liabilities		333,000	292,522
Dividend payable		899,871	121
<b>Total current liabilities</b>		<u>1,582,782</u>	<u>569,901</u>
<b>Total liabilities</b>		<u>3,702,103</u>	<u>1,014,962</u>
<b>Total equity and liabilities</b>		<u>10,601,686</u>	<u>8,536,733</u>
<b>Net current assets</b>		<u>2,187,155</u>	<u>1,337,022</u>
<b>Total assets less current liabilities</b>		<u>9,018,904</u>	<u>7,966,832</u>

Note 1 to Note 11 form an integral part of these condensed consolidated interim financial information.

## Notes

### 1. Independent review

The unaudited condensed consolidated accounts of the Company and its subsidiary companies for the six months ended 30 June 2014 have been reviewed by the Company's 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 2014 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 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

### 3. Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no amendments to standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2014 and have not been early adopted:

HKAS 16 and HKAS 38 (Amendment)	Classification of Acceptable Methods of Depreciation and Amortisation <sup>2</sup>
HKAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions <sup>1</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations <sup>2</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>3</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2012 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2013 <sup>1</sup>

<sup>1</sup> Effective for the Group for annual periods beginning on or after 1 July 2014

<sup>2</sup> Effective for the Group for annual periods beginning on or after 1 January 2016

<sup>3</sup> Effective for the Group for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for the Group for annual periods beginning on or after 1 January 2018

The Group is in the process of assessing the impact of these standards or interpretations and does not expect there will be material impact on the consolidated financial statements of the Group.

## Notes

### 4. Sales and segment information

#### a) Sales

The Group's sales are analysed as follows:

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Income from provision of satellite transponder capacity		
- recurring	658,610	742,031
- non-recurring	1,248	1,248
Sales of satellite transponder capacity	15,697	8,909
Other revenues	18,009	15,195
	<u>693,564</u>	<u>767,383</u>

#### b) Segment information

The chief operating decision-maker has been identified as the President and Chief Executive Officer of the Group. The President and Chief Executive Officer reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the President and Chief Executive Officer, who considers the business from a product perspective and assesses the performance based on a measure of profit after taxation of such business segment.

The amounts provided to the President and Chief Executive Officer with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. These assets and liabilities are allocated based on the operations of the segments. The accounting policies of the reportable segments are the same as the Group's accounting policies.

The Group has only one business segment, namely operation, maintenance and provision of satellite telecommunication systems for broadcasting and telecommunication. Accordingly, no segmental analysis is presented.

The Group is domiciled in Hong Kong. The sales to customers in Greater China (including China and Hong Kong) for the six months ended 30 June 2014 are HK\$248,533,000 (for the six months ended 30 June 2013: HK\$288,525,000), and the total sales to customers in other countries are HK\$445,031,000 (for the six months ended 30 June 2013: HK\$478,858,000).

For the purpose of classification, the country where the customer (both external customer and related party) is incorporated is deemed to be the source of sales. However, the Group's operating assets consist primarily of its satellites which are used, or are intended for use, for transmission to multiple geographical areas and therefore cannot be allocated between geographical segments. Accordingly, no geographical analysis of expenses, assets and liabilities has been presented.

## Notes

### 5. Operating profit

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

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income	<b>21,426</b>	11,403
Net gain on disposals of property, plant and equipment other than transponders	<b>186</b>	-
	<hr/>	<hr/>
Other gains - net	<b>21,612</b>	11,403
	<hr/> <hr/>	<hr/> <hr/>
Salary and other benefits, including directors' remuneration	<b>59,257</b>	51,679
Share-based payment	<b>5,632</b>	4,648
Pension costs – defined contribution plans	<b>4,543</b>	4,049
	<hr/>	<hr/>
Total staff costs	<b>69,432</b>	60,376
	<hr/> <hr/>	<hr/> <hr/>
Auditors' remuneration	<b>723</b>	758
Provision/(write back) for impairment of trade receivables - net	<b>2,395</b>	(1,503)
Depreciation of property, plant and equipment	<b>233,697</b>	203,329
Operating leases		
- Premises	<b>4,549</b>	4,304
- Leasehold land and land use rights	<b>292</b>	292
Net exchange loss/(gain)	<b>5,765</b>	(8,917)
	<hr/>	<hr/>

### 6. Finance expenses

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest expenses incurred on bank borrowings	<b>17,814</b>	-
Less: interest capitalised on qualifying assets	<b>(15,321)</b>	-
	<hr/>	<hr/>
Total	<b>2,493</b>	-
	<hr/> <hr/>	<hr/> <hr/>

The interest rate applied in determining the amount of interest capitalised in 2014 was 3.52% (2013: Nil).

