
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in APT Satellite Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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亞太衛星控股有限公司*
APT SATELLITE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock code: 1045)

CONTINUING CONNECTED TRANSACTIONS

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders of APT Satellite Holdings Limited**

MESSIS 大有融資

A letter from the Independent Board Committee is set out on pages 22 to 23 of this circular.

A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 48 of this circular.

A notice convening the SGM to be held at the Company's principal place of business, 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Thursday, 14 December 2023 at 11:00 a.m. is set out on pages 53 to 54 of this circular. Whether or not you are able to attend and/or vote at the SGM in person, you are requested to complete and sign the enclosed form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 11:00 a.m. on Tuesday, 12 December 2023 (i.e. 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be)). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

References to time and dates are to Hong Kong time and dates.

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“APSTAR-6D Satellite”	the APSTAR-6D satellite owned by APT Mobile Satcom Limited, a joint venture company in which 10% is owned by CSCC and its associates and 30% is owned by the Company. Further details of the establishment of the joint venture was disclosed in the announcements of the Company dated 23 July 2016 and dated 14 August 2016 and the circular of the Company dated 2 September 2016;
“APSTAR-6E Satellite”	the APSTAR-6E satellite owned by APSTAR Alliance Satcom Limited, a joint venture company in which 80% is owned by CSCC and its associates and 20% is owned by the Company. Further details of the establishment of the joint venture was disclosed in the announcement of the Company dated 6 November 2020 and the circular of the Company dated 3 December 2020;
“APT International”	APT Satellite International Company Limited, a substantial shareholder of the Company holding approximately 51.90% of the issued share capital of the Company as at the Latest Practicable Date;
“associate(s)”	the meaning ascribed to it in the Listing Rules;
“Board” or “Director(s)”	the board of directors of the Company;
“Caps”	the proposed annual caps of the Non-exempt Continuing Connected Transactions for each of the three financial years ending 31 December 2026 as set out under the section headed “PROPOSED CAPS” in the Letter from the Board in this circular;
“CASC”	中國航天科技集團有限公司 (China Aerospace Science & Technology Corporation), a state-owned corporation established in the PRC, which holds effectively in aggregate 29.23% interests in the Company, including 26.33% indirect interests of the Company by virtue of holding 50.73% interests in APT International and 2.90% direct interests in the Company as at the Latest Practicable Date;
“CCT Agreement”	the satellite transmission and communication services master agreement dated 28 September 2023 entered into between the Company and CSCC in respect of the provision of satellite transmission service, value-added service for satellite telecommunication and other related professional and management services between the Group and CSCC and/or its associates;

DEFINITIONS

“CCT Announcement”	the announcement of the Company dated 28 September 2023 in relation to the CCT Agreement;
“Company”	APT Satellite Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“Company’s Satellite Services”	has the meaning ascribed thereto in the section headed “THE CCT AGREEMENT” in the Letter from the Board in this circular;
“connected person(s)”	the meaning ascribed to it in the Listing Rules;
“CSCC”	中國衛通集團股份有限公司 (China Satellite Communications Company Limited), a corporation listed on the Shanghai Stock Exchange in China effective from 28 June 2019;
“CSCC’s Satellite Services”	has the meaning ascribed thereto in the section headed “THE CCT AGREEMENT” in the Letter from the Board in this circular;
“Existing Satellite Transmission and Communication Services Master Agreement”	the satellite transmission and communication services master agreement entered into between the Company and CSCC dated 29 September 2020 in respect of the provision of transponder services, value-added service for satellite communication and other related professional and management services between the Group and CSCC and/or its associates for the three years ending 31 December 2023;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, i.e. Dr. Lam Sek Kong, Mr. Cui Liguu, Dr. Meng Xingguo and Ms. Yim Ka Man to advise the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions and the Caps;
“Independent Financial Adviser” or “Messis Capital”	Messis Capital Limited, a corporation licensed under the SFO for carrying on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions and the Caps;

DEFINITIONS

“Independent Shareholder(s)”	Shareholder(s) other than APT International, CASC, CSCC and any of their respective associates;
“Latest Practicable Date”	17 November 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information included in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Non-exempt Continuing Connected Transactions”	the transactions in respect of the Company’s Satellite Services and the CSCC’s Satellite Services contemplated under the CCT Agreement;
“normal commercial terms or better”	the meaning ascribed to it in the Listing Rules;
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan);
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be held at the Company’s principal place of business, 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Thursday, 14 December 2023 at 11:00 a.m. to approve the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps, notice of which is set out on pages 53 to 54 of this circular;
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the issued capital of the Company;
“Shareholder(s)”	the holder(s) of the Shares;
“Specific Contract(s)”	the specific contract(s) to be entered into between the Company (or its subsidiaries) and CSCC (or its associates) in respect of the Company’s Satellite Services or CSCC’s Satellite Services;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	the meaning ascribed to it in the Listing Rules;
“%”	per cent; and
“*”	for identification purposes only.

LETTER FROM THE BOARD



亞太衛星控股有限公司*

APT SATELLITE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1045)

Executive Directors:

Mr. Wang Hongbin (*President*)

Mr. Yan Zhao (*Vice President*)

Non-executive Directors:

Mr. Sun Jing (*Chairman*)

Dr. Yin Yen-liang

Mr. Fu Zhiheng

Mr. Lim Kian Soon

Mr. Lim Seng Kong

Ms. Li Xiaomei

Mr. Tseng Ta-mon

(*Alternative Director to Dr. Yin Yen-liang*)

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Head Office and Principal Place of

Business in Hong Kong:

22 Dai Kwai Street

Tai Po Industrial Estate

Tai Po

New Territories

Hong Kong

Independent Non-executive Directors:

Dr. Lam Sek Kong

Mr. Cui Liguu

Dr. Meng Xingguo

Ms. Yim Ka Man

22 November 2023

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

BACKGROUND

Reference is made to the CCT Announcement in relation to the CCT Agreement. The purpose of this circular is (i) to provide you with further information on the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps; (ii) to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iii) to set out the recommendation of the Independent Board Committee; and (iv) to give the Shareholders the notice of the SGM and other information required by the Listing Rules.

* For identification purpose only

LETTER FROM THE BOARD

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement dated 29 September 2020 and the circular dated 6 November 2020 in relation to the Existing Satellite Transmission and Communication Services Master Agreement entered into between CSCC and the Company.

As the Existing Satellite Transmission and Communication Services Master Agreement will expire in December 2023 and in view of the need to maintain the provision of services to customers and to strengthen the benefits of synergy between the parties, as announced in the CCT Announcement, on 28 September 2023, the Company entered into the CCT Agreement with CSCC in respect of, amongst other things, the provision of satellite transmission service, value-added service for satellite telecommunication and other related professional and management services between the Group and CSCC and/or its associates for the next three years on terms and conditions stipulated in the CCT Agreement.

THE CCT AGREEMENT

Date:	28 September 2023
Parties:	The Company CSCC
Duration:	From 1 January 2024 to 31 December 2026, subject to renewal by negotiation between the parties
Service Provided:	

Subject to the terms and conditions of the CCT Agreement, the Company and CSCC have agreed to provide to each other the following services:

1. Based on the actual requirements of CSCC and/or its associates, the Company or its subsidiaries shall use its satellite resources, telecommunication facilities and industry experience to provide the following services of the Group to CSCC and/or its associates: (i) satellite transmission service, (ii) value-added service for satellite telecommunication; and (iii) other related professional and management services for satellite and telecommunication, including but not limited to consultancy services in relation to satellite project construction, services in relation to orbital position coordination and licensing services for use of orbital position and communication equipment and facilities (the “**Company’s Satellite Services**”).
2. Based on the actual requirements of the Company or its subsidiaries, CSCC and/or its associates shall use its satellite resources, telecommunication facilities and industry experience to provide the following services of CSCC and/or its associates to the Company or its subsidiaries: (i) satellite transmission service, (ii) value-added service for satellite telecommunication; and (iii) other related professional and management services for satellite and telecommunication, including but not limited to consultancy services in relation to satellite project construction, services in relation to orbital position coordination and licensing services for use of orbital position and communication equipment and facilities (the “**CSCC’s Satellite Services**”).

LETTER FROM THE BOARD

The Company's Satellite Services and the CSCC's Satellite Services provided by the Company and CSCC are similar in nature. Service performance, quality and coverages are different depending on the design and orbital slot of each satellite with regards to satellite transmission service. The types of value-added service and other related professional management services currently expected to be provided by the Company and/or CSCC under the CCT Agreement include:

- (a) co-location services;
- (b) satellite project management and consultancy services;
- (c) system integration services;
- (d) licensing services for use of orbital slot and frequency and communication equipment and facilities;
- (e) services in relation to operation of teleport stations;
- (f) services in relation to telemetry, tracking and control and operation of satellites; and
- (g) technical support services aiming to solve various technical problems encountered by other party in delivering services to its customers.

There may be other types of value-added service and other related professional and management services provided by the Company and/or CSCC in future depending on the business and technology development and needs of the parties. The value-added service and other related professional management services provided by the Company and CSCC respectively either are different in terms of service scope (for instance, co-location service and satellite project management and consultancy services being provided by the Company and system integration service being provided by CSCC) or vary depending on actual service requirements, such as locations, technical specifications, compliance and regulation.

The Group is providing services similar to the Company's Satellite Services to independent third parties. CSCC is also providing services similar to the CSCC's Satellite Services to independent third parties.

Generally, the Group will require the CSCC's Satellite Services where the Group's customers specifically require the Group to use the satellite resources of CSCC (or its associates) or where the Group's own satellite transponder capacity or specification is unable to meet the requirement of its customers.

