1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties as explained in the accounting policies set out below.

(c) Subsidiaries and controlled enterprises

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

All significant intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and controlled enterprises (Continued)

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates and jointly controlled entities for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e). When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates and jointly controlled entities (Continued)

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

– for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses recognised in the consolidated income statement (see note 1(i)); and

– for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(i)) is included in the carrying amount of the interest in associates or jointly controlled entities.

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

– for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Goodwill (Continued)

– for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

– for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment, and investment property

(i) Fixed assets are carried in the balance sheets on the following bases:

- property, plant, and equipment, other than construction in progress, are stated in the balance sheet at cost less accumulated depreciation (see note 1(h)) and impairment losses (see note 1(i)); and

- construction in progress is stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less impairment losses (see note 1(i)); and

- investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers; and

(ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties immediately prior to the revaluation; and

- when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties had previously been charged to the income statement.

(iii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(n)(i).

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(h) Amortisation and depreciation

(i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years or on freehold land.

(ii) No depreciation is provided on construction in progress until such time as the relevant assets are completed and ready for their intended use.

(iii) Depreciation is calculated to write off the cost of property, plant and equipment on a straight-line basis over their estimated useful lives, to residual values, as follows:

Leasehold land	Over the lease term
Leasehold buildings	50 years
Leasehold improvements	Over the lease term
Furniture and equipment, motor vehicles, and computer equipment	5 years
Communication satellite equipment	5 to 15 years
Communication station	5 years
Communication satellites	9 to 16 years

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– investments in subsidiaries, associates and joint ventures (except for those accounted for at fair value under notes 1(c) & (d));

– intangible assets; and

– positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, or are amortised over more than 20 years from the date when the assets is available for use or goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset (including positive goodwill taken directly to reserves) exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(k) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

(iii) The employees of the Group participate in retirement plans managed by respective local governments of the municipalities in which the Group operates in the People's Republic of China (the "PRC"). The Group's contributions to the plan are calculated based on fixed rates of the employees' salary costs and charged to the income statement when incurred. The Group has no other obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(iv) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(v) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income tax (Continued)

(iii) (Continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Transponder lease income*

Rental income from leasing of satellite transponders receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Service income in respect of satellite control and providing satellite telecommunications and related service is recognised when services are provided.

(iii) Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Foreign currency assets, being equity investments or other long-term non-monetary assets, the holding or the use or the subsequent disposal of which will generate receipts in a foreign currency, hedged by foreign currency borrowings, are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

Exchange gains and losses are dealt with in the income statement, except those arising from the translation at closing rates of foreign currency assets hedged by foreign currency borrowings, and the gains and losses on those foreign currency borrowings (to the extent of exchange differences arising on the foreign currency assets), which are taken directly to reserves.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(p) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. TURNOVER

The principal activities of the Group are engaged in the maintenance, operation and leasing of satellite telecommunication systems.

Turnover represents rental income received and receivable from leasing of satellite transponders and service income received and receivable in respect of satellite control and providing satellite telecommunications and related service. The amount of each category of revenue recognised in turnover during the year is as follow:

	2003 $'000	2002 $'000
Transponder lease income	**274,652**	323,961
Service income	**27,589**	27,464
	302,241	351,425

3. WRITE-BACK OF PROVISION ON REGULATORY MATTERS

This represented the adjustment of a provision made in 2000 for the estimated cost of retrofitting the dishes of potential affected customers of APSTAR IIR under the terms of an agreement made with an independent third party dated 18 August 1999 in relation to the leasing of substantially all of the transponder capacities of APSTAR IIR.

4. OTHER OPERATING INCOME

	2003 $'000	2002 $'000
Other operating income includes the following:		
Compensation income from a jointly controlled entity for early termination of services and facilities lease	**13,500**	–
Interest income	**7,111**	22,189
Rental income in respect of properties	**452**	448

5. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2003 $'000	2002 $'000
Interest on bank borrowings wholly repayable within five years	**6,553**	117
Other borrowing costs	**1,162**	2,125
Less: Amount capitalised into construction in progress*	**(7,715)**	(2,242)
	–	–

* The borrowing costs have been capitalised at a rate of 1.97% per annum (2002: 2.15%).

Borrowing costs capitalised during the year arose on bank loans borrowed for the purpose of financing the construction and launching of satellites.