## 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% (2013: 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 43.26% (2013: 7% to 43.26%), prevailing in the countries the profit is earned.

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Current income tax		
- Hong Kong profits tax	<b>25,643</b>	29,149
- Overseas taxation	<b>42,825</b>	42,551
	<hr/>	<hr/>
Total current tax	<b>68,468</b>	71,700
Deferred income tax	<b>272</b>	7,510
	<hr/>	<hr/>
Income tax expense	<b>68,740</b>	79,210
	<hr/> <hr/>	<hr/> <hr/>

The Group has been in dispute with the Indian tax authority ("IR") in respect of revenues earned from provision of satellite transponder capacity. The Group has been assessed for tax by the IR on revenues received for the provision of satellite transponder capacity to certain customers for purposes of those customers carrying on business in India or earning income from any source in India. Details were set out in Note 31 to the annual financial statements for the year ended 31 December 2011.

In May 2012, the Finance Bill was passed by the Indian Parliament and certain amendments were enacted with retrospective effect. Under the Indian Income Tax Act (as amended by the Finance Act), revenues received from the provision of satellite transponder capacity to customers which carry on business in India or earn income from any source in India ("Indian sourced") 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, this may have significant unfavourable consequences to the Group's tax proceedings in the Indian Courts in respect of which orders in favour of the Group had been granted in the past. The amount of the Group's revenues that is deemed to be Indian sourced is yet to be decided by the Indian Courts and therefore the exact tax consequences are still uncertain.

Based on the latest advice received by the Group from the Group's advisers in India, the Group has recorded a provision of HK\$34 million for the six months ended 30 June 2014 (2013: HK\$33 million) reflecting an appropriately conservative view based on the historical information currently available. Management intends to rigorously defend the Group's position in this regard in the ongoing tax proceedings in the Indian Courts.

## 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.

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit attributable to owners of the Company	<u><b>283,414</b></u>	<u>400,678</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousands)	<u><b>390,711</b></u>	<u>390,889</u>
Basic earnings per share (HK\$)	<u><b>0.73</b></u>	<u>1.03</u>

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. The Company has restricted shares under the Share Award Scheme which would have a dilutive effect. The calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) 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.

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit attributable to owners of the Company	<u><b>283,414</b></u>	<u>400,678</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousands)	<u><b>390,711</b></u>	<u>390,889</u>
Effect of Awarded Shares (in thousands)	<u><b>587</b></u>	<u>845</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share (in thousands)	<u><b>391,298</b></u>	<u>391,734</u>
Diluted earnings per share (HK\$)	<u><b>0.72</b></u>	<u>1.02</u>

## Notes

### 9. Dividend

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Interim dividend for the six months ended 30 June 2014 of HK\$0.18 per share (interim dividend for the six months ended 30 June 2013 of HK\$0.12 per share)	<b>70,415</b>	46,943

An interim dividend of HK\$0.18 per share (2013: HK\$0.12 per share) was proposed by the Board of Directors on 21 August 2014. It is payable on or about 4 November 2014 to shareholders who are on the register on 8 October 2014. This interim dividend, amounting to HK\$70,415,000 (2013: HK\$46,943,000), has not been recognised as a liability in this condensed consolidated interim financial information. It will be recognised in owners' equity as an appropriation of retained earnings in the year ending 31 December 2014.