LETTER FROM THE BOARD

There are independent third parties providing services similar to the CSCC's Satellite Services but most of them may be relatively reluctant to quote their services to their competitors in the industry. The Group had obtained such services in the past and may obtain such services in future from independent third parties but only if the Group is satisfied that the engagement of the services of such independent third parties can meet the specific requirement of the Group's customers and is in the commercial interest of the Group.

Service fees and pricing basis:

Pursuant to the CCT Agreement, in respect of the Company's Satellite Services or the CSCC's Satellite Services provided by the Company (or its subsidiaries) and CSCC (or its associates) to the other party, the Company (or its subsidiaries) and/or CSCC (or its associates) shall enter into Specific Contract(s) which set out the specific terms including the technical requirements or service fees in accordance with the guidelines set out in the CCT Agreement.

Service fees payable for (a) the use of the Company's Satellite Services provided by the Company or its subsidiaries to CSCC and/or its associates; or (b) the use of the CSCC's Satellite Services provided by CSCC and/or its associates to the Company or its subsidiaries and the commercial terms in the Specific Contracts shall be determined:

- (i) based on market-oriented, fair and reasonable principles;
- (ii) based on normal commercial terms or better; and
- (iii) in accordance with the Company's or CSCC's (as the case may be) prevailing pricing policy or CSCC's or the Company's (as the case may be) prevailing procurement policy.

The services fees for the Company's Satellite Services are determined after the parties have negotiated the terms and conditions of the Specific Contract, making reference to the market price, historical services fees of similar services provided to CSCC and the service fees of the same or similar services provided to independent third parties (if any) in the same region to ensure that the services fees offered to CSCC and/or its associates is no less favourable to the Group than those available to independent third parties for the same or similar services in the same region.

The Company's prevailing pricing policy will be reviewed regularly and if necessary to ensure that it is consistent with market-oriented, fair and reasonable principles. Determination of the service fees in respect of the provision of the Company's Satellite Services by the Group to CSCC and/or its associates shall comply with the internal control procedures of the Company to ensure that the agreed price and the terms must be in accordance with normal commercial terms or better and are no less favourable to the relevant member(s) of the Group than those available to independent third parties.

LETTER FROM THE BOARD

The basis for formulating pricing policy of the Company derives from considering market trends and current average price of the satellite service gathered from different market channels including end-users, exhibitions, reports and related vendors from satellite industry as well as sales department of the Company. The Company, taking into account prevailing market price for such relevant service, the historical prices of similar services provided by the Company, current transponder utilization rate and service cost of the Company, derives an average standard unit price per month (the “**Unit Price**”) for each of the applicable service of the Group on a regular basis and applies the Unit Price as a reference in determining the service fees for provision of satellite transmission services and telecommunication value-added services provided from the Group’s own resources (such as transponder services, Multiple Channels Per Carrier services (a delivery technology that places multiple channels on a single satellite carrier), teleport services and co-location services) (regardless of whether the customer is a connected party or not). For the factors considered by the Company in determining the Unit Price, the Company will refer to the available data for the past 3 years. In this regard, the Company will primarily consider the relevant data for the most recent year (or if no such data is available for the most recent year, the most recent data available) and also take into account the trend over the past 3 years. The number of price quotations for similar services provided to independent third parties which the Company takes into account in determining the price charge to CSCC vary from time to time and depend on the number of comparable contracts the Company has on hand in relation to the similar service provided to independent third parties. All of the historical prices of similar services provided by the Company within the reference period will be taken into account for deriving the Unit Price.

In order to determine the amount of the pre-approved range of the Unit Price, the Company gathers prevailing market prices from industry report, exhibitions and forum attended, as well as sales department, and analyze market prices of similar service in our principal regions. The Company also collects all historical prices of similar service provided by the Company and observes the trends. The most recent average price shall be mainly taken into consideration. A breakeven price is then derived to calculate profitability of each satellite or project, along with utilization rate and service cost. The pre-approved range of the Unit Price for each applicable service is derived from the above three prices. In the event that the prevailing market price is higher than the breakeven price, the Company will determine the pre-approved range of the Unit Price mainly by reference to the prevailing market price. If the prevailing market price is lower than the breakeven price, the Company will consider the middle range of the prevailing market price and breakeven price as the pre-approved range of the Unit Price.

As for satellite transmission services and value-added services provided by the Group from resources procured from other parties, service price is based on the cost of service and profit margin (cost-plus pricing) and a net profit margin of not less than 4%. However, for professional and management services, there is no basis to compute a standard unit price for each type of service, since projects are distinct and requirements are not similar. The Company applies two pricing strategies to decide prices:

LETTER FROM THE BOARD

- (a) cost-plus pricing. For the services procured from other parties and CSCC, services in relation to the use of communication equipment and facilities, operation of teleport stations, telemetry, tracking and control of satellites and technical support services, the Company decides the price based on the cost of products and services and a net profit margin of not less than 4%;
- (b) value-based pricing. For the unique services and those involving the case of intangible assets provided by the Company, such as licensing services for use of orbital slot and frequency, the Company decides the price based on the perceived value in current market. Under this arrangement, the Company sets prices for the unique services and other services related to intangible assets by negotiation with the specific target customers for the highest amount that such target customer is willing to pay. This arrangement is normally based on a macro strategy and comprehensive considerations for the development of the Company and will also enable the Company to maximize its profit.

The Unit Price is regulated by the pricing policy of the Company. The pricing policy is reviewed annually by the Company. For each year, the staff in-charge from the business support department of the Group will calculate an average standard unit price per month and submit a preliminary proposal of Unit Price with reference to the previous pricing policy and the market conditions to the Company for review and approval. The Company will have meeting in each year to analyse and discuss the proposed pricing policy prepared by the business support department, based on certain evaluation criteria including the regional market conditions, the business trend and the development strategy plan of the Company. After the Unit Price is approved by the Company, the new pricing policy with new Unit Price will be released and applied within the Company. The staff in charge from the business support department is responsible for checking whether the Unit Price has been properly adhered to for each contract the Company intends to sign. In case where any contract unit price is lower than the pre-approved range under the pricing policy, pursuant to delegation of authority adopted by the Company, the contract will be examined and approved by the corresponding persons in charge.

The pricing policy is applicable to all end users with different business in different areas and there will also be cases which the contract Unit Price fall below the pre-approved range in the case of services provided to independent third parties. The two pricing strategies of cost-plus pricing and value-based pricing are equally applicable to all end users as well and there will be cases that the net profit margin fall below 4%. In these circumstances, other than the profits gained from the relevant contracts, the Company will also take into account whether the contract for services may help the Company to seize market shares or explore more business opportunities. As such, the Board considers the pricing term to be fair and reasonable for the Company to agree on a contract price or net profit margin lower than that of the pre-approved range if there are strategic justification for the Company to enter into the relevant contracts.

LETTER FROM THE BOARD

When CSCC's Satellite Services are procured by the Group, under normal circumstances, it is difficult to obtain quotations from other satellite service providers for comparison because the technical specification prescribed by the Group's customers will largely restrict the choices of alternative service providers and other satellite service providers may be relatively reluctant to provide fee quotations to their competitors in the industry. In many cases, CSCC is the only qualified service provider or the use of CSCC's satellite resources is even designated by the Group's customers, the Company is unable to obtain any quotations for comparison since there is no similar service provided from independent third parties. If the technical specification required by the Group's customer can be satisfied by both CSCC and other independent third party, normally, the customer would have directly approached the independent third party for quotation, who is either a satellite operator or a service provider because the price obtained through the Company would be higher than the one obtained from the independent third party directly in view of a margin surcharged by the Company. Under such circumstances, it is practically impossible for the Company to obtain fee quotation from independent third parties for the services similar to the CSCC's Satellite Service. Further, in order to obtain quotations from satellite services providers, the Group is required to provide specific information of the Group's customers. Since the Group has to secure its customer base as well as protecting its own interest, it is difficult for the Group to obtain quotations from other independent third parties for the services similar to the CSCC's Satellite Services. As such, no independent satellite service providers were approached to obtain independent quotations for similar services provided by CSCC for the past three years.

To ensure that the pricing terms charged by CSCC is market-oriented, fair and reasonable and on normal commercial terms, if CSCC is the only qualified service provider which can meet the requirements of the Group's customers, the prices of the CSCC's Satellite Services will be determined on arm's length negotiation by the parties and generally subject to a net profit margin of not less than 4%. The 4% threshold is determined and applied to all service prices, including the contracts with CSCC as well as with independent third parties. The 4% threshold is also in line with common practice in the satellite industry. There may be rare cases where the particular importance of securing the underlying customer's contract to the Group (taking into account the value of the underlying customer's contract, the market strategy of the Group, the maintenance of future business relationship with the customer, the profit which can be derived by the Group from the underlying customer's contract by providing its own satellite resources and/or services in conjunction with those of CSCC and/or other relevant commercial factors) may justify the procurement of CSCC's Satellite Services even though only a lower profit margin can be achieved. In those special cases, the head of the business support department will be responsible for reviewing and submitting to the vice president and president for approval based on the profit level. The above procurement policy and procedures also apply in projects where satellite services are procured from independent third party service providers. Such arrangement will apply to all cases including services provided by CSCC as well as independent third parties. In those cases, apart from the pure economic benefits gained from the transaction, the Company will also take into account whether the procurement of services may bring more business opportunities or enlarge the Company's market shares. As such, the Board considers the arrangement with a lower profit margin (i.e. below 4%) achieved by the Group to be fair and reasonable if there are strategic justifications for entering into the transaction.

