Financial review

OVERALL PERFORMANCE

The Group recorded a profit attributable to shareholders of HK$555 million (2001: HK$563 million), a decline of only 1% despite the difficult conditions and the oversupply of transponder capacity that prevailed in certain segments of the market. These results were achieved after a provision of HK$12 million for bad and doubtful debts.

TURNOVER

Turnover for the year fell by 2% to HK$951 million (2001: HK$969 million). This was in line with expectations considering the soft market and a corresponding increase in pricing pressure.

COST OF SERVICES

Cost of services was HK$243 million (2001: HK$240 million), a slight increase of HK$3 million, or 1%.

ADMINISTRATIVE EXPENSES

Administrative expenses increased to HK$81 million (2001: HK$71 million), due to a provision of HK$12 million (2001: Nil) for bad and doubtful debts.

OTHER OPERATING INCOME

There was little other operating income in 2002. The amount of HK$9 million reported in 2001 was of a non-recurring nature arising from recognition of a system platform and services provided to an associate as the Group's contribution to its share capital.

BANK INTEREST INCOME

Interest of HK$6 million (2001: HK$7 million) was generated on short-term deposits that were earmarked to meet the payments of capital expenditure programmes.

SHARE OF RESULTS OF ASSOCIATES

The share of loss from an associate fell by 78% to HK$9 million (2001: HK$41 million), as a result of a smaller amount of amortisation in intangible assets and higher turnover in the associate. However, if the rental on the transponder capacity leased to the associate were to be taken into account, the net effect to the Group would be a profit of HK$6 million (2001: a loss of HK$25 million).

TAXATION

The effective tax rate was maintained at approximately at 11% (Standard rate in Hong Kong: 16%).

Financial review (continued)

FINANCIAL RESULTS ANALYSIS

The financial results are highlighted below:

		2002	2001	% Change
Turnover	HK$M	**951**	969	-2
Profit attributable to shareholders	HK$M	**555**	563	-1
Dividend (excluding special dividend)	HK$M	**98**	78	+25
Capital and reserves	HK$M	**3,347**	2,870	+17
Earnings per share	HK cents	**142**	144	-1
Dividend per share (excluding special dividend)	HK cents	**25**	20	+25
Dividend cover (excluding special dividend)	Times	**6**	7	-14
Special dividend per share	HK cents	**25**	—	n/a
Return on shareholders' funds	%	**17**	20	-15
Net assets per share - book value	HK cents	**858**	735	+17

Liquidity and financial resources

SOURCES OF FINANCING

The Group's principal use of capital during the year under review was the capital expenditure related to the construction of AsiaSat 4 and further investment in an associate. In addition, the Group also made progress payments of HK$51 million for the construction of telemetry, tracking and control ("TT&C") facilities at the Company's new Earth Station at Tai Po. These payments were financed through cash flow from operating activities.

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 the borrower and the Company as the 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 operating activities, is required to meet the capital expenditure of AsiaSat 4 and other projects. No drawdown of this facility was made during the year. As at 31st December, 2002, there were no outstanding bank loans.

Liquidity and financial resources (continued)

INTEREST AND REPAYMENTS

The Loan Facility provides that (i) borrowings will bear interest at a rate based on LIBOR (London Interbank Offered Rate) plus a margin between 1.00% to 1.25% per annum depending on the EBITDA (Earnings before interest, tax, depreciation and amortisation) ratios achieved, (ii) the Loan Facility will have a term of five years and will be repaid in five equal biannual 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. The Loan Facility provides that the Group must use a certain percentage of any Excess Cash Flow (as defined in the Loan Facility) for the purpose of debt servicing under the Loan Facility, paying costs in connection with the construction, launch and insurance of AsiaSat 4 or any replacement satellite, if any, and fulfilling certain capital requirements.

SECURITY

The Loan Facility is secured by AsiaSat's assets, including its existing and future satellites, payments received in respect of transponder utilisation agreements on these satellites and assignments of construction and TT&C contracts relating to AsiaSat'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 Group'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 Group's business and a requirement that all future transponder utilisation agreements be entered into on an arm's-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. Consent from the lenders is required to be sought for any distribution that exceeds the above limits.

Capital structure

FUNDING AND TREASURY POLICY

The Group 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 Group are largely denominated in U.S. Dollars that can be met by its U.S. Dollar revenue. Thus, the Group does not have any significant currency exposure.

CURRENCIES IN BORROWINGS

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

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 EBITDA ratios achieved.

FINANCIAL INSTRUMENTS FOR HEDGING

Since almost all the revenue of the Group 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 Group does not have any material investment in foreign currencies other than in U.S. or Hong Kong Dollars.

Order book

As at 31st December, 2002, the value of contracts on hand amounted to HK$4,029 million (2001: HK$4,552 million), the majority of which will be realised over the next few years. Almost all the contracts are denominated in U.S. Dollars.

Significant investments, their performance and future prospects

In April 2002, the Group increased its interest in SpeedCast Holdings Limited ("SpeedCast") from 36.5% to 45.3% for US$4 million, of which US$2.5 million was in cash and US$1.5 million in transponder capacity, making a total equivalent to HK$31 million. Based on the net asset value of SpeedCast, the amount was split into HK$18 million as investment and HK$13 million as goodwill. The goodwill is to be amortised evenly over a period of 24 months.

SpeedCast provides three major services: high-speed Internet connectivity, multimedia content delivery, and corporate broadcast services. In September, SpeedCast expanded its product line by launching its two-way networking and Internet connectivity services.