### 10. Trade and other receivables

	<b>30 June</b>	31 December
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>267,349</b>	237,225
Trade receivables from related parties	<b>106,141</b>	170,337
Less: provision for impairment of trade receivables	<b>(32,269)</b>	(30,022)
Trade receivables – net	<b>341,221</b>	377,540
Other receivables	<b>12,561</b>	8,169
Deposits and prepayments	<b>13,125</b>	22,720
	<b>366,907</b>	408,429
Less non-current portion: Deposit	<b>(2,616)</b>	(2,616)
Current portion	<b>364,291</b>	405,813

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

	<b>30 June</b>	31 December
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Not yet due	<b>201,543</b>	195,441
1 to 30 days	<b>41,910</b>	54,054
31 to 60 days	<b>15,900</b>	17,774
61 to 90 days	<b>31,705</b>	22,147
91 to 180 days	<b>29,823</b>	43,752
181 days or above	<b>20,340</b>	44,372
	<b>341,221</b>	377,540

## Notes

### 11. Bank borrowings

	<b>30 June 2014 HK\$'000</b>	31 December 2013 HK\$'000
Current	<b>101,891</b>	-
Non-current	<b>1,681,540</b>	-
	<b>1,783,431</b>	-

The Group utilised bank loan facilities of approximately HK\$1,848,548,000 (2013: Nil) during the period ended 30 June 2014. The carrying amount of the bank borrowings was approximately HK\$1,783,431,000, after netting off transaction costs of approximately HK\$65,117,000.

Bank borrowings are denominated in United States Dollars and 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 carry coupons of 2.65% per annum (2013: Nil). The effective interest rate on the Group's bank borrowings was 3.52% (2013: Nil).

At 30 June 2014, the Group's bank borrowings were repayable as follows:

	<b>30 June 2014 HK\$'000</b>	31 December 2013 HK\$'000
Within 1 year	<b>101,891</b>	-
Between 2 and 5 years	<b>827,789</b>	-
Over 5 years	<b>853,751</b>	-
	<b>1,783,431</b>	-

The interest expense on bank borrowings for the six months ended 30 June 2014 were HK\$17,814,000 (2013: Nil), and HK\$15,321,000 (2013: Nil) of the interest was capitalised as the costs of property, plant and equipment during the period.

As at 30 June 2014, the Group has available unutilised fixed rate bank loan facilities of approximately HK\$846,090,000 (31 December 2013: approximately HK\$2,695,090,000) which will expire on 15 January 2015.

## Notes

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

During the six months ended 30 June 2014, the Trust, which was set up to administer the Company's Share Award Scheme, has purchased a total of 360,000 ordinary shares of HK\$0.10 each of the Company at an average price of HK\$32 per share on the Stock Exchange. The purchase involved a total cash outlay of HK\$11,425,000. 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 2014.

### 13. Corporate governance

The Company is committed to maintaining high standards of corporate governance practices and procedures. The corporate governance principles of the Company emphasize 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 Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the six months ended 30 June 2014 except for the following :

Under Code Provision A.6.7 of the CG Code, all non-executive directors ("NEDs") and independent non-executive directors ("INEDs") should attend general meetings of the Company and develop a balanced understanding of the views of shareholders. Mr. LUO Ning and Mr. John F. CONNELLY, both being NEDs of the Company, were unable to attend the annual general meeting of the Company held on 19 June 2014 ("2014 AGM") due to other business and personal commitments. Mr. CHONG Chi Yeung, alternate director to Mr. Luo, attended the 2014 AGM in the place of Mr. Luo.

Regarding the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules, the Group has adopted procedures governing directors' securities transactions in compliance with the relevant code provisions.

### 14. Audit committee

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

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 2014 in conjunction with management and the external auditors of the Company.

## Notes

### **15. Charges on assets**

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

### **16. Miscellaneous**

The Directors are not aware of any material changes from the information published in the annual report for the year ended 31 December 2013, other than disclosed in this announcement.

### **17. Closure of register of members**

The Register of equity holders of the Company will be closed from 3 to 8 October 2014 (both days inclusive). 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 30 September 2014. The interim dividend will be paid on or about 4 November 2014.

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## **Chairman's Statement**

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2014 is a period of transition for AsiaSat. In April, we replaced AsiaSat 3S with AsiaSat 7, which will provide us higher power and improved coverage. In August, we launched AsiaSat 8 to serve our South Asia market and at the end of August we will be launching AsiaSat 6 mainly to serve the China market.