LETTER FROM THE BOARD

The Company has adopted the following internal procedures to ensure the procurement contracts are properly reviewed and approved:

- i. the staff in-charge is required to ensure that the proposed procurement of services and goods meet the technical specifications of the Company's customer; relevant departments are responsible for reviewing the payment terms of the procurement contract, prices or fees proposed compared to the respective budget of the Company, legal terms and content of the procurement contract;
- ii. the head of business support department is responsible for reviewing the terms and conditions of the procurement contract to ensure that the same are in line with normal market practices and the standard terms are no less favourable to the Company than those available from independent suppliers, based on certain evaluation criteria of supplier(s), including quality of the services or goods, the prices, reputation, experience, financial soundness, and post-sale services or support provided; and
- iii. the procurement contract will be finally reviewed and approved by the head of the department which requires the procurement and further approved by the vice president of the department and president in the event that the procurement amount has exceeded specified amount (the "**Specified Amount**"), being (i) HK\$1,000,000 to less than HK\$10,000,000 (which is determined based on the materiality of the contract to the Group and the corresponding risk involved) for approval by vice president of the department, and (ii) not less than HK\$10,000,000 for approval by vice president of the department and the president. In case when the procurement amount is below the Specified Amount, the procurement contract will only be examined and approved by the head of the department which requires the procurement. The Specified Amount of the procurement is regulated by the current authority of delegation policy of the Company as approved by the Board.

Under normal circumstances, the parties shall also agree the payment terms based on the principle of fairness and reasonableness and on normal commercial terms in the Specific Contract(s). Such payment terms may include monthly, quarterly or annual payments or lump-sum payment arrangements.

The payment terms (including the mode of payment and credit terms) will be negotiated between the parties before signing the Specific Contract, provided that the payment terms shall be no less favourable to the Group than the terms offered by independent third parties for providing the same or similar services to the Group of the period. The head of business support department is responsible for reviewing the payment terms to ensure that payment terms in the Specific Contract are determined on the above basis.

All factors including payment terms, contract price, technical requirements, and specific provisions will be taken into consideration integrally for determining the commercial terms of the Specific Contract which will be reviewed separately. In practice, payment terms in mainland China is generally on semi-annual or annual basis.

The same pricing policy, procurement policy and internal control procedures are applicable to the sale or purchase to or from independent third parties.

LETTER FROM THE BOARD

Based on the estimates by the Company and CSCC, (i) the aggregate transaction amounts in respect of the Company's Satellite Services provided by the Company or its subsidiaries to CSCC and/or its associates under the CCT Agreement for each of the three financial years ending 31 December 2026 will be HK\$518 million, HK\$576 million and HK\$590 million respectively; and (ii) the aggregate transaction amounts in respect of the CSCC's Satellite Services provided by CSCC and/or its associates to the Company or its subsidiaries under the CCT Agreement for each of the three financial years ending 31 December 2026 will be HK\$210 million, HK\$280 million and HK\$294 million respectively.

Condition:

The CCT Agreement is conditional upon the approval by the Independent Shareholders at the SGM. It will take effect as from 1 January 2024 and will expire on 31 December 2026, subject to negotiation for renewal by both parties.

If any Specific Contracts amount to related party transactions of CSCC under the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the entering into of such Specific Contracts will be further subject to any necessary approval of the board of directors and/or the shareholders of CSCC from time to time.

Other terms and undertaking:

Both parties have warranted (i) to provide services to the other party and/or its subsidiaries (in the case of the Company) or its associates (in the case of CSCC); and (ii) to pay on time to the other party and/or its subsidiaries (in the case of the Company) or its associates (in the case of CSCC) the satellite transmission service fees, satellite communication value-added service fees, related service fees and tax levy in accordance with the terms of the CCT Agreement.

Both parties have also undertaken to be responsible for any compensation for interruption to be made to the end-user customers by the other party in the form of credit allowance as a result of such party's failure to provide the Company's Satellite Services or CSCC's Satellite Services (as the case may be) in accordance with the quality standard as undertaken in the Specific Contracts. Compensation will be made to end-user only in the event of interruption. Interruption is a common term used in the satellite industry for event where the service is unavailable due to no default of customers or in other words, the service outage. The specific provisions in respect of the undertaking will be agreed based on the principle of fairness and reasonableness and on normal commercial terms and will be set out in the Specific Contracts. The terms regarding the specific provisions, service interruption and compensation for such interruption provided by the Company under the Specific Contracts are similar to the terms under similar contracts with other third parties. The head of business support department is responsible for reviewing those specific provisions to ensure that they are agreed on the above basis.

LETTER FROM THE BOARD

The Board considers that all the daily credit allowance for the compensation of interruption (the “**Daily Credit Allowance**”), which is included in the specific provisions, provided by independent third parties to the Group and the Daily Credit Allowance provided by the CSCC Group to the Group are similar. The Board also considers that the Daily Credit Allowance provided by the Group to the CSCC Group was no more favourable than those provided by the Group to independent third parties. The Daily Credit Allowance provided by the Group to the CSCC Group shall not exceed the proportionate daily service fees, so that in effect except for the loss of income (i.e. the service fee during the period of service interruption/outage), no additional costs will be incurred by the Group.

If the parties fail to agree on price, payment terms or the specific provisions of the undertaking under the Specific Contracts, the transaction could not proceed and the Group will have to find other customers or services providers for the relevant services. In certain cases where the end-user has designated to use the CSCC’s Satellite Service provided by CSCC and/or its associates because of the coverage of satellite transmission service, the Group will not be able to accept the order of such customers.

PROPOSED CAPS

Caps in respect of the provision of the Company’s Satellite Services and CSCC’s Satellite Services

The Board proposes to set the Caps in respect of the provision of the Company’s Satellite Services and CSCC’s Satellite Services pursuant to the CCT Agreement for the three financial years ending 31 December 2026 as follows:

	2024	2025	2026
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Aggregate transaction amount in respect of the provision of the Company’s Satellite Services by the Group to CSCC and/or its associates			
Caps	518,000	576,000	590,000
Aggregate transaction amount in respect of the provision of the CSCC’s Satellite Services by CSCC and/or its associates to the Group			
Caps	210,000	280,000	294,000

LETTER FROM THE BOARD

Basis of determination of such Caps:

(i) Company's Satellite Services

The above proposed Caps are determined by the Board by reference to (i) the historical transactions amounts of the relevant services of the existing in-orbit satellites of the Group for the past two years and current year; (ii) the value of contracts on hand; (iii) the estimates on service contract value and on the potential growth in demand for satellite transmission services and telecommunication services; (iv) the additional professional and management services (such as orbital slot licensing services, satellite telemetry, tracking and control services, hosting services and satellite operation services) to be provided by the Group to CSCC's associate in relation to the APSTAR-6E Satellite; and (v) the estimates of satellite transmission services and telecommunication services in relation to backup and recovery to the CSCC's end-user customers under the circumstance of satellite failure or other emergency situation.

The estimated percentage of potential growth in demand for satellite transmission services and telecommunication services, and professional and management services in respect of the Company's Satellite Service to CSCC is 14.7% for 2024, 23.2% for 2025 and 25.2% for 2026. The estimation of the above percentage of potential growth in demand is based on the Company's business development plans, including the plan to distribute satellite transmission services in relation to its regular satellite capacity, value-added services and related professional and management services, market demand for transmission services based on the satellites owned by the Company in Southeast Asia, expected price based on presumption of target market and industry trend and existing agreement between the Group and CSCC and has taken into account the factors mentioned in (ii), (iii), (iv) and (v) above.

(ii) CSCC's Satellite Services

The above proposed Caps are determined by the Board by reference to (i) the historical transactions amounts of the relevant services of the existing in-orbit satellites of CSCC and/or its associates for the past two years and current year; (ii) the value of contracts on hand; (iii) the estimates on service contract value and on the potential growth in demand for satellite transmission services and telecommunication services, including CSCC's new satellite launched; (iv) the increase in satellite transmission services provided by CSCC's associate to the Group after the launch of the APSTAR-6E Satellite in 2023 as it is intended that the Group will act as distributor for the satellite resources of the APSTAR-6E Satellite; and (v) the estimates of satellite transmission services and telecommunication services in relation to backup and recovery to the Group's end-user customers under the circumstance of satellite failure or other emergency situation.

LETTER FROM THE BOARD

The estimated percentage of potential growth in demand for satellite transmission services and telecommunication services, and professional and management services in respect of the CSCC's Satellite Service to the Group is 23.6% for 2024, 55.8% for 2025 and 88.7% for 2026. The estimation of the above percentage of potential growth in demand is based on the Company's business development plans, including the plan to distribute high-throughput satellite capacity provided by CSCC and/or its associates, market demand for transmission services based on the high-throughput satellites provided by CSCC and/or its associates (as the market demand for high-throughput-satellite capacity in Southeast Asia is expected to increase sharply in coming years, which is driven by the government projects and broadband access projects in Indonesia and Philippines and stable growth in other Southeast Asia countries, by reference to satellite communication market studies of market research firms for Indonesia and the Philippines markets commissioned by the Group), expected price based on presumption of target market and industry trend and existing agreement between the Group and CSCC and has taken into account the factors mentioned in (ii), (iii) and (iv) above.

The estimated transaction amount arising from CSCC's new satellite launched is HK\$20.6 million for 2024, HK\$30.9 million for 2025 and HK\$41.2 million for 2026. Such estimation is based on the market expectation and business plan of the Company. The average contractual capacity is expected to increase from 1000Mbps to 2000Mbps for next three years along with the development of the business.

