2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises all costs of purchase and other costs incurred in bringing the inventories to their present locations and conditions. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(j) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(l) Translation of foreign currencies

Transactions in foreign currencies are translated into Hong Kong Dollars at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies other than Hong Kong Dollars are re-translated at the rates ruling on the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

(m) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits (continued)

(iii) Pension obligations

The Group participates in defined contribution plans, the assets of which are generally held in separate trustees – administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions, where applicable.

(o) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

3. TURNOVER AND SEGMENT INFORMATION

Turnover:

The Group's turnover is analysed as follows:

	2004	2003
	HK$'000	HK$'000
Income from provision of satellite transponder capacity	982,464	880,375
Sales of satellite transponder capacity	20,518	15,858
Other revenue	2,000	—
	1,004,982	896,233

The Group has only one business segment, namely the operation, maintenance and provision of satellite telecommunication systems for broadcasting and telecommunications. The Group's primary reporting format for segment reporting purposes under SSAP 26 "Segment Reporting" is the geographical basis. For the purpose of classification, the country where the customer is incorporated is deemed to be the source of turnover. However, the Group's operating assets consist primarily of its satellites which are used, or are intended for use, for transmission to multiple geographical areas and therefore cannot be allocated between geographical segments. Accordingly, no geographical analysis of expenses, assets and liabilities has been presented.

The following table provides an analysis of the Group's sales by geographical markets:

	2004	2003
	HK$'000	HK$'000
Hong Kong	323,133	323,187
Greater China, including Taiwan	197,936	212,847
United States of America	183,750	71,164
United Kingdom	46,073	23,930
British Virgin Islands	40,897	40,351
Others	213,193	224,754
	1,004,982	896,233

4. PROFIT FROM OPERATIONS

	2004	2003
	HK$'000	HK$'000
Profit from operations is stated after charging and crediting the following:		
Charging:		
Salary and other benefits, including directors' remuneration	**71,071**	55,214
Contributions to retirement benefits schemes	**4,356**	4,011
Total staff costs	**75,427**	59,225
Auditors' remuneration	**697**	679
Allowance for bad and doubtful debts	**17,690**	—
Depreciation of property, plant and equipment	**287,965**	222,277
Operating leases – premises	**5,380**	5,965
Net exchange loss	**288**	672
Crediting:		
Write-back of allowance for bad and doubtful debts	**—**	6,279
Gain on disposal of property, plant and equipment other than transponders	**169**	76

5. FINANCE COSTS

	2004	2003
	HK$'000	HK$'000
Cost of raising bank borrowing facility	—	6,951
Less: Amount capitalised in assets under construction	—	(3,922)
	—	3,029
Interest on bank overdrafts	1	—
	1	3,029

The costs in 2003 arose from the commitment fees paid to banks on the loan facility, which had never been drawn. The facility was not drawn during the grace period and, therefore, lapsed in November 2003. The commitment fees paid before the commissioning of AsiaSat 4 was capitalised whilst that portion paid after commissioning was expensed.