

Financial review

Financial results analysis

During the year under review, the Company achieved a satisfactory performance both in terms of turnover and profit attributable to shareholders. The financial results are highlighted below:

		2000	1999	%
				change
Turnover	<i>HK\$M</i>	997	807	+24
Profit attributable to shareholders	<i>HK\$M</i>	576	354	+63
Dividend	<i>HK\$M</i>	78	78	—
Shareholders' funds	<i>HK\$M</i>	2,331	1,829	+27
Earnings per share	<i>HK¢</i>	148	91	+63
Dividend per share	<i>HK¢</i>	20	20	—
Dividend cover	<i>Times</i>	7	5	+40
Return on shareholders' funds	%	25	19	+32
Net assets per share - book value	<i>HK¢</i>	597	469	+27

With the slow down of the economy in the United States since the last quarter of 2000, coupled with no signs of improvement in the near term, the Company does not anticipate that the growth achieved in 2000 can be repeated in 2001.

Liquidity and financial resources

Sources of financing

The Company's principal use of capital during the year under review was the early repayment of the outstanding bank loan arranged in 1996 and capital expenditure related to the construction of AsiaSat 4. In August the Company repaid the outstanding loan balance of HK\$873.6 million. In addition, the Company also paid HK\$431.2 million for purchase of property, plant and equipment. These payments were financed through cash retained in prior years and cash flow from operations.

On 24th November, 2000, the Company and its subsidiary, AsiaSat entered into an agreement with a consortium of banks to provide a secured term loan credit facility of US\$250 million (the "Loan Facility") with AsiaSat as borrower and the Company as guarantor. The loan is divided into two tranches, Tranche A for US\$100 million and Tranche B for US\$150 million. The loan together with cash flow from operations is required to meet the capital expenditure of AsiaSat 4 and other projects. No drawdown was made. As at 31st December, 2000, there was no outstanding bank loan.

Interest and repayment

The Loan Facility provides that (i) borrowings will bear interest at a rate based on the London Interbank Offered Rate ("LIBOR") plus a margin between 1.00% to 1.25% per annum depending on the EBITDA (Earnings before interest, tax, depreciation and amortisation) ratio achieved, (ii) the Loan Facility will have a term of five years and be repaid in five equal semi-annual instalments, starting from November 2003, and (iii) subject to certain conditions, the Company may, without premium or penalty, prepay all or part of its borrowings under the Loan Facility.

Security

The Loan Facility is secured by the Company's assets, including its existing and future satellites, payments received in respect of transponder utilisation agreements on these satellites and assignments of construction and telemetry, tracking and control ("TT&C") contracts relating to the Company's satellites. The Loan Facility is also guaranteed by the Company.

Covenants

The Loan Facility includes covenants customary for agreements of this type, including restrictions on the Company's ability to incur indebtedness, certain restrictions on the Company's ability to pay dividends, restrictions on affiliated transactions, certain financial covenants, covenants with respect to compliance with laws, maintenance of licences and permits required for the Company's business and a requirement that all future transponder utilisation agreements be entered into on an arms-length basis.

Restricted distributions

The Loan Facility provides that the Company may make aggregate annual dividend payments in an amount not exceeding 20% of EBITDA for the relevant financial year or, if lower, 25% of the net profit for the relevant financial year.

Capital structure

Funding and treasury policy

The Company adopts conservative treasury policies and exercises tight control over its cash and risk management. Cash is generally placed in short-term deposits denominated in U.S. Dollars to meet its capital expenditure. The banking facilities of the Company are largely denominated in U.S. Dollars that can be met by its U.S. Dollar revenue. Thus, the Company does not have any significant currency exposure.

Currencies in borrowings

Currently all the borrowings are denominated in U.S. Dollars.

LATER THAT EVENING...



WE'VE COME ALL THIS WAY AND WE STILL CAN'T GET AWAY FROM YOUR CEO!



ROOM SERVICE... MAKE THAT CHAMPAGNE PLEASE, AND CANCEL THE EARLY MORNING WAKE UP CALL!



AsiaSat broadcasts

television signals across Asia

Interest rates

The interest rate on the Loan Facility is floating and based on LIBOR plus a margin between 1.00% to 1.25% per annum depending on the EBIDTA ratio achieved.

Financial instruments for hedging

Since all the revenue of the Company is in U.S. Dollars there is no need to hedge its liabilities which are also substantially denominated in U.S. Dollars.

Foreign currency investment

The Company does not have any material investment in foreign currencies other than in Hong Kong Dollars.