The estimated transaction amount related to the backup and recovery is HK\$121.3 million for 2024, HK\$80.9 million for 2025 and HK\$0 for 2026. Such estimation is based on the current business volume of the satellite which needs an immediate backup or recovery under the circumstance of satellite failure or other emergency situation. The back-up capacity needed will decrease for the next three years, since the market demand for regular capacity has been shrinking gradually in recent years and the decline will continue in the following three years.

The estimated transaction amount related to the satellite transmission service of APSTAR-6E is HK\$29.1 million for 2024, HK\$123.8 million for 2025 and HK\$211.5 million for 2026. Such estimation is based on the market expectation and potential demands in target area. The average contractual capacity is expected to increase from 3700Mbps to 10600Mbps and 14900Mbps for next three years along with the development of the business.

LETTER FROM THE BOARD

(iii) *Utilization rate*

The utilization rate of the historical Caps for the three financial years ended 2021 and 2022 and for the nine months ended 30 September 2023 are as follows:

	2021	2022	2023 (for the nine months ended 30 September 2023)
For the provision of the Company's Satellite Services by the Group to CSCC and/or its associates	69.5%	74.5%	49.2%
For the provision of the CSCC's Satellite Services by CSCC and/or its associates to the Group	5.9%	8.8%	2.4%

The Board considers that adequate amount of Caps in respect of CSCC's service would be critical for the Company to maintain on-hand customers as well as expand market shares. To ensure the stability of the business, the Company needs to secure back-up resources from CSCC. In the event of satellite failure or emergency situation, the Company will use this back-up capacity to maintain its service to customers. Having considered the above and the basis for determining the Caps as listed above, the Board is in the view that the substantial increase in the proposed Caps are fair and reasonable.

Historical amounts:

For the two financial years ended 31 December 2022 and the nine months ended 30 September 2023, the actual aggregate transactions amounts in respect of the provision of the satellite transponder service, telecommunication value-added service and related services by the Group to CSCC and/or its associates under the Existing Satellite Transmission and Communication Services Master Agreement were approximately HK\$368.3 million, HK\$394.9 million and HK\$260.8 million (unaudited) respectively.

For the two financial years ended 31 December 2022 and the nine months ended 30 September 2023, the actual aggregate transactions amounts in respect of the provision of the satellite transponder service, telecommunication value-added service and related services by CSCC and/or its associates to the Group under the Existing Satellite Transmission and Communication Services Master Agreement were approximately HK\$12.4 million, HK\$23.0 million and HK\$7.3 million (unaudited) respectively.

The historical annual caps in respect of the provision of the Company's Satellite Services under the Existing Satellite Transmission and Communication Services Master Agreement are HK\$530 million for each of the years ended 31 December 2021 and 2022 and 2023 respectively.

LETTER FROM THE BOARD

The historical annual caps in respect of the provision of the CSCC's Satellite Services under the Existing Satellite Transmission and Communication Services Master Agreement are HK\$210 million for the year ended 31 December 2021, HK\$260 million for the year ended 31 December 2022 and HK\$310 million for the year ending 31 December 2023. The transaction amounts for the two years ended 31 December 2022 and period from 1 January 2023 to the Latest Practicable Date have not exceeded the annual caps under the Existing Satellite Transmission and Communication Services Master Agreement.

While the maximum Cap of HK\$590 million for the Company's Satellite Services will amount to approximately 62.5% of the total revenue of the Group for the financial year ended 31 December 2022, if the annual revenue from the Company's Satellite Services in any year increases from HK\$394.9 million in 2022 to the maximum Cap of HK\$590 million, the Company expects that naturally there would also be a substantial increase in the total revenue of the Company for that year and the revenue contribution from services provided to other parties would remain substantial. The Company therefore does not consider that it has material reliance on CSCC.

In any event, the Company considers that the business relationship between the Group and CSCC has lasted for more than 20 years and is in the nature of a strategic cooperation for the mutual benefit of both parties. While CSCC provides a significant income source to the Group, CSCC also relies on the satellite transponder capacity and/or specifications and the value added and related services of the Group to meet the specific requirements of CSCC's end-user customers. As such, it is unlikely that the business relationship between the Group and CSCC will be terminated or materially adversely change. Further, it is the Company's policy to continue to secure its revenue from a variety of customers and actively explore new markets (in particular the Southeast Asia Market) and businesses, which would mitigate the effect of any adverse change of its relationship with CSCC in the unlikely event. At present, the Company has more than 120 customers on hand who are independent third parties according to its recent record.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The principal businesses of both the Group and CSCC include the provision of satellite transponder services, but each of them possesses its own satellites fleet having different footprint coverage and transponder specification. Due to operating conditions relating to communication and satellite related business in Mainland China, there are situations where the Group by itself may not be able to satisfy its customers' requirements. As a renowned satellite operator in Mainland China, CSCC is able to facilitate the Group in satisfying its Mainland China customers' requirements so that the Group can not only strengthen its business relationship with its Mainland China customers, but also pursue new business opportunities in Mainland China as a result of expanding the availability of satellite transponders.

On the other hand, the Group may, from time to time when its own satellite transponder capacity or specification is unable to meet the requirements of its end-user customers in markets outside Mainland China, exploit the available satellite transponder of CSCC for provision of service to its customers outside Mainland China. Meanwhile, the Group may also increase its revenue by providing the transponder service outside Mainland China to CSCC under the CCT Agreement.

LETTER FROM THE BOARD

Telecommunication value-added service and other related professional and management services are essential value-added telecommunication services which can help the Group and CSCC to provide solution-based services to their respective end-user customers thereby increasing the competitive edges and synergic effect for both the Group and CSCC in market competition.

If the resolution in respect of the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps is not approved by the Independent Shareholders, insofar as CSCC Satellite Services are concerned, the Group will have to source other suppliers in the market who provide similar services and can meet the specific requirement of the Group's customers. However, it is expected that in many cases the use of CSCC's satellite resources are designated by the Group's customers and thus the Group will no longer be able to accept the relevant orders from such customers and the scope of services which the Group can offer to its customers will be reduced. Further, the Group will no longer receive revenue from the provision of the Company's Satellite Services to CSCC. As a result, the operating performance of the Group will be adversely affected.

The Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the CCT Agreement will be entered into in the ordinary and usual course of business of the Group and will be on normal commercial terms and the terms thereof and the Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE GROUP AND CSCC

The Company

The Company is an investment holding company. Its subsidiaries are principally engaged in the maintenance, operation, provision of satellite transponder capacity and related services, satellite-based broadcasting and telecommunications services and other related services.

CSCC

CSCC is a company which is owned as to 85.03% by CASC. CASC is a state-owned corporation and is a holding group company whose members are respectively engaged in the research, design, manufacture and launch of aerospace products. CSCC is a renowned satellite operator in Mainland China providing satellite communication services.

IMPLICATIONS OF THE LISTING RULES

CASC and its associates are interested in aggregate approximately 50.73% interests in APT International, which in turn is a substantial shareholder of the Company holding approximately 51.90% of the issued share capital of the Company as at the Latest Practicable Date. Furthermore, CASC and its associates (including a subsidiary of CSCC) are interested in an aggregate of approximately 2.90% of the issued share capital of the Company as at the Latest Practicable Date.

CSCC, being a subsidiary of CASC, is therefore a connected person of the Company. Accordingly, the CCT Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As the applicable percentage ratios in respect of the Caps are more than 5%, the Non-exempt Continuing Connected Transactions and the Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

In view of CSCC's interests in the transactions contemplated under the CCT Agreement, APT International, CASC, CSCC and their respective associates will abstain from voting at the SGM in respect of the resolution to approve the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps. As at the Latest Practicable Date, APT International, CASC, CSCC and their respective associates were interested in, controlled and were entitled to exercise control over 508,950,000 Shares, representing approximately 54.81% of the issued share capital of the Company.

As (i) Mr. Wang Hongbin, an executive Director and the President of the Company, is also concurrently the chairman of China Satellite Communications (Hong Kong) Corporation Limited, which is the wholly-owned subsidiary of CSCC, and the director of APT Mobile Satcom Limited (an associate of CASC under Chapter 14A of the Listing Rules); (ii) Mr. Yan Zhao, an executive Director and the Vice President of the Company, is also concurrently the director of APT Mobile Satcom Limited (an associate of CASC under Chapter 14A of the Listing Rules); (iii) Mr. Sun Jing, a non-executive Director and the chairman of the Company, is also concurrently the chairman of CSCC; (iv) Mr. Fu Zhiheng, a non-executive Director, is also concurrently president of China Great Wall Industry Corporation (an associate of CASC under Chapter 14A of the Listing Rules); and (v) Ms. Li Xiaomei, a non-executive Director, is also concurrently a director of Sino Satellite Communications Company Limited, which is the wholly-owned subsidiary of CSCC, they have abstained from voting on the relevant board resolution(s) for approving the CCT Agreement and the transactions contemplated thereunder to avoid any conflict of interest. Save for the above, none of the Directors has material interest or conflict of interest in the CCT Agreement and the transactions contemplated and none of them is required to abstain from voting on the relevant board resolutions.

The SGM will be convened for the Independent Shareholders to approve the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps by poll.

The Independent Board Committee comprising four independent non-executive Directors has been appointed to advise the Independent Shareholders on whether the Non-exempt Continuing Connected Transactions and the Caps are in the interest of the Company and the Shareholders as a whole and whether the terms of the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Financial Adviser, Messis Capital, has also been appointed to advise the Independent Board Committee and the Independent Shareholders regarding the Non-exempt Continuing Connected Transactions and the Caps.