(b) Staff costs

	2003 $'000	2002 $'000
Staff costs (including directors' emoluments)		
Pension contributions	**1,370**	1,294
Less: Forfeited contributions	**(167)**	(28)
Net pension contributions	**1,203**	1,266
Salaries, wages and other benefits	**36,764**	35,900
	37,967	37,166
Less: Capitalised into construction in progress	**(1,326)**	(1,108)
	36,641	36,058

5. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (Continued)

(c) Other items

	2003 $'000	2002 $'000
Auditors' remuneration	**508**	515
Amortisation of goodwill (included in administrative expenses)	**–**	660
Depreciation	**236,322**	233,971
Exchange loss	**–**	16
Loss on disposal of property, plant and equipment	**–**	30
Operating lease charges:		
minimum lease payments		
– land and buildings	**3,650**	3,597
– satellite transponders	**3,228**	1,474
Provision for doubtful receivables	**8,402**	5,207

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2003 $'000	2002 $'000
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	**114,487**	7,744
Current tax – Overseas		
Tax for the year	**20,247**	23,551
Under-provision in respect of prior years	**–**	3,731
	134,734	35,026
Deferred tax		
Origination and reversal of temporary differences	**(134,775)**	1,788
Effect of increase in tax rate on deferred tax balance at 1 January	**11,762**	–
	(123,013)	1,788
	11,721	36,814

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(a) (Continued)

In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's 2003 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2003 is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Overseas tax includes the withholding tax paid or payable in respect of Group's transponder lease income derived from the lessees which are located outside Hong Kong.

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2003 $'000	**2002 $'000**
(Loss)/profit before tax	**(213,920)**	58,861
Notional tax on (loss)/profit before tax, calculated at the rates applicable to (losses)/profits in the countries concerned	**(37,455)**	9,353
Overseas withholding tax	**20,237**	23,516
Tax effect of non-deductible expenses	**7,616**	9,592
Tax effect of non-taxable revenue	**(3,099)**	(11,992)
Tax effect of unused tax losses not recognised	**12,660**	2,614
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	**11,762**	–
Under-provision in prior years	**–**	3,731
Actual tax expenses	**11,721**	36,814

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2003 $'000	2002 $'000
Fees to independent non-executive directors	**100**	165
Fees to non-executive directors	**500**	573
Remuneration to executive directors:		
Fees	**150**	125
Salaries and other emoluments	**7,771**	6,312
Retirement benefits contributions	**248**	201
	8,169	6,638
	8,769	7,376

Mr. Wu Hongju, a non-executive director, and Dr. Huan Guocang, an independent non-executive director, have waived their directors' fees from the date of appointment up to 31 December 2003. Save as afore-mentioned, none of the directors have waived the rights to receive their remunerations.

In addition to the above emoluments, certain Directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Share option schemes" in the Directors' report and note 25.

The remuneration of the Directors is within the following bands:

	Number of Directors	
	2003	2002
$Nil to $1,000,000	**19**	19
$2,500,001 to $3,000,000	**2**	1
$3,000,001 to $3,500,000	**1**	1

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group included three directors (2002: two), details of whose remuneration are set out above. The emoluments of the remaining two (2002: three) highest paid individuals are as follows:

	The Group	
	2003	2002
	$'000	$'000
Salaries and other emoluments	**3,000**	5,553
Discretionary bonuses	**–**	114
Retirement benefits contributions	**190**	266
	3,190	5,933

The emoluments of the two (2002: three) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2003	2002
$Nil to $2,000,000	**2**	2
$2,500,001 to $3,000,000	**–**	1
	2	3

9. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss)/profit attributable to shareholders includes a profit of $1,136,000 (2002: $369,000) which has been dealt with in the financial statements of the Company.

10. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of $(224,718,000) (2002: profit of $24,435,000) and the weighted average of 412,892,000 ordinary shares (2002: 412,675,000 shares) in issue during the year ended 31 December 2003.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is the same as the basic (loss)/earnings per share as there were no dilutive potential ordinary shares in existence during the years 2003 and 2002.

11. CHANGE IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with Statement of Standard Accounting Practice 12 (revised) issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 1(l). The effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

12. SEGMENTAL REPORTING

The Group only has one business segment, namely the maintenance, operation and leasing of satellite telecommunication systems.

The Group's geographical segment analysis of turnover and contribution to (loss)/profit from operations by location of customers, is as follows:

	2003 Turnover $'000	2002 Turnover $'000	2003 Contribution to loss from operations $'000	2002 Contribution to profit from operations $'000
Hong Kong	**25,082**	47,178	**1,819**	10,164
Other regions in the PRC	**225,786**	254,901	**16,377**	54,914
Others	**51,373**	49,346	**3,726**	10,630
	302,241	351,425	**21,922**	75,708
Other operating income			**33,051**	72,327
Impairment loss on property, plant and equipment			**(129,098)**	(5,218)
Unallocated corporate expenses			**(74,962)**	(73,332)
(Loss)/profit from operations			**(149,087)**	69,485

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

12. SEGMENTAL REPORTING (Continued)

The Group's analysis of the total carrying amount of segment assets and segment liabilities by location of customers is as follows:

	2003		2002	
	Segment assets $'000	Segment liabilities $'000	Segment assets $'000	Segment liabilities $'000
Hong Kong	**3,548**	**6,655**	206	17,970
Other regions in the PRC	**75,673**	**49,117**	42,077	69,935
Others	**8,718**	**35,466**	934	38,347
	87,939	**91,238**	43,217	126,252
Unallocated corporate assets/liabilities	**3,217,630**	**955,386**	3,296,152	737,968
	3,305,569	**1,046,624**	3,339,369	864,220

13. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Land and buildings $'000	Leasehold improvements $'000	Furniture and equipment, motor vehicles, and computer equipment $'000	Communication satellite equipment $'000	Communication station $'000	Communication satellites $'000	Construction in progress $'000	Total $'000
Cost:								
At 1 January 2003	118,770	6,910	56,721	94,892	5,179	2,100,129	1,266,614	3,649,215
Additions	–	2,341	1,466	29,567	–	–	758,534	791,908
Disposals	–	–	(16,509)	(37)	–	–	–	(16,546)
Transfer	–	–	–	1,178	3,246	–	(4,424)	–
At 31 December 2003	118,770	9,251	41,678	125,600	8,425	2,100,129	2,020,724	4,424,577
Accumulated depreciation:								
At 1 January 2003	13,148	4,759	28,156	52,367	291	1,531,621	–	1,630,342
Charge for the year	2,439	744	7,325	11,100	1,152	213,562	–	236,322
Impairment loss	–	–	–	–	–	129,098	–	129,098
Written back on disposal	–	–	(16,508)	(37)	–	–	–	(16,545)
At 31 December 2003	15,587	5,503	18,973	63,430	1,443	1,874,281	–	1,979,217
Net book value:								
At 31 December 2003	103,183	3,748	22,705	62,170	6,982	225,848	2,020,724	2,445,360
At 31 December 2002	105,622	2,151	28,565	42,525	4,888	568,508	1,266,614	2,018,873

Included in construction in progress is interest capitalised of approximately $6,553,000 (2002: $117,000).

Impairment loss

During the year, the Directors of the Group conducted a review of the Group's property, plant and equipment and determined that certain communication satellites were impaired as the recoverable amount of these assets is estimated to be less than their carrying amount. Accordingly, an impairment loss of $129,098,000 in respect of communication satellites (2002: $5,218,000 in respect of land and buildings) has been recognised and charged to the income statement.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Motor vehicle $'000
(b) The Company	
Cost:	
At 1 January 2003 and 31 December 2003	411
Accumulated depreciation:	
At 1 January 2003	384
Charge for the year	27
At 31 December 2003	411
Net book value:	
At 31 December 2003	–
At 31 December 2002	27

(c) The analysis of net book value of land and buildings held by the Group is as follows:

	Land and buildings 2003 $'000	2002 $'000
Medium-term leases outside Hong Kong	**2,651**	2,718
Medium-term leases in Hong Kong	**100,532**	102,904
	103,183	105,622

14. INVESTMENT PROPERTY

The investment property was revalued at 31 December 2003 at $2,262,000 (2002: $2,332,000) by Chesterton Petty Limited, an independent professional property valuer, on an open market value basis by reference to net rental income allowing for reversionary income potential. This valuation gave rise to a revaluation deficit of $70,000 (2002: $70,000) which has been charged to the income statement.

The investment property, which is situated in the PRC under a medium-term lease, is rented out under an operating lease and the rental income earned from the investment property during the year was $245,000 (2002: $257,000).

15. GOODWILL

	2003 $'000	2002 $'000
Cost:		
At 1 January	**4,036**	–
Addition through acquisition of a subsidiary	**–**	4,036
At 31 December	**4,036**	4,036
Accumulated amortisation and impairment:		
At 1 January	**4,036**	–
Charge for the year	**–**	660
Impairment loss	**–**	3,376
At 31 December	**4,036**	4,036
Carrying amount:		
At 31 December	**–**	–

In 2002, the Directors of the Group reviewed the impairment of the goodwill by comparing the Group's share of the recoverable amount of the subsidiary concerned as a whole to the Group's share of the carrying value of assets together with the goodwill. In view of the net liabilities position of the subsidiary and based on the projected future operating cash flow, it was expected that the remaining unamortised balance will not be recovered and therefore, an impairment was recognised.

16. INTEREST IN SUBSIDIARIES

	The Company	
	2003 $'000	2002 $'000
Unlisted shares, at cost	**615,862**	615,862
Loans to subsidiaries	**1,201,712**	1,201,712
Amounts due from subsidiaries	**95,038**	70,583
	1,912,612	1,888,157

Loans to and amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. The Company has agreed not to demand for repayment within the next twelve months from the balance sheet date and accordingly, the amounts are classified as non-current.

Amount due from a subsidiary under current assets is unsecured, interest-free and repayable on demand and arose in the ordinary course of business.