Profitability for AsiaSat during the first half of 2014 was below the previous year as indicated in our profit warning on 16 July. The decline was related to a number of items more fully described below, including a reduction in turnover, incremental depreciation on AsiaSat 7 and an increase in operating expenses.

Some of these factors will affect our results for the second half of 2014, and the commencement of depreciation on AsiaSat 6 and 8 during this period will put additional pressure on our profit. However, the incremental capacity and market coverage provided by AsiaSat 6, 7 and 8 will position us to capture growth opportunities commencing in 2015.

### **INTERIM RESULTS**

#### **Turnover**

Turnover for the first half of 2014 was HK\$694 million (2013: HK\$767 million), representing a decrease of 10% as compared to the same period last year. The drop in turnover was primarily attributable to a July 2013 agreement with a major customer which resulted in a significant extension of the contract, as well as the termination of several contracts associated with the reduction in U.S. military activity in the Middle East.

#### **Contracts on Hand**

As at 30 June 2014, the value of contracts on hand amounted to HK\$4,236 million (31 December 2013: HK\$3,820 million). A substantial portion of the increase was from a contract signed with a customer providing Direct-to-Home (DTH) television services in Indonesia.

#### **Operating Expenses**

Operating expenses in the first half of 2014, excluding depreciation, totalled HK\$127 million (2013: HK\$96 million). The increase resulted mainly from an exchange loss of HK\$6 million, due to the depreciation of the Renminbi and the appreciation of the Indian Rupee in which Indian tax payable is denominated, as compared with an exchange gain of HK\$9 million in the previous interim period. Excluding the exchange rate effect, the operating expense increase of approximately HK\$16 million was primarily the result of an increase in staff costs in 2014 as compared to a reversal of a bonus provision in 2013.

#### **Finance Expenses**

Finance expenses from the Ex-Im bank loan incurred from March 2014 amounted to HK\$18 million, of which HK\$15 million was capitalised as part of the cost of AsiaSat 6 and AsiaSat 8 (2013: Nil).

## **Depreciation**

Depreciation in the first half of 2014 was HK\$234 million (2013: HK\$203 million), representing an increase of HK\$31 million, due to a full six months depreciation provision for AsiaSat 7.

## **Profit**

Profit attributable to equity holders for the first half of 2014 was HK\$283 million (2013: HK\$401 million). The decline was the result of the factors referred to above.

## **Cash Flow**

AsiaSat's cashflow is strongly affected by the timing and financing of capital expenditure related to the building of new satellites. For the first six months of 2014, the Group generated a net cash inflow of HK\$1,905 million (2013: HK\$9 million) including the proceeds from the Ex-Im bank loan of HK\$1,780 million (2013: Nil) and after capital expenditure of HK\$423 million (2013: HK\$584 million). As of 30 June 2014, the Group had cash and bank balances of HK\$3,406 million (31 December 2013: HK\$1,501 million).

## **Dividend**

The Board has declared an interim dividend of HK\$0.18 per share (2013: HK\$0.12 per share), increased from 2013 in order to create a better balance between interim and final dividends. The interim dividend will become payable on or about 4 November 2014 to equity holders on the share register as at 8 October 2014. The share register will be closed from 3 to 8 October 2014 (both days inclusive).

## **SATELLITES**

AsiaSat's existing fleet of in-orbit satellites — AsiaSat 3S, 4, 5 and 7 — continued to provide outstanding service to millions of people across the Asia-Pacific region. During the first half of the year, we prepared for the launches of AsiaSat 6 and AsiaSat 8 and began building AsiaSat 9.

AsiaSat 3S was replaced by AsiaSat 7 in April 2014 and is presently being used to secure the 120 degrees East slot in advance of the launch of AsiaSat 6. Following the launch, AsiaSat 3S will be deployed in inclined orbit in a number of applications to provide temporary service to customers and contribute additional short term revenue to the Group.

AsiaSat 5 proved to be the preferred distribution platform for sporting events such as the Winter Olympics in Sochi and, more recently, the 2014 FIFA World Cup in Brazil where we brought football fans in Asia the first-ever live telecast of this sporting event in 4K or Ultra High Definition (UHDTV) along with its regular full High Definition (HDTV) coverage of all 64 World Cup matches.