SGM

There is set out on pages 53 to 54 of this circular a notice convening the SGM to be held at the Company's principal place of business at 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Thursday, 14 December 2023 at 11:00 a.m. at which an ordinary resolution will be proposed for the approval by the Independent Shareholders by poll the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps.

LETTER FROM THE BOARD

Whether or not you are able to attend the SGM in person, you are requested to complete and sign the enclosed form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 11:00 a.m. on Tuesday, 12 December 2023 (i.e. forty-eight (48) hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be)). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

In compliance with the Listing Rules, the votes to be taken at the SGM in respect of the resolution proposed for approval of the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps will be taken by poll, the results of which will be announced after the SGM.

Under the bye-laws of the Company, a poll can be demanded at the SGM by:

- (a) at least three members present in person or by proxy for the time being entitled to vote at the SGM; or
- (b) a member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the SGM; or
- (c) a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the SGM being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

The Company will procure the chairman of the SGM to demand for voting on poll and Tricor Tengis Limited, the branch share registrar of the Company in Hong Kong, will serve as the scrutineer for the vote-taking.

For the purpose of determining the entitlement to attend and vote at the SGM, the register of members of the Company will be closed from Monday, 11 December 2023 to Thursday, 14 December 2023 (both days inclusive), during which period no transfer of Shares will be effected. Shareholders whose names appear on the register of members of the Company at the close of business on Friday, 8 December 2023 will be entitled to attend and vote at the SGM. In order to be entitled to attend and vote at the SGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, 8 December 2023.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps have been entered into in the ordinary and usual course of business and the terms were agreed on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the resolution to be proposed in the SGM to approve the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps.

ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and from the Independent Financial Adviser which are respectively set out on pages 22 to 23 and 24 to 48 of this circular. Additional information is also set out in the Appendix of this circular for your information.

By Order of the Board
APT Satellite Holdings Limited
Sun Jing
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



亞太衛星控股有限公司*

APT SATELLITE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1045)

22 November 2023

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 22 November 2023 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the Non-exempt Continuing Connected Transactions and the Caps and to advise the Independent Shareholders as to the fairness and reasonableness of the same. The Independent Financial Adviser, Messis Capital, has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

RECOMMENDATION

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 21 of the Circular, and the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions and the Caps as set out on pages 24 to 48 of the Circular.

Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we concur with the views of the Independent Financial Adviser and consider that the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps have been entered into in the ordinary and usual course of business and the terms were agreed on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed in the SGM to approve the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps.

Yours faithfully,

For and on behalf of

APT Satellite Holdings Limited
Independent Board Committee

Lam Sek Kong

Independent

Non-executive Director

Cui Ligu

Independent

Non-executive Director

Meng Xingguo

Independent

Non-executive Director

Yim Ka Man

Independent

Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Messis Capital Limited which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.

MESSIS 大有融資

22 November 2023

To: The Independent Board Committee and The Independent Shareholders

Dear Sirs and Madams,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders on the CCT Agreement and the Caps, in respect of which the Independent Shareholders' approval will be sought at the SGM. Details of the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps are set out in the "Letter from the Board" contained in the circular of the Company dated 22 November 2023 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein.

Reference is made to the announcement dated 29 September 2020 and the circular dated 6 November 2020 in relation to the Existing Satellite Transmission and Communication Services Master Agreement entered into between CSCC and the Company. As the Existing Satellite Transmission and Communication Services Master Agreement will expire in December 2023 and in view of the need to maintain the provision of services to customers and to strengthen the benefits of synergy between the parties, on 28 September 2023, the Company entered into the CCT Agreement with CSCC in respect of, amongst other things, the provision of satellite transmission service, value-added service for satellite telecommunication and other related professional and management services between the Group and CSCC and/or its associates for the next three years on terms and conditions stipulated in the CCT Agreement. The types of value-added service and other related professional management services currently expected to be provided by the Company and/or CSCC under the CCT Agreement include:

- (a) co-location services;
- (b) satellite project management and consultancy services;
- (c) system integration services;
- (d) licensing services for use of orbital slot and frequency and communication equipment and facilities;
- (e) services in relation to operation of teleport stations;
- (f) services in relation to telemetry, tracking and control and operation of satellites; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (g) technical support services aiming to solve various technical problems encountered by other party in delivering services to its customers.

There may be other types of value-added service and other related professional and management services provided by the Company and/or CSCC in future depending on the business and technology development and needs of the parties. The value-added service and other related professional management services provided by the Company and CSCC respectively either are different in terms of service scope (for instance, co-location service and satellite project management and consultancy services being provided by the Company and system integration service being provided by CSCC) or vary depending on actual service requirements, such as locations, technical specifications, compliance and regulation.

CASC and its associates are interested in aggregate approximately 50.73% interests in APT International, which in turn is a substantial shareholder of the Company holding approximately 51.90% of the issued share capital of the Company as at the Latest Practicable Date. Furthermore, CASC and its associates (including a subsidiary of CSCC) are interested in an aggregate of approximately 2.90% of the issued share capital of the Company as at the Latest Practicable Date. CSCC, being a subsidiary of CASC, is therefore a connected person of the Company. Accordingly, the CCT Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the Caps are more than 5%, the Non-exempt Continuing Connected Transactions and the Caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirement under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, APT International, CASC, CSCC and their respective associates were interested in, controlled and were entitled to exercise control over 508,950,000 Shares, representing approximately 54.81% of the issued share capital of the Company. In view of CSCC's interests in the transactions contemplated under the CCT Agreement, APT International, CASC, CSCC and their respective associates will be required to abstain from voting at the SGM in respect of the resolution(s) to approve the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps.

As (i) Mr. Wang Hongbin, an executive Director and the President of the Company, is also concurrently the Chairman of China Satellite Communications (Hong Kong) Corporation Limited, which is the wholly-owned subsidiary of CSCC and the director of APT Mobile Satcom Limited (an associate of CASC under Chapter 14A of the Listing Rules); (ii) Mr. Yan Zhao, an executive Director and the Vice President of the Company, is also concurrently the director of APT Mobile Satcom Limited (an associate of CASC under Chapter 14A of the Listing Rules); (iii) Mr. Sun Jing, a non-executive Director and the chairman of the Company, is also concurrently the chairman of CSCC; (iv) Mr. Fu Zhiheng, a non-executive Director, is also concurrently president of China Great Wall Industry Corporation (an associate of CASC under Chapter 14A of the Listing Rules); and (v) Ms. Li Xiaomei, a non-executive Director, is also concurrently a director of Sino Satellite Communications Company Limited, which is the wholly-owned subsidiary of CSCC, they have abstained from voting on the relevant board resolution(s) for approving the CCT Agreement and the transactions contemplated thereunder to avoid any conflict of interest. Save for the above, none of the Directors has material interest or conflict of interest in the CCT Agreement and the transactions contemplated and none of them is required to abstain from voting on the relevant board resolutions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The independent board committee comprising four independent non-executive Directors, namely Dr. Lam Sek Kong, Mr. Cui Liguu, Dr. Meng Xingguo and Ms. Yim Ka Man, has been appointed to advise the Independent Shareholders on whether the Non-exempt Continuing Connected Transactions and the Caps are in the interest of the Company and the Shareholders as a whole and whether the terms of the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

As at the Latest Practicable Date, we were independent from and not connected with the Group pursuant to Rule 13.84 of the Listing Rules, and we have not acted as an independent financial adviser to the Company's other transactions in the past two years, and accordingly, qualified to give independent advice to the Shareholders regarding the CCT Agreement and the transaction contemplated thereunder of the Company. No arrangement exists whereby affects our independence in relation to our appointment as the Independent Financial Adviser.

This letter contains our advice to the Independent Board Committee and the Independent Shareholders as to (i) whether the Non-exempt Continuing Connected Transactions and the Caps are in the interest of the Company and the Shareholders as a whole; and (ii) whether the terms of the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

BASIS OF OUR OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Group and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Group and/or the Directors and/or its senior management staff (the "**Management**") are true and accurate. We have assumed that all statements, information and representations provided by the Directors and the Management, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the SGM. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in this circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its adviser and/or the Directors, which have been provided to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable and there are no reasons to doubt the accuracy and reliability of such public information.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained in this circular misleading.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have reviewed all information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or the Directors and/or the Management and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group, CASC and CSCC or their respective associated persons.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the CCT Agreement, we have taken into consideration the following principal factors:

I. Background information and reasons for and benefits of entering into the CCT Agreement

Information on the Group

The Company is an investment holding company. Its subsidiaries are principally engaged in the maintenance, operation, provision of satellite transponder capacity and related services, satellite-based broadcasting and telecommunications services and other related services.

The financial results for six months ended 30 June 2023

Set out below is a summary of the Group's consolidated operating results as extracted from the Company's interim report for the six months ended 30 June 2023 (the "2023 Interim Report"):

	For the six months ended 30 June	
	2022	2023
	(unaudited)	(unaudited)
	(HK\$ million)	(HK\$ million)
Revenue	498.4	419.7
– Revenue by categories		
– Income from provision of satellite transponder capacity	457.0	376.4
– Income from provision of satellite-based broadcasting and telecommunications services	2.2	2.0
– Other satellite-related service income	39.2	41.4
– Revenue by region		
– Hong Kong	45.1	65.2
– Greater China*	235.7	181.1
– Southeast Asia	170.6	127.8
– Other Regions	47.0	45.6
Gross profit	251.4	187.8
Profit from operations	195.2	172.1
Profit for the period and attributable to the shareholders of the Company	133.8	117.8

* Greater China includes Mainland China, Taiwan and Macau but excludes Hong Kong.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's revenue decreased from approximately HK\$498.4 million for the six months ended 30 June 2022 to approximately HK\$419.7 million for the six months ended 30 June 2023, which was mainly due to the decrease in the revenue generating from the provision of satellite transponder capacity.