(Expressed in Hong Kong dollars)

16. INTEREST IN SUBSIDIARIES (Continued)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group financial statements.

Name of Company	Place of incorporation and operation*	Particulars of issued and paid up capital and debt securities	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: held by the Company	Proportion of ownership interest: held by subsidiary	Principal activities
APT Satellite Investment Company Limited	British Virgin Islands	US$1,400	100%	100%	–	Investment holding
Acme Star Investment Limited	Hong Kong	HK$2	100%	–	100%	Investment holding
APT Satellite Company Limited	Hong Kong	Ordinary Class "A" HK$100; Non-voting Deferred Class "B" HK$542,500,000	100%	–	100%	Satellite transponder leasing
APT Satellite Enterprise Limited	Cayman Islands	US$2	100%	–	100%	Satellite transponder leasing
APT Satellite Global Company Limited	Cayman Islands	US$2	100%	–	100%	Investment holding
APT Satellite Link Limited	Cayman Islands	US$2	100%	–	100%	Satellite transponder leasing
APT Satellite Telewell Limited (formerly Telewell Investment Limited)	Hong Kong	HK$2	100%	–	100%	Investment holding
APT Satellite TV Development Limited	Hong Kong	HK$2	100%	–	100%	Provision of satellite television uplink and downlink services
APT Satellite Vision Limited	Hong Kong	HK$2	100%	–	100%	Satellite leasing
APT Telecom Services Limited (formerly APT Satellite (Apstar V) Limited)	Hong Kong	HK$2	100%	–	100%	Provision of telecommunication services
Haslett Investments Limited	British Virgin Islands	US$1	100%	–	100%	Investment
Skywork Corporation	British Virgin Islands	US$1	100%	–	100%	Investment holding
The 138 Leasing Partnership	Hong Kong	Partners capital HK$329,128,857	N/A	N/A	N/A	Satellite leasing
Ying Fai Realty (China) Limited	Hong Kong/PRC	HK$20	100%	–	100%	Property holding

16. INTEREST IN SUBSIDIARIES (Continued)

Name of Company	Place of incorporation and operation*	Particulars of issued and paid up capital and debt securities	Proportion of ownership interest: Group's effective interest	held by the Company	held by subsidiary	Principal activities
亞訊通信技術開發(深圳)有限公司 (APT Communication Technology Development (Shenzhen) Co., Ltd.)	Wholly-owned foreign enterprises, PRC	Registered capital HK$5,000,000	100%	–	100%	Satellite transponder leasing
CTIA VSAT Network Limited	Hong Kong	HK$5,000,000	60%	–	60%	Investment holding
北京亞太東方通信網絡有限公司	Joint venture, PRC	Registered capital US$4,000,000	36%	–	60%	Provision of data transmission services

* The place of operations is the place of incorporation/establishment unless otherwise stated.

No loan capital has been issued by any of the subsidiaries.

17. INTEREST IN AN ASSOCIATE

	The Group 2003 $'000	The Group 2002 $'000
Share of net assets	–	–

In 2002, the Group had a 35% interest in the issued ordinary share capital of APT Eurosportnews Distribution Limited, a company incorporated in Hong Kong which is engaged in the provision of satellite television broadcasting services. The Group disposed of a 33% interest of the associate on 23 December 2003.

18. INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2003 $'000	2002 $'000
Share of net assets	**12,935**	34,047
Amounts due from jointly controlled entities	**69,846**	52,216
	82,781	86,263

Details of the jointly controlled entities of the Group as at 31 December 2003 are set out below:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	held by the Company	held by the subsidiary	Principal activity
APT Satellite Telecommunications Limited ("APT Telecom")	Incorporated	Hong Kong	HK$153,791,900	55%	–	55%	Property holding
北京中廣信達數據廣播技術有限公司 (「中廣信達」)	Joint venture, Incorporated	PRC	Registered capital RMB11,000,000	12.6%	–	35%	Provision of data transmission services

APT Telecom is considered as a jointly controlled entity as the Group and the other shareholder of APT Telecom both have the right to appoint an equal number of directors to the board of directors.

The amounts due from jointly controlled entities are unsecured and interest-free. Except for amount of $13,500,000 (2002: $nil), the amounts have no fixed repayment terms. The Group has agreed not to demand for repayment within the next twelve months from the balance sheet date and accordingly, the amounts are classified as non-current.

In 2002, the Group acquired an additional 20% interest in CTIA VSAT Network Limited ("CTIA"), previously was a 40% owned jointly controlled entity, for a consideration of $7,180,000. CTIA became a subsidiary and its assets and liabilities have been consolidated after the acquisition.