AsiaSat 5 also attracted customers during the first half of 2014 based on our market reputation for delivering a reliable premium service. New customers included:

- beIN SPORTS, a HDTV channel featuring a range of sports content that includes the Italian Serie A, French Ligue 1, and other world sports tournaments such as the ATP World Tour 250 series.
- VIVA+, a new DTH service for Indonesia.
- ARQIVA LIMITED for C-band capacity to distribute an array of elite sporting events, such as football, cricket, volleyball and tennis, throughout Asia and Australia.

AsiaSat 7 is now providing service at the orbital location of 105.5 degrees East after replacing AsiaSat 3S in April 2014. AsiaSat 7 acquired Pakistan's Pashto entertainment channel, Pashto 1, as a new customer during this period. The Pashto 1 channel provides service to the large Pashto-speaking population in Pakistan, Afghanistan, the Middle East, and other regions, expanding our line-up of local language television services.

After several scheduling delays, AsiaSat 6 and 8 were rescheduled for a launch from Cape Canaveral, Florida in August 2014. AsiaSat 8 was successfully launched on 5 August and is presently undergoing in-orbit testing before being moved into its final orbital position. AsiaSat 8 will offer incremental Ku band capacity at 105.5 degrees East as it will be collocated with AsiaSat 7. AsiaSat 8 was designed to provide service to South Asia, the Middle East and Southeast Asia. In these markets, there are growing opportunities for AsiaSat 8 to meet capacity demand for DTH, distance education, distance medicine and diagnosis, in-flight internet connectivity, high speed rail broadband access, mobile backhaul for 3G/4G, and maritime communications.

We are awaiting the launch of AsiaSat 6 later this month. AsiaSat 6 will add additional C band capacity at a new orbital location of 120 degrees East. As announced earlier, AsiaSat 6 will be located at this new orbital location under a cooperation arrangement with Thaicom (Thaicom Public Company Limited) of Thailand. AsiaSat 6 will be mainly used to service growing requirements in the China market.

Construction is on track for the launch of AsiaSat 9 by late 2016 or early 2017. It will replace AsiaSat 4 at 122 degrees East where it will continue serving existing customers. Additional Ku-band transponders on this satellite will also enable us to serve markets in China, Australia and emerging markets such as Mongolia and Indonesia.

The recent satellite replacement programs follow our long-standing strategy of launching early in order to have another launch opportunity should we suffer a failure. AsiaSat 7 was launched two years before the end of the life of AsiaSat 3S in order to ensure the continuity of our existing customers' businesses and protect our revenue in the event of a launch failure. This will also be the case with AsiaSat 9, which will replace AsiaSat 4 two and half years before that satellite's anticipated end of life. In both of these cases, we can use the remaining two or three years of life of the satellites to generate incremental revenue.

The number of transponders leased or sold as of 30 June 2014 was 101, as compared to 97 as of 31 December 2013 and the overall utilisation rate for the period ending 30 June 2014 was 76% as compared with 74% as of 31 December 2013.

## **MARKET REVIEW**

Our business is region-wide and covers a vast geographical area comprised of many governments, regulators and geopolitical environments. Operating in these markets presents a variety of challenges and opportunities:

### **The Regulatory Perspective**

Governments throughout the region have initiated regulations which have created new growth opportunities for satellite services. As an example, in countries such as India, Thailand and the Philippines regulators have introduced Digital Terrestrial Television to digitise the television sector. Existing DTH platforms are now requiring more capacity to introduce new services such as interactive TV and HDTV in order to compete.

In addition, DTH services continue to grow in Asia as the governments in certain countries issue new licences to make possible a broader range of services to pay television consumers. These new DTH licenses are creating additional demand for satellite capacity in countries such as Pakistan, Myanmar, Sri Lanka, Bangladesh and Indonesia.

These developments are increasing the need for satellite capacity and creating a growth opportunity for AsiaSat.

