EXCHANGE RATES AND ANY RELATED HEDGES

During the year, almost all of the Group's revenues, premiums for satellite insurance coverage and debt service, and substantially all capital expenditure were denominated in U.S. Dollars. The Group's remaining expenses were primarily denominated in Hong Kong Dollars. At 31st December, 2003, almost all the Group'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 Group does not have any significant currency exposure and does not need to hedge.

CONTINGENT LIABILITIES

At 31st December, 2003, the Group had significant contingencies as follows:

Under Indian tax regulations, the Group may be subject to Indian income tax on revenues received by the Group in respect of income from provision of satellite transponder capacity to the Group's customers for purposes of those customers carrying on business in India or earning income from any source in India.

The Indian tax authorities assessed the Group (including interest as of 21st March, 2001) for income tax of approximately HK$21 million (INR131 million) for the assessment year 1997-1998 and approximately HK$23 million (INR141 million) for the assessment year 1998-1999. No assessment has yet been made for the 1999-2000, 2000-2001, 2001-2002, 2002-2003 or 2003-2004 assessment years.

The Group filed appeals for each of the assessment years 1997-1998 and 1998-1999. The Indian tax authorities initiated tax recovery measures against the Group in January 2002. In order to expedite the legal proceeding in India and obtain a stay of the recovery measures, the Group made a tax payment totalling approximately HK$19 million (INR120 million) to the Government of India.

The Income Tax Appellate Tribunal (the "Tribunal") in the appeal filed for the assessment year 1997-1998 held that the Group is liable for Indian income tax under certain circumstances. The Tribunal directed the Indian tax authorities to make a fresh computation of the taxable income. Pursuant to the order of the Tribunal, the tax authorities have prepared a revised computation of tax due on 30th May, 2003. The revised assessment is approximately HK$20 million (INR115 million). The Group does not believe that it is liable for the Indian income tax as held by the Tribunal and has filed an appeal against the Tribunal's decision. The tax authorities have also filed an appeal against the Tribunal's decision. Both the appeals have been admitted by the High Court.

In order to obtain a stay of recovery proceedings, the Group has made a further payment of approximately HK$5 million (INR30 million). An additional payment of approximately HK$1.3 million (INR7.5 million) was made subsequent to the balance sheet date.

CONTINGENT LIABILITIES (CONTINUED)

In addition, based on the general principles set forth by the Tribunal, the amount of income taxable in India depends on the payments made by the Group's customers to the Group for the purpose of those customers carrying on business in India or earning income from any source in India. As such information is proprietary in nature and has not been provided by the Group's customers, the Group cannot reasonably estimate the taxable income. Furthermore, as stated above, the Group has filed an appeal against the Tribunal's decision. The appeal has been admitted by the High Court and is pending before the Court. Accordingly, no provision has been recognised for Indian income tax in the Group's consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with Hong Kong GAAP. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. The Company continually evaluates these estimates and judgments, including those related to estimated useful lives of satellites, impairment losses on satellites, allowance for doubtful accounts, and contingent liabilities related to tax assessments from Indian tax authorities. The Company bases these estimates and judgments on its historical experience and other factors that it believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company has identified below the accounting policies that are the most critical to its consolidated financial statements.

Useful lives of in-orbit satellites

The Company's operations are capital intensive and it has significant investments in satellites. The carrying value of the Company's in-orbit satellites (AsiaSat 2, AsiaSat 3S and AsiaSat 4) represented 72% of its total assets as of 31st December, 2003 (31st December, 2002: 39%). The Company estimates the useful lives of satellites in order to determine the amount of depreciation expense to be recorded during the reported period. The useful lives are estimated at the time satellites are put into orbit and are based on historical experience with other satellites as well as the anticipated technological evolution or other environmental changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these satellites may need to be shortened, resulting in the recognition of increased depreciation in a future period. Similarly, if the actual lives of satellites are longer than the Company has estimated, the Company would have a smaller depreciation expense. As a result, if the Company's estimations of the useful lives of its satellites are not accurate or are required to be changed in the future, the Company's net income in future periods would be affected.

CRITICAL ACCOUNTING POLICIES (CONTINUED)

Realisability of the carrying amounts of long-lived assets

The Company is required to evaluate at each balance sheet date whether there is any indication that the carrying amounts of long-lived assets (primarily its satellites) may be impaired. If any such indication exists, the Company should estimate the recoverable amount of the long-lived assets. An impairment loss is recognised for the excess of the carrying amount of such long-lived assets over their recoverable amounts. The value in use is the discounted present value of the cash flows expected to arise from the continuing use of long-lived assets and cash arising from its disposal at the end of its useful life. The estimates of the cash flows are based on the terms and period of existing transponder utilisation agreements ("Existing Agreements").

Modifications to the terms of the Existing Agreements that result in shorter utilisation periods than previously agreed and/or those that result in the reduction in agreed rates will result in a lower recoverable amount (if the discount rate used is not changed); which may, in turn, result in a situation wherein the recoverable amounts are less than the carrying amounts (therefore, an impairment loss would need to be recognised).

Allowance for doubtful accounts

The Company maintains allowance for doubtful accounts, and for estimated losses that result from the inability of its customers to make the required payments. The Company bases its allowances on the likelihood of recoverability of account receivables based on past experience and current collection trends that are expected to continue. The Company's evaluation also includes the length of time the receivables are past due and the general business environment.

If changes in these factors occur, or the historical data the Company uses to calculate the allowance for doubtful accounts as of 31st December, 2003 does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the Company's future results of operations could be adversely affected.

Contingency related to Indian tax assessments

The issue of Indian tax was covered under Contingent Liabilities above.