19. TRADE RECEIVABLES

	The Group	
	2003	2002
	$'000	$'000
Due from third parties	**58,350**	23,827
Due from a shareholder of the Company	**7,496**	53
Due from holding company and its subsidiaries of a shareholder of the Company	**2,518**	–
Due from a jointly controlled entity	**–**	101
	68,364	23,981

The Group allows an average credit period of 10 days to its trade customers. The following is an ageing analysis of trade receivables (net of specific provisions for bad and doubtful debts) at the balance sheet date:

	The Group	
	2003	2002
	$'000	$'000
0 – 30 days	**24,965**	9,735
31 – 60 days	**4,805**	4,550
61 – 90 days	**7,574**	4,150
91 – 120 days	**2,941**	546
Over 121 days	**28,079**	5,000
	68,364	23,981

20. SECURED BANK BORROWINGS

	The Group	
	2003	2002
	$'000	$'000
Bank loans	**702,000**	481,482
Less: Amount due within one year included under current liabilities	**(17,550)**	(317,682)
Amount due after one year	**684,450**	163,800

At 31 December 2003, the bank borrowings are repayable as follows:

	2003 $'000	2002 $'000
Within one year or on demand	**17,550**	317,682
After one year but within five years	**310,635**	163,800
After five years	**373,815**	–
	702,000	481,482

On 29 December 1994, the Company's subsidiaries entered into an arrangement for the leasing of a communication satellite with The 138 Leasing Partnership (the "Partnership"), which became a wholly-owned subsidiary of the Company in 1997. The bank loans in respect of the arrangement borrowed by the Partnership were repaid at 29 December 2003. As at 31 December 2003, the bank loans borrowed by the Partnership of $nil (2002: $317,682,000) included above are secured by time deposits of an equivalent amount (see note 28). The amounts of bank loans and time deposits are separately presented in the balance sheet. The corresponding interest income and interest expense for the year amounting to $35,771,000 (2002: $43,685,000) are set-off in the consolidated income statement.

21. DEPOSITS RECEIVED

The amount represents deposits received in respect of leasing of satellite transponders.

22. DEFERRED INCOME

Deferred income represents unrecognised revenue received in respect of transponder leases under which customers have obtained the right to use the transponder capacity for future periods.

23. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group 2003 $'000	The Group 2002 $'000
Provision for Hong Kong Profits Tax for the year	**114,487**	7,744
Provisional Profits Tax paid	**(6,352)**	(4,576)
Overseas tax payable	**1,938**	17,992
	110,073	21,160
Balance of overseas tax provision relating to prior years	**78,059**	59,999
Balance of Profits Tax provision relating to prior years	**99**	120
	188,231	81,279

(b) Deferred tax assets and liabilities recognised:

(i) The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation $'000	Other temporary differences $'000	Losses $'000	Certain leasing arrangements $'000	Total $'000
At 1 January 2002	77,499	162	(64,873)	110,887	123,675
Charged/(credited) to consolidated income statement	(10,862)	(162)	13,758	(946)	1,788
At 31 December 2002	66,637	–	(51,115)	109,941	125,463
At 1 January 2003	66,637	–	(51,115)	109,941	125,463
Charged/(credited) to consolidated income statement	(29,051)	(281)	16,260	(109,941)	(123,013)
At 31 December 2003	37,586	(281)	(34,855)	–	2,450

23. INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets and liabilities recognised: (Continued)

(i) The Group (Continued)

Prior to 2002, certain leasing arrangements provided the Group with an initial cash inflow in return for being responsible for the future obligations to make payments of taxation under the leasing arrangements. Any differences between the initial benefit and the eventual tax liability were provided for over the lives of the relevant leases. The arrangement was completed in December 2003.

	The Group	
	2003	**2002**
	$'000	**$'000**
Net deferred tax assets recognised in the consolidated balance sheet	**(9,416)**	–
Net deferred tax liabilities recognised in the consolidated balance sheet	**11,866**	125,463
	2,450	125,463

(ii) The Company

The Company did not have any deferred tax assets/liabilities recognised in the balance sheet.

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of tax losses of $62,594,000 (2002: $10,493,000) due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation.

Deferred tax has not been provided on the deficit arising on the revaluation of the Group's properties because gain/loss on the disposal of these assets would not be subject to taxation. Accordingly, the deficit arising on revaluation does not constitute a timing difference.

24. SHARE CAPITAL

	Number of shares '000	Issued and fully paid share capital $'000
Ordinary shares of $0.10 each		
At 1 January 2002	412,720	41,272
Repurchase of shares	(185)	(18)
At 31 December 2002	412,535	41,254
Shares issued under the share option scheme	730	73
At 31 December 2003	413,265	41,327

The Company's authorised share capital is 1,000,000,000 shares of $0.10 each. There were no changes in the Company's authorised share capital during either year.

25. SHARE OPTIONS

At the annual general meeting on 22 May 2001, the Company adopted a share option scheme ("Scheme 2001") and granted options to its employees on 19 June 2001. On 22 May 2002, the Company adopted a new share option scheme ("Scheme 2002") at its 2002 annual general meeting. Thereafter, no further options can be granted under the Scheme 2001. The options granted on 19 June 2001 shall continue to be valid until their expiry.