### **The Technology Perspective**

The availability of more advanced compression technologies, such as MPEG-4 and higher modulation DVB-S2, has reduced the bandwidth requirements for Standard Definition (SDTV) and HDTV channels. Such technology advances lower the entry costs for new program providers in the market, thus expanding the number and type of potential customers requiring satellite services. In addition existing programmers and platform providers find it more affordable to launch new SDTV or HDTV services allowing them to expand their product offering more economically. The resulting drive by existing customers and new entrants to seek capacity for their expansion needs will open up potential new market opportunities for AsiaSat.

We are also paying close attention to the next wave in broadcasting technology — 4K or UHDTV — which delivers four times the resolution of the existing HDTV. Although much of our customer base is still using SDTV, we believe 4K will eventually be widely adopted. 4K and UHDTV transmissions utilise considerably more bandwidth than SDTV or HDTV, thus requiring more satellite capacity. At a recent industry event, we participated in a demonstration of this technology showing how satellites will be used to distribute 4K content.

Another technology, Satellite IP, will allow users to watch television programming across a variety of personal devices such as smartphones and tablets. We are continually exploring the role that we can play in providing expanded content delivery to our customers through Satellite IP and other technologies.

Fibre continues to be a potential threat to some satellite services as governments in our market seek to improve their infrastructural development by deploying nationwide fibre networks and trans-oceanic fibre links. While this trend has continued over the past several years and has reduced our participation in traditional telecoms point-to-point services, satellite still has a unique advantage over fibre for broadcast type communications owing to its ubiquitous coverage and point-to-multipoint delivery capabilities.

### **The Market Demand Perspective**

There is a growing demand from terrestrial and pay TV operators for content that differentiates their service offerings. The rising number of channels across Asia offering greater content variety, more local languages, and higher resolution with better viewing quality, will spur content development. We have positioned AsiaSat to provide these channels with the capacity they need to distribute their new services.

There is also growing demand for increased connectivity in certain markets and countries, where the infrastructure for telecom, mobile and broadband is underdeveloped. Satellite, with its ability to reach remote regions and outlying islands, is well accepted in these markets, particularly for mobile backhaul and VSAT services.

Other sources of market demand which we are seeking to satisfy include the need for added capacity to carry inflight and maritime communications. In addition, telecommunications companies upgrading to 3G and 4G networks also require greater bandwidth to provide better connectivity and nationwide coverage even in remote areas. Again, AsiaSat is in a position to fulfil these growing bandwidth requirements.

## **OUTLOOK**

We recognised in our 2013 annual report that 2014 would be a transition year for the Company. The replacement of AsiaSat 3S with AsiaSat 7 and the addition of AsiaSat 6 and AsiaSat 8 to our fleet will provide the Group with incremental power, coverage and capacity. Some of the factors which have adversely affected our results for the first half of 2014 will continue to have an effect in the second half of the year. At the same time, we remain confident that the cumulative effect of the actions taken this year has better positioned the Group for future growth.

Longer term, AsiaSat 9 will be launched in late 2016 or early 2017 and will replace AsiaSat 4 with improved performance and added capacity to further expand our capabilities to meet the growing demand for satellite capacity across the region.

With our growing satellite fleet, strong team and established market reputation for providing reliable service, we are well placed to capitalise on new business opportunities.

## **ACKNOWLEDGEMENTS**

The first half of the year has been very active with preparation for two satellite launches and a new satellite procurement, as well as the more typical business acquisition activities in a dynamic and competitive environment. I would like to take this opportunity to extend my appreciation to our customers for entrusting us with their business. I also want to thank our management team and staff for their dedication and hard work during the first half of 2014. And I want to thank my fellow Board members for their continued active guidance and counsel.

Sherwood P. DODGE  
Chairman

21 August 2014

*As at the date of this announcement, the Board comprises 11 directors. The Executive Director is Mr. William WADE. The Non-executive Directors are Mr. Sherwood P. DODGE (Chairman), Mr. JU Wei Min (Deputy Chairman), Mr. LUO Ning, Mr. Peter JACKSON, Mr. John F. CONNELLY and Ms. Nancy KU. The Independent Non-executive Directors are Mr. James WATKINS, Mr. Stephen LEE Hoi Yin, Mr. Kenneth McKELVIE and Ms. WONG Hung Hung Maura. The Alternate Director is Mr. CHONG Chi Yeung (alternate to Mr. LUO Ning).*

*\* For identification purpose only*