The gross profit of the Group decreased from approximately HK\$251.5 million for the six months ended 30 June 2022 to approximately HK\$187.8 million for the six months ended 30 June 2023, which was in line with the decrease in the revenue from the six months ended 30 June 2022 to the six months ended 30 June 2023.

The profit from operation of the Group decreased from approximately HK\$195.2 million for the six months ended 30 June 2022 to approximately HK\$172.1 million for the six months ended 30 June 2023, which was primarily due to (i) the decrease in the gross profit; and (ii) the increase in the other gains from the interest income on bank deposits.

The profit attributable to equity shareholders was approximately HK\$117.8 million for six months ended 30 June 2023, representing a decrease of approximately 12.0% from approximately HK\$133.8 million for the six months ended 30 June 2022, which was primarily attributable to (i) the decrease in profit from operations; and (ii) the increase in share of loss of associates.

The financial results for the year ended 31 December 2022

Set out below is a summary of the Group's consolidated operating results as extracted from the Company's annual report for the year ended 31 December 2022 (the "2022 Annual Report"):

	For the year ended 31 December	
	2021	2022
	(audited)	(audited)
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Revenue	927.8	944.3
– Revenue by categories		
– Income from provision of satellite transponder capacity	847.4	861.3
– Income from provision of satellite-based broadcasting and telecommunications services	4.7	4.4
– Other satellite-related service income	75.7	78.6
– Revenue by region		
– Hong Kong	91.5	93.0
– Greater China*	424.5	429.7
– Southeast Asia	291.4	323.2
– Other Regions	120.4	98.3
Gross profit	446.4	455.1
Profit from operations	369.3	354.2
Profit for the year and attributable to the shareholders of the Company	263.4	231.6

* Greater China includes Mainland China, Taiwan and Macau but excludes Hong Kong.

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For the year ended 31 December 2022, the Group recorded the revenue of approximately HK\$944.3 million, representing an increase of 1.8% as compared to the revenue as recorded for the year ended 31 December 2021, which was mainly due to the increase in income from provision of satellite transponder capacity, which accounted for over 90% of the total revenue for both the year ended 31 December 2021 and the year ended 31 December 2022.

The gross profit of the Group increased from approximately HK\$446.4 million for the year ended 31 December 2021 to approximately HK\$455.1 million for the year ended 31 December 2022, which was in line with the increase in the revenue from the year ended 31 December 2021 to the year ended 31 December 2022.

The profit from operation of the Group decreased from approximately HK\$369.3 million for the year ended 31 December 2021 to approximately HK\$354.2 million for the year ended 31 December 2022, which was primarily due to the decrease in other net gains from the decrease in foreign currencies exchange (loss)/gain.

The profit attributable to equity shareholders was approximately HK\$231.6 million for the year ended 31 December 2022, representing a decrease of approximately 12.1% from approximately HK\$263.4 million for the year ended 31 December 2021, which was primarily attributable to the increase in share of loss of associates.

Information on CSCC

CSCC is a company which is owned as to 85.03% by CASC. CASC is a state-owned corporation and is a holding group company whose members are respectively engaged in the research, design, manufacture and launch of aerospace products. CSCC is a renowned satellite operator in Mainland China providing satellite communication services.

II. Reasons for and benefits of entering into the CCT Agreement

The principal businesses of both the Group and CSCC include the provision of satellite transponder services, but each of them possesses its own satellites fleet having different footprint coverage and transponder specification. Due to operating conditions relating to communication and satellite related business in Mainland China, there are situations where the Group by itself may not be able to satisfy its customers' requirements. As a renowned satellite operator in Mainland China, CSCC is able to facilitate the Group in satisfying its Mainland China customers' requirements so that the Group can not only strengthen its business relationship with its Mainland China customers, but also pursue new business opportunities in Mainland China as a result of expanding the availability of satellite transponders.

On the other hand, the Group may, from time to time when its own satellite transponder capacity or specification is unable to meet the requirements of its end-user customers in markets outside Mainland China, exploit the available satellite transponder of CSCC for provision of service to its customers outside Mainland China. Meanwhile, the Group may also increase its revenue by providing the transponder service outside Mainland China to CSCC under the CCT Agreement.

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Telecommunication value-added service and other related professional and management services are essential value-added telecommunication services which can help the Group and CSCC to provide solution-based services to their respective end-user customers thereby increasing the competitive edges and synergic effect for both the Group and CSCC in market competition.

We understand from the Management that (i) the Company and CSCC (and/or its associates (other than the Company or its subsidiaries)) (the “**CSCC Group**”) have maintained a stable long-term positive business relationship over 20 years’ for cooperation in the provision of certain transponder, telecommunication value-added and other related professional and management services in Mainland China and markets outside of Mainland China; (ii) the CSCC Group has complementary capabilities to the Group’s provision of satellite transponder services, taking into account the operating conditions relating to communication and satellite related business in Mainland China, where the Group may not be able to satisfy the customers’ requirements; and (iii) the Group and the CSCC group are able to make good use of each other’s available transponder capacity in different footprint coverage and transponder specification to meet their respective customers’ requirements in the markets outside of Mainland China.

According to the 2022 Annual Report and the 2023 Interim Report, the income from provision of satellite transponder capacity contributed over 89% of the total revenue for the year ended 31 December 2021, the year ended 31 December 2022 and the six months ended 30 June 2023. Also, CSCC was one of the five largest customers for both the year ended 31 December 2021 and the year ended 31 December 2022 and the aggregate revenue attributable to the Group’s five largest customers was 51% and 55% of the total revenue for the year ended 31 December 2021 and 2022, respectively. Thus, the continuing cooperation between the Group and the CSCC Group will be an important contributor to the Group’s income from provision of satellite transponder capacity.

Having considered (i) the stable long-term business relationship between the Group and the CSCC Group; (ii) the complementary capability from the CSCC Group to the Group’s provision of satellite transponder services in Mainland China; (iii) the competitive strength and synergic effect for both the Group and CSCC in market competition by making good use of each other’s provision of transponder services, as well as telecommunication value-added service and other related professional and management services; and (iv) the income from the provision of transponder capacity contributed over 89% of the total revenue and the CSCC as one of the five largest customers, who in aggregate contributed over 50% of the total revenue for the year ended 31 December 2021 and 2022, respectively, we concur with the view of the Directors that the transactions contemplated under the CCT Agreement will strengthen the benefits of synergy between the parties and are in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

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III. Terms of the CCT Agreement

Set out below is a summary of the principal terms of the CCT Agreement. Details of the conditions and principal terms of the CCT Agreement are referred to the section heading “The CCT Agreement” in the “Letter from the Board”.

- Date:** 28 September 2023
- Parties:** (1) The Company
(2) CSCC
- Duration:** From 1 January 2024 to 31 December 2026, subject to renewal by negotiation between the parties
- Services provided:** (1) Company’s Satellite Services

Based on the actual requirements of CSCC and/or its associates, the Company or its subsidiaries shall use its satellite resources, telecommunication facilities and industry experience to provide the following services of the Group to CSCC and/or its associates: (i) satellite transmission service, (ii) value-added service for satellite telecommunication; and (iii) other related professional and management services for satellite and telecommunication, including but not limited to consultancy services in relation to satellite project construction, services in relation to orbital position coordination and licensing services for use of orbital position and communication equipment and facilities.

- (2) CSCC’s Satellite Services

Based on the actual requirements of the Company or its subsidiaries, CSCC and/or its associates shall use its satellite resources, telecommunication facilities and industry experience to provide the following services of CSCC and/or its associates to the Company or its subsidiaries: (i) satellite transmission service, (ii) value-added service for satellite telecommunication; and (iii) other related professional and management services for satellite and telecommunication, including but not limited to consultancy services in relation to satellite project construction, services in relation to orbital position coordination and licensing services for use of orbital position and communication equipment and facilities.

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Service fees and pricing basis:

The Company (or its subsidiaries) and/or CSCC (or its associates) shall enter into Specific Contract(s) which set out the specific terms including the technical requirements or service fees in accordance with the guidelines set out in the CCT Agreement.

Service fees payable for (a) the use of the Company's Satellite Services provided by the Company or its subsidiaries to CSCC and/or its associates; or (b) the use of the CSCC's Satellite Services provided by CSCC and/or its associates to the Company or its subsidiaries and the commercial terms in the Specific Contracts shall be determined:

- (i) based on market-oriented, fair and reasonable principles;
- (ii) based on normal commercial terms or better; and
- (iii) in accordance with the Company's or CSCC's (as the case may be) prevailing pricing policy or CSCC's or the Company's (as the case may be) prevailing procurement policy.

Condition and other principal terms:

The CCT Agreement is conditional upon the approval by the Independent Shareholders at the SGM. It will take effect as from 1 January 2024 and will expire on 31 December 2026, subject to negotiation for renewal by both parties.

If any Specific Contracts amount to related party transactions of CSCC under the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the entering into of such Specific Contracts will be further subject to any necessary approval of the board of directors and/or the shareholders of CSCC from time to time.