Order book

As at 31st December, 2000, the value of contracts on hand amounted to HK\$4,672 million (1999: HK\$3,908 million), the majority of which will be realised over the next few years. All the contracts are denominated in U.S. Dollars.

Investment held

The investment held at the balance sheet date is disclosed in note 14 to the financial statements.

Material acquisitions and disposals of subsidiaries and associated companies

During the year, the Company acquired an interest of 36.5% in PHOENIXNET HOLDINGS LTD., which wholly owns SpeedCast Limited (formerly known as PhoenixNet Limited) ("SpeedCast") by making contributions in-kind of US\$12.5 million, of which, US\$8 million was contributed by means of the provision of one C-band transponder for use by SpeedCast for a fixed period of approximately 38 months. The balance of US\$4.5 million was contributed by means of the provision of a Gen II Platform and other supports for a fixed period of twenty-four months.

The other shareholders in SpeedCast are Tech System Limited, Telecom Venture Group and Yahoo! Inc.

SpeedCast was formed to provide Internet, multimedia distribution and corporate broadcast services on a wholesale basis to local Internet service providers in the Asia Pacific region that will then resell this satellite service to their respective end users. SpeedCast started to offer its broadband access in April 2000 and multimedia service in October 2000.

Segmental information

The turnover of the Company, analysed by geographical location of customers, is disclosed in note 3 to the financial statements.

Employees and remuneration policies

As at 31st December, 2000, the Company had 75 permanent staff (1999: 69).

The Company considers its human resources as one of its most valuable assets. The talent pool that the Company draws from overlaps with the telecommunications, information technology and some high-tech equipment vendor industries.

The Company has established a performance based appraisal system. The present remuneration package consists of salaries, housing benefits (applicable to certain grades of employees), discretionary bonuses, share options (again applicable to certain grades of employees) and fringe benefits that are compatible with the market.

Pursuant to the share option scheme of the Company adopted on 3rd June, 1996 (the "Scheme"), the Board of Directors of the Company may grant options to any full time employees of the Company or any of its subsidiaries to subscribe for shares in the Company at the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time. The details of the movement and the outstanding share options granted by the Company are disclosed in note 20 to the financial statements.

The Company does not operate an in-house regular training programme. However, the Company does provide ad hoc training on new developments/facilities and sponsor employees to attend external vocational training that are relevant to their jobs and their career progression.

Charge of group assets

The Company entered into the Loan Facility to finance the construction of AsiaSat 4. The Loan Facility is secured by an assignment of all rights, title, benefits and interest in the insurance and transponder receipts of the satellites and a fixed and floating charge over the assets of the Company, including its existing and future satellites. In addition, the loan agreement contains certain financial covenants that, among other things, require the Company to maintain a certain level of net assets, and restrict the Company's amount of borrowings and liabilities.

Capital commitments

Details of the capital commitments of the Company are set out in note 27 to the financial statements.

As at 31st December, 2000, the Company had total capital commitments of HK\$1,059 million (1999: HK\$1,568 million), payable in one to two years, of which HK\$745 million (1999: Nil) was contracted for but not provided in the financial statements and the remaining HK\$314 million (1999: HK\$1,568 million) was authorised by the Board but not contracted for.

Gearing ratio

As at 31st December, 2000, the debt-to-equity gearing ratio (i.e. Total bank loans at year-end over shareholders' funds at year-end) was 0:100 (1999: 32:68). Had the Loan Facility been fully drawn as at the balance sheet date the ratio would have become 45:55.

Exchange rates and any related hedges

During the year, all of the Company's revenues, premiums for satellite insurance coverage and debt service and substantially all capital expenditure were denominated in U.S. Dollars. The Company's remaining expenses were primarily denominated in Hong Kong Dollars. As at 31st December, 2000, all the Company's transponder utilisation agreements, transponder purchase agreements, borrowings, obligations to construct and launch satellites and to purchase telemetry, tracking and control equipment were denominated in U.S. Dollars. Hence, the Company does not have any significant currency exposure and does not need to hedge.

Contingent liabilities

Pursuant to the telemetry, tracking, control and monitoring licence granted by the Chief Executive in Council under the Telecommunications Ordinance (Laws of Hong Kong, Cap 106) the Group was granted a Broadcasting Satellite Service ("BSS") Licence (the "Licence") on 27th June, 2000 to maintain and operate a payload of four channels onboard AsiaSat 4. The Company, as the Licensee, has provided a performance bond of HK\$5 million in favour of The Government of The Hong Kong Special Administrative Region as a condition of the grant of the Licence.