The total number of shares which may be issued upon exercise of all options to be granted under Scheme 2001 and Scheme 2002 shall not in aggregate exceed 10% of the total number of shares of the Company in issue on the adoption date of the Scheme 2002 (i.e. 412,720,000 shares). As at the date of report, 413,265,000 shares of the Company were in issue.

Under Scheme 2002, the total number of shares to be issued upon exercise of the options granted to each eligible person (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. The exercise price (subscription price) shall be such price as determined by the Board of Directors in its absolute discretion at the time of the making of the offer but in any case the exercise price shall not be lower than the highest of (i) the closing price of the shares as stated in The Stock Exchange of Hong Kong Limited's (the "Exchange's") daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a share.

During the year, no options were granted under the Scheme 2002.

(Expressed in Hong Kong dollars)

25. SHARE OPTIONS (Continued)

Under the Scheme 2001, the maximum entitlement of each eligible person was that the total number of shares issued or issuable under all options granted to such eligible person (including both exercised and outstanding options) upon such grant being made shall not exceed 25% of the total number of the shares for the time being issued and issuable under the Scheme 2001. In addition, the subscription price was determined by the Board of Directors on a case-by-case basis and would not be less than the nominal value of the shares nor at a discount of more than 20% below the average closing price of the shares as stated in the Exchange's daily quotation sheets on the five dealing days immediately preceding the date on which the invitation to apply for an option under Scheme 2001.

(a) Movements in share options

The particulars of the share options granted under the Scheme 2001 outstanding during the year are as follows:

	2003 Number	2002 Number
At 1 January	**13,410,000**	13,450,000
Cancelled during the year	**(3,010,000)**	(40,000)
Exercised	**(730,000)**	–
At 31 December	**9,670,000**	13,410,000

The above granted options have an exercise price of $2.765 per share and are exercisable within the period from 22 May 2003 to 21 May 2011.

The financial impact of share options granted is not recorded in the financial statements until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

(b) Details of share options exercised during the year

Exercise period	Exercise price	Market value per share at exercise date	Proceeds received	Number
16 July 2003 to 8 September 2003	$2.765	Range from $2.944 to $3.782	$2,019,000	730,000

26. CONTRIBUTED SURPLUS/OTHER RESERVES/ACCUMULATED PROFITS

The contributed surplus of the Group arose as a result of the Group reorganisation in 1996 and represented the excess of the par value of the shares of the subsidiaries which the Company acquired over the par value of the Company's shares issued in consideration thereof.

The contributed surplus of the Company also arose as a result of the Group reorganisation in 1996 and represented the excess of the value of the subsidiaries acquired over the par value of the Company's shares issued for their acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

Other reserves represent the Enterprise Expansion Fund and General Reserve Fund set aside by a subsidiary in accordance with the relevant laws and regulations of the PRC, which are not available for distribution.

At 31 December 2003, the Company's reserves available for distribution amounted to $627,133,000 (2002: $625,997,000) as computed in accordance with the Companies Act 1981 of Bermuda (as amended).

27. ACQUISITION OF A SUBSIDIARY

On 11 April 2002, the Group had completed the acquisition of an additional 20% interest in CTIA such that CTIA became a subsidiary of the Group thereafter. The transaction was accounted for by the acquisition method of accounting.

	2002 $'000
Net assets acquired:	
Property, plant and equipment	11,079
Interest in jointly controlled entity	509
Trade receivables	848
Deposits, prepayments and other receivables	13,473
Bank balances and cash	2,759
Payables and accrued charges	(3,135)
Amounts due to shareholders	(16,902)
Minority interests	(9,231)
	(600)
Shareholders' loan acquired	3,744
Goodwill	4,036
Total consideration	7,180
Satisfied by:	
Cash consideration	7,180
Net cash outflow arising on acquisition:	
Cash consideration	7,180
Bank balances and cash of the subsidiary acquired	(2,759)
Net cash outflow in respect of the purchase of a subsidiary	4,421

The subsidiary acquired in 2002 contributed approximately $3,896,000 to the Group's turnover and approximately a loss of $4,800,000 to the Group's result from operations for the year ended 31 December 2002.

28. PLEDGE OF ASSETS

In December 2002, the Group entered into a US$240 million secured term loan facility, which is secured by the assignment of the construction, launching and related equipment contracts relating to satellites under construction and their related insurance claim proceeds, assignment of all present and future lease agreements of their transponders of satellites under construction, first fixed charge over certain bank accounts which will hold receipts of the transponder income and the termination payments under construction, launching and related equipment contracts. At 31 December 2003, the assets under fixed charge are the satellites under construction with carrying value of approximately $2,015,276,000 (2002: $1,259,513,000) and bank deposit of approximately $111,473,000 (2002: $4,000).

At the balance sheet date, certain of the Group's banking facilities are secured by the Group's land and buildings with a net book value of $5,004,000 (2002: $5,120,000) and bank deposit of approximately $390,000 (2002: $nil).

Furthermore, at 31 December 2003, the Group had outstanding bank loans of approximately $nil (2002: $317,682,000) arranged under certain leasing arrangements which are secured by time deposits of an equivalent amount. Of this amount $nil (2002: $317,682,000) is included as part of current pledged bank deposits.

29. CONTINGENT LIABILITIES

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

(ii) The Company has given guarantees to banks in respect of the secured term loan facility granted to its subsidiary. The extent of such facility utilised by the subsidiary at 31 December 2003 amounted to $702,000,000 (2002: $163,800,000).

29. CONTINGENT LIABILITIES (Continued)

(iii) The Hong Kong Profits Tax returns of a subsidiary of the Company for the years of assessment 1999/2000 and 2000/2001 are currently under dispute with the Hong Kong Inland Revenue Department ("IRD"). This subsidiary recognised a gain of $389,744,000 in 1999 in relation to the transfer of substantially all of the satellite transponder capacities of APSTAR IIR for the rest of its useful life. This subsidiary has claimed the gain as a non-taxable capital gain in its 1999/2000 Profits Tax return. The non-taxable claim is under review by the IRD which has proposed to treat the proceeds received as taxable income to this subsidiary with a corresponding entitlement to statutory depreciation allowance in respect of APSTAR IIR.

Having taken into consideration an independent professional advice, the Company believes it has a reasonable likelihood of success in defending its position that the gain derived from the abovementioned transaction should be treated as non-taxable. Accordingly, no provision for additional taxation is required. In the event that the Company is unsuccessful in the capital gains claim, the estimated tax exposure is $56,000,000.

30. CAPITAL COMMITMENTS

At 31 December 2003, the Group has the following outstanding capital commitments not provided for in the Group's financial statements, mainly in respect of the procurement and launch of new satellites, APSTAR V and APSTAR VI:

	The Group	
	2003 $'000	2002 $'000
Contracted for	**677,876**	1,095,129
Authorised but not contracted for	**417,887**	868,997
	1,095,763	1,964,126

Also, the Group's share of the capital commitments of jointly controlled entities not included in the above are as follows:

	The Group	
	2003 $'000	2002 $'000
Contracted but not provided for in the financial statements	**20,896**	69,407

31. LEASING ARRANGEMENTS

The Group as lessee

At 31 December 2003, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

(i) Land and buildings:

	The Group	
	2003	2002
	$'000	$'000
Within one year	**1,229**	3,452
After one year but within five years	**507**	670
	1,736	4,122

Operating lease payments represent rental payable by the Group for its office properties. Leases are negotiated for a period of one to three years and rentals are fixed for the whole lease term.

(ii) Satellite transponders:

	The Group	
	2003	2002
	$'000	$'000
Within one year	**5,857**	3,037
After one year but within five years	**1,683**	4,565
	7,540	7,602

Operating lease payments represent rental payable by the Group for leasing of satellite transponders for a period of one to three years and rentals are fixed for the whole lease term.

31. LEASING ARRANGEMENTS (Continued)

The Group as lessor

(i) Rental income in respect of leasing of satellite transponders earned during the year was $274,652,000 (2002: $323,961,000). Depreciation charged for the year in respect of these satellites was $213,562,000 (2002: $215,570,000). At the balance sheet date, communication satellites with an aggregated net book value of $225,848,000 (2002: $568,508,000) were held for the purpose of transponder leasing and the Group had contracted with customers for the following future minimum lease payments under non-cancellable operating leases:

	2003 $'000	2002 $'000
Within one year	**127,412**	196,242
After one year but within five years	**67,812**	143,980
	195,224	340,222

(ii) At the balance sheet date, the Group contracted with a jointly controlled entity in respect of rented premises and facilities management services under non-cancellable operating leases. The future minimum lease payments are calculated based on the terms of the respective operating lease agreement and are fall due as follows:

	2003 $'000	2002 $'000
Within one year	**–**	4,330
After one year but within five years	**–**	16,440
Over five years	**–**	16,794
	–	37,564

31. LEASING ARRANGEMENTS (Continued)

The Group as lessor (Continued)

(iii) Property rental income earned during the year was $452,000 (2002: $448,000). At the balance sheet date, certain properties with an aggregate carrying value of $9,137,000 (2002: $6,327,000) were held for rental purpose and the Group had contracted with tenants for the future minimum lease payments under non-cancellable operating leases which fall due within one year amounting to $236,000 (2002: $291,000) and after one but within five years amounting to $nil (2002: $129,000). Depreciation charged for the year in respect of these properties was $160,000 (2002: $149,000).

Service income earned during the year was $293,000 (2002: $nil). At the balance sheet date, the Group had contracted with customers for the future minimum lease payments under non-cancellable operating leases which fall due within one year amounting to $1,183,000 (2002: $nil) and after one but within five years amounting to $618,000 (2002: $nil).

The Company did not have any leasing arrangements at the balance sheet date.

32. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong under the jurisdiction of the Hong Kong Employment Ordinance. Under the scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The Group also joins the retirement insurance scheme operated by the local government under the law of the PRC for all employees in the PRC. Under the scheme, both the Group and employees are required to contribute 8% and 5% of the monthly salary respectively to the retirement insurance scheme.

The only obligation of the Group with respect to the Mandatory Provident Fund Scheme and the retirement insurance scheme is to make the specific contributions.

33. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

	2003 $'000	2002 $'000
Income from leasing of transponders to certain shareholders of the Company *(note i)*	**35,921**	34,551
Income from leasing of transponders and providing telecommunication services to a holding company and its subsidiaries of a shareholder of the Company *(note i)*	**19,741**	18,594
Income from leasing of transponders to a jointly controlled entity *(note i)*	**6,160**	8,245
Management fee income from a jointly controlled entity *(note ii)*	**1,121**	1,500
Management fee income from an associate *(note iii)*	**65**	189
Facilities management services income from a jointly controlled entity *(note iv)*	**3,386**	8,311
Rental expenses in connection with the leasing of transponders from a shareholder of the Company *(note v)*	**–**	2,574
Technical support services expenses to a shareholder of the Company *(note vi)*	**75**	–
Management fee expenses to a holding company of a shareholder of the Company *(note vii)*	**2,280**	2,280
Payments of service fee in connection with the satellite project to a fellow subsidiary of a shareholder of the Company *(note viii)*	**87,604**	12,324
Compensation income from a jointly controlled entity in connection with the early termination of services and facilities lease *(note ix)*	**13,500**	–
Purchase of certain fixed assets from a jointly controlled entity *(note x)*	**6,800**	–

Certain these transactions also constitute connected transactions under the Listing Rules. Further details of these transactions are disclosed under the paragraph "Connected transactions" in the Directors' report.

33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) At the balance sheet date, the Group had the following amounts included in the consolidated balance sheet in respect of amounts owing by and to related parties:

	Trade receivables		Deposits, prepayments and other receivables		Payables and accrued charges		Rentals received in advance and deferred income	
	2003	2002	2003	2002	2003	2002	2003	2002
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Jointly controlled entities	**–**	101	**70,723**	52,215	**921**	1,590	**–**	–
Certain shareholders of the Company	**7,496**	53	**3,120**	–	**3,750**	4,665	**3,524**	12,638
Holding company and its subsidiaries of a shareholder of the Company	**2,518**	–	**–**	–	**31,910**	31,862	**2,907**	1,113
Shareholder of a jointly controlled entity	**–**	–	**–**	4,673	**–**	–	**–**	–

During the year, a shareholder of the Company advanced RMB3,300,000, equivalent to US$400,000, to the Group. In return the Group advanced US$400,000 to that shareholder. The terms of such advance are interest-free and repayable within one year.

(c) In addition, at 31 December 2003, the Group had an outstanding commitment to pay launch service fees to a fellow subsidiary of a shareholder of the Company amounting to $230,246,000 (2002: $317,850,000).

Notes:

(i) The terms and conditions of these transponder lease agreements are similar to those contracted with other customers of the Group.

(ii) Management fee income arose from a reimbursement of cost of service provided to a jointly controlled entity under the agreement.

(iii) Management fee income from an associate arose from the reimbursement of expenses paid on behalf of an associate.

(iv) The Directors consider that the facilities management services income is charged according to the terms and conditions similar to those offered to other customers.

(v) The Directors consider that the terms and conditions of these transponders lease agreements were similar to those offered to other customers by the lessor.

33. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

(vi) The Directors consider that the technical support services expenses were charged according to prices and conditions similar to those offered to other customers by the service provider.

(vii) Management fee expenses arose from a reimbursement of cost of service provided from the holding company of a shareholder of the Company.

(viii) The Directors consider that the service fee is charged according to prices and conditions similar to those offered to other customers by the launch service provider.

(ix) As a result of the reorganisation of a jointly controlled entity, the jointly controlled entity terminated the services and facilities lease agreement and the Group received a compensation for the early termination of the agreement. The Directors consider that the compensation is charged according to prices and conditions similar to those offered to other customers by the termination.

(x) As a result of the reorganisation of a jointly controlled entity, certain fixed assets are purchased from the jointly controlled entity. The Directors consider that the purchase consideration is arrived after arm's length negotiation with reference to the valuation conducted by an independent valuation company.

34. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company at 31 December 2003 to be APT Satellite International Company Limited, which is incorporated in the British Virgin Islands.