Our view

The CCT Agreement will continue to serve as a master agreement in respect of the Company's Satellite services and CSCC's Satellite Services during the term of the CCT Agreement. We have compared the CCT Agreement with the Existing Satellite Transmission and Communication Services Master Agreement and noted that other than extending the term of the CCT Agreement for a further term of three years, the other terms of the CCT Agreement, including the governing mechanism, remain similar to the original terms of the Existing Satellite Transmission and Communication Services Master Agreement.

In addition to the reasons and benefits as disclosed in the section under "II. Reasons for and benefits of entering into the CCT Agreement", entering into the CCT Agreement enables both the Group and the CSCC Group to maintain the provision of services to current customers instead of rendering the operation of both the Group and the CSCC Group being adversely affected.

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We understand that the Group is providing services similar to the Company's Satellite Services to independent third parties. We have obtained and reviewed 11 Specific Contracts regarding the provision of Company's Satellite Services entered into between the Group and the CSCC Group in accordance with the Existing Satellite Transmission and Communication Services Master Agreement during its term (the "**Past Sales Specific Contracts**"), covering (i) the satellite transponder services; and (ii) the telecommunication value-added service and other related professional and management services including the gateway station services, telemetry, tracking and control services (TT&C). Since the Past Sales Specific Contracts cover all the satellite services in specific satellite and specific band and all kinds of telecommunication value-added services and other professional and management services which have procured from the Group by the CSCC Group under the Existing Satellite Transmission and Communication Services Master Agreement, we are of the view that such Past Sales Specific Contracts we have obtained and reviewed are representative exhaustive samples.

We noted from the Management that for the satellite transponder services and the colocation services under the telecommunication value-added services, the price of Company's Satellite Services to the CSCC Group are in line with the Unit Price (which has been defined below under the section under "IV. Internal control measure"), save as the situations that the services price of the Company's Satellite Services may be lower than the pre-agreed range of Unit Price, after the Directors having considered the complex factors as mentioned in the section headed "IV. Internal control measures" to assess the benefits from such situations. We have assessed such arrangement under the situations where the services price of the Company's Satellite Services below the pre-agreed range of Unit Price in the section headed "IV. Internal control measures" also.

We noted that there were also situations where the Independent Third Parties procured services from the Company below the pre-agreed range of Unit Price during the period which falls within the same term of the Existing Satellite Transmission and Communication Services Master Agreement. Since (i) the pricing policy (including the Unit Price) is applied to both the CSCC Group and the Independent Third Parties, (ii) the Company assigned specific delegate of authority (i.e. senior management from different department) to approve such contracts after evaluating and weighing a complex set of factors in the circumstances of the cases as mentioned in the section "IV. Internal control measures"; (iii) according to the annual report of the Company for the year ended 31 December 2021 and 2022, respectively, the independent non-executive directors confirmed that the terms under the continuing connected transactions between the CSCC Group and the Group were no less favorable to the Group than terms available from independent third parties; and (iv) according to the annual report of the Company for the year ended 31 December 2021 and 2022, BDO Limited, the qualified auditor of the Company, confirmed that the continuing connected transactions between the CSCC Group and the Group were in all material respects in line with the pricing policy of the Group and in accordance with the Existing Satellite Transmission and Communication Services Master Agreement, we are of the view that such arrangement is in line with the Company's internal control policy.

From the comparison perspective, we have discussed with the Company and noted that that there are certain customers who are in the same region procured the same satellite services in respect of the same band of the same satellite and same colocation services (under telecommunication value-added services) from the Company with those Company's Satellite

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services to the CSCC. For comparison purpose, we have reviewed 16 contracts entered into between the Group and the independent third parties for the provision of similar satellite transponder services by the Group and telecommunication value-added services in respect of colocation services in the same region effective from the period within the term of the Past Sales Specific Contracts (the “**Comparable Sales Contracts**”), where the selection criterion is (i) the same serving satellite with equivalent band under the satellite transponder services; and/or (ii) the colocation services under the telecommunication value-added services of the Company’s Satellite Services provided to the CSCC Group, which were also procured by other independent third parties, for the year ended 31 December 2021, 2022 and the six months ended 30 June 2023. We noted from the Company that pursuant to our selection criteria, the 16 Comparable Sales Contracts as provided to our review is sufficient to comprise an exhaustive representative list of Comparable Sales Contracts for comparable purpose.

After reviewing the Past Sales Specific Contracts and the Comparable Sales Contracts, we noted that (i) the essential terms of both the Sales Specific Contracts and the Comparable Sales Contracts are materially similar, including but not limited to the details of service provision, the payment terms and the terms of credit allowance to the customers in the event of service interruption bore by the Group; (ii) the services fees quoted under both the Past Sales Specific Contracts and the Comparable Sales Contracts are in line with the Group’s pricing policy; and (iii) the daily credit allowance bore by the Group for the compensation of the service interruption under the Past Sales Specific Contracts to the CSCC Group ranging from 0% to 100% is not more favorable than the daily credit allowance ranging from 0% to 150% under the Comparable Sales Contracts to the independent third parties.

We have reviewed the internal approval records in relation to the Past Sales Specific Contracts entered into between the Group and the CSCC Group, and the Comparable Sales Contracts entered into between the Group and the independent third parties. According to such internal approval records, we noted that both the Past Sales Specific Contracts and the Comparable Sales Contracts were reviewed and approved by, among others, responsible managers of relevant departments and the head of business support department, in line with the internal control policy of the Group.

Given that the (i) the terms under the Past Sales Specific Contracts were not less favourable to the Group than those under the Comparable Sales Contracts; (ii) the Past Sales Specific Contracts in accordance with the Existing Satellite Transmission and Communication Services Master Agreement were in line with the pricing policy and internal control policy of the Group; and (iii) the essential terms of the CCT Agreement are similar to those of the Existing Satellite Transmission and Communication Services Master Agreement, we are of the view that the CCT Agreement is on normal commercial terms, which stipulates the certainty of terms as the continuation of the Existing Satellite Transmission and Communication Services Master Agreement, as well as sets out the agreed mechanism of the consideration for the Company’s Satellite Services under continuing connected transactions between the CSCC Group and the Group.

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We have discussed with the Management, and understand that the Group will procure the CSCC's Satellite Services in two circumstances: (i) For the first circumstance, since the Group possesses more sale channels in different regions save as the Mainland China than CSCC Group, when the Group receives the specific demand from the end-user customers, who designate the technical specification under the CSCC's Satellite Services, the Group will procure the CSCC's Satellite Services directly for the customers as requested by them. Since such end-user customers approach the Group in respect of the provision of CSCC's Satellite Services, the Group will not approach other independent third parties for the quotation, who may provide the similar services as CSCC Group but will not meet the customers' specific request for the technical specifications under CSCC's Satellite Services; (ii) For the second circumstance, when the Group receives tender invitation or potential demand enquiries from the customers, during the discussion with the customers, the Group will recommend the CSCC's Satellite Services to them if the Group's sources of services is not sufficient to meet the customers' demands. In such case, the Group will not procure the similar satellite services from independent third parties since they are the competitors in the same market, and it is less likely that the Group can obtain a more favourable or normal price from them than the price that these independent third parties provide to the customers directly. Further, in order to obtain quotations from satellite services providers, the Group is required to provide specific information of the Group's customers. Since the Group has to secure its customer base as well as protecting its own interest, it is difficult for the Group to obtain quotations from other independent third parties for the services similar to the CSCC's Satellite Services.

We noted that to ensure that the pricing terms charged by CSCC Group is market-oriented, fair and reasonable and on normal commercial terms, if CSCC is the only qualified service provider which can meet the requirements of the Group's customers taking into account the factors aforesaid, the prices of the CSCC's Satellite Services will be determined on arm's length negotiation by the parties and generally subject to a net profit margin of not less than 4%, which is applied to all services prices, including the contracts with CSCC Group as well as with independent third parties and in line with common practice in the satellite industry. Also, there may be rare situations that such net profit margin will be justified to lower than 4% after negotiation with the customers, where the directors having considered other factors, including but not limited to the benefit from customer retentions, market shares development or brand reputations enhancement outweigh the temporary net profit margin of lower than 4% initially. The procurement policy of the Group will be applied to the procurement from both the CSCC Group and the independent third parties.

We have obtained and reviewed six Specific Contracts regarding the provision of CSCC's Satellite Services entered into between the Group and the CSCC Group in accordance with the Existing Satellite Transmission and Communication Services Master Agreement during its term (the "**Past Procurement Specific Contracts**"), covering (i) the satellite transponder services; and the (ii) telecommunication value-added service and other related professional and management services. We are of the view that such Past Procurement Specific Contracts is sufficient to comprise an exhaustive representative set of samples considering the services procured by the Group from the CSCC Group during the term of the Existing Satellite Transmission and Communication Services Master Agreement. We have also reviewed the internal control approval records of such Past Procurement Specific Contracts, and noted that they were reviewed and approved by, among others, the responsible managers of relevant departments, the head of business support department before the signing, which is in line with the procurement policy and the internal control policy of the Group.

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We understand that from the Management that, the payment terms of the Past Procurement Specific Contracts were negotiated between the parties before signing, provided that the payment terms shall be no less favourable to the Group than the terms offered by independent third parties for providing the same or similar services to the Group of the period. The head of business support department is responsible for reviewing the payment terms to ensure that payment terms in the Specific Contract are determined on the above basis. All factors including payment terms, contract price, technical requirements, and specific provisions will be taken into consideration integrally for determining the commercial terms of such Past Procurement Specific Contracts were reviewed separately.

Given that (i) the two circumstances as mentioned above illustrate that it is not practicable for the Group to obtain the quotations from the independent third parties for the technical specifications under the CSCC's Satellite Services; (ii) for the first circumstance as mentioned above, whenever the end-user customers designate the CSCC's Satellite Services via the Group, the prices accepted by end-user customers indicate that such procurement price for the CSCC's Satellite Services is market-oriented, fair and reasonable, and acceptable to the end-user customers as reasonable persons by comparing with the services prices available in the market; (iii) for the second circumstance as mentioned above, among the market competition with the independent third parties, if the customers at the end choose the Group together with the CSCC's Satellite Services, it can be indicated that such procurement price for the CSCC's Satellite Services by the Group accepted by the customers as reasonable persons is also market-oriented, fair and reasonable; (iv) the Past Procurement Specific Contracts in accordance with the Existing Satellite Transmission and Communication Services Master Agreement were in line with the procurement policy and internal control policy of the Group; and (v) the essential terms of the CCT Agreement as the continuation of business relationships are similar to the Existing Satellite Transmission and Communication Services Master Agreement, we are of the view that the terms under the CCT Agreement are on normal commercial terms, which stipulates the certainty of terms as the continuation of the Existing Satellite Transmission and Communication Services Master Agreement, as well as sets out the agreed mechanism of the consideration for the CSCC's Satellite Services under continuing connected transactions between the CSCC's Group and the Group.

IV. Internal control measures

As stated in the "Letter from the Board", the Company's prevailing pricing policy will be reviewed regularly and if necessary to ensure that it is consistent with market-oriented, fair and reasonable principles. Determination of the service fees in respect of the provision of the Company's Satellite Services by the Group to CSCC or its associates shall comply with the internal control procedures of the Company to ensure that the agreed price and the terms must be in accordance with normal commercial terms or better and are no less favourable to the relevant member(s) of the Group than those available to independent third parties.

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For the satellite services and telecommunication value-added services in respect of colocation services, the basis for formulating pricing policy of the Company derives from considering market trends and current average price of the satellite service gathered from different market channels including end-users, exhibitions, reports and related vendors from satellite industry as well as sales department of the Company. The Company, taking into account prevailing market price for such relevant service from the industry report, exhibitions and forum attended together with the Group's services price, the historical prices of similar services provided by the Company and the price trend for the past three years to both the CSCC Group and the independent third parties, current transponder utilization rate and service cost of the Company, derives an average standard unit price per month (the "Unit Price") for each of the applicable service of the Group on a regular basis and applies the Unit Price as a reference in determining the service fees for provision of satellite transmission services and telecommunication value-added services provided from the Group's own resources (such as transponder services, Multiple Channels Per Carrier services, teleport services and colocation services) (regardless of whether the customer is a connected party or not). We are of the view that such Unit Price derived on a regular basis after taking into account of the most available reasonable period of prices provides certainty, consistency and the need for adaptability and flexibility for the services price of the Group.

According to the Management, for the telecommunication value-added services (other than the colocation services) and related professional and management services, there is no basis to compute a standard unit price for each type of service, since projects are distinct and requirements are not similar. The Company applies two pricing strategies to decide such prices:

- (a) cost-plus pricing. For the services procured from other parties and CSCC, services in relation to the use of communication equipment and facilities, operation of teleport stations, telemetry, tracking and control of satellites and technical support services, the Company decides the price based on the cost of products and services and a net profit margin of not less than 4%; and
- (b) value-based pricing. For the unique services and those involving the case of intangible assets provided by the Company, such as licensing services for use of orbital slot and frequency, the Company decides the price based on the perceived value in current market.

The Unit Price is regulated by the pricing policy of the Company. The pricing policy is reviewed annually by the Company. For each year, the staff in-charge from the business support department of the Group will calculate an average standard unit price per month and submit a preliminary proposal of Unit Price with reference to the previous pricing policy and the market conditions to the Company for review and approval. The Company will have meeting in each year to analyse and discuss the proposed pricing policy prepared by the business support department, based on certain evaluation criteria including the regional market conditions, the business trend and the development strategy plan of the Company. After the Unit Price is approved by the Company, the new pricing policy with new Unit Price will be released and applied within the Company. The staff in charge from the business support department is responsible for checking whether the Unit Price has been properly adhered to for each contract the Company intends to sign. In case where any contract unit price is lower than the pre-approved range under the pricing

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policy, pursuant to delegation of authority adopted by the Company, the contract will be examined and approved by the corresponding persons in charge, if the benefits from the aspects including but not limited to the potential demand from such customers, the market exploration and market shares occupation, and the brand reputation development will make up and outweigh the loss in such difference between the actual contract price and the pre-approved range.

We noted from the Management that there are situations where the unit price is below the pre-approved price range under the Existing Satellite Transmission and Communication Services Master Agreement and such cases are approved by considering the aforementioned factors. The transaction amount where the CSCC Group procured at the price lower than the pre-approved range was approximately HK\$59.4 million, HK\$93.2 million and HK\$76.9 million for the year ended 31 December 2021, the year ended 31 December 2022 and the nine months ended 30 September 2023, respectively, accounting for approximately 16.1%, 23.6% and 29.5% of the total transaction amounts of the Company's Satellite Services provided to CSCC Group for the corresponding periods. The increase in the percentage was primarily due to the end-user customers of the CSCC Group requested for lower prices due to the COVID-19 pandemic. We are of the view that it is common market strategy for different industry market practitioners whenever considering the principal businesses' development and continuity by lowering certain unit price in order to gain much more potential benefits from the market in near future. We are of the view that this mechanism provides certain flexibility for the Group regarding the market exploration and development after considering complex factors.

The services fees for the Company's Satellite Services are determined after the parties have negotiated the terms and conditions of the Specific Contract, making reference to the market price, historical services fees of similar services provided to CSCC and the service fees of the same or similar services provided to independent third parties (if any) in the same region to ensure that the services fees offered to CSCC and/or its associates is no less favourable to the Group than those available to independent third parties for the same or similar services in the same region.

In light of the abovementioned, we are of the view that the procedures for determining the Unit Price is in normal practice and the Unit Price is consistent with the market conditions. As such, we concur with the Management that using the Unit Price as a reference in determining the service fees payable for the use of the Transponder Service shall be on normal commercial terms or on terms which are no less favourable to the Group. Besides, based on our analysis regarding the terms of the CCT Agreement in section "III. Terms of the CCT Agreement", we are also of the view that the pricing policy as well as the internal procedures in respect of the service fee, specific provisions and the payment terms are sufficient to safeguard the Company's and the Shareholders' interest as a whole.

As stated in the "Letter from the Board", the Company has adopted the following internal procedures to ensure the procurement contracts are properly reviewed and approved (the "**Procurement Policy**"):

- (i) the staff in-charge is required to ensure that the proposed procurement of services and goods meet the technical specifications of the Company's customer; relevant departments are responsible for reviewing the payment terms of the procurement contract, prices or fees proposed compared to the respective budget of the Company, legal terms and content of the procurement contract;

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- (ii) the head of business support department is responsible for reviewing the terms and conditions of the procurement contract to ensure that the same are in line with normal market practices and the standard terms are no less favourable to the Company than those available from independent suppliers, based on certain evaluation criteria of supplier(s), including quality of the services or goods, the prices, reputation, experience, financial soundness, and post-sale services or support provided; and
- (iii) the procurement contract will be finally reviewed and approved by the head of the department which requires the procurement and further approved by the vice president of the department and president in the event that the procurement amount has exceeded specified amount (the “**Specified Amount**”), being (i) HK\$1,000,000 to less than HK\$10,000,000 for approval by vice president of the department, and (ii) not less than HK\$10,000,000 for approval by vice president of the department and the president. In case when the procurement amount is below the Specified Amount, the procurement contract will only be examined and approved by the head of the department which requires the procurement. The Specified Amount of the procurement is regulated by the current authority of delegation policy of the Company as approved by the Board.

As stated in the “Letter from the Board”, under normal circumstances, the parties shall also agree the payment terms based on the principle of fairness and reasonableness and on normal commercial terms in the Specific Contract(s). Such payment terms may include monthly, quarterly or annual payments or lump-sum payment arrangements.

We have reviewed the procurement policy relating to sales business and non-selling business of the Group, and noted that the Group has implemented the procurement policy by different procedure for different situations, subject to the nature and the types of products/services to be procured by the Group, and establishes specific standard to assess the qualified suppliers and stipulates the specific departments’ senior management and department heads including but not limited to the business supporting department, finance department and legal departments to approve such procurement.

As mentioned in the section “III. Terms of the CCT Agreement”, we have reviewed the Past Procurement Specific Contracts under the Existing Satellite Transmission and Communication Services Master Agreement and noted that they are in line with the procurement policy as well as the internal procedures in respect of the service fee, specific provisions and the payment terms are sufficient to safeguard the Shareholders’ interest as a whole.

In respect of the internal control system of the Group, we have reviewed the internal control policy of the Group and noted that save as the pricing policy, procurement policy and the internal control approval procedures as mentioned above, the Group has also maintained the assigned internal control procedure for the continuing connected transaction as follows:

- (i) the business support department shall keep updating the statistics of the cumulative transaction amounts regarding the continuing connected transactions for the respective year, regardless whether the contractual amounts shall be collected at the time of conducting and reviewing such statistics;

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- (ii) the risk management department shall verify the results of statistics on the cumulative transaction amounts provided by the business support department, and notify the company secretary to arrange the resolution of the issues once any early warnings, abnormalities or irregularities occurred; and
- (iii) the staff in the sales department shall provide the information as needed from the company secretary regarding the customers and the transaction contemplated here.

As such, we concur with the view of the Directors' that prevailing pricing policy and procurement policy are consistent with market-oriented, fair and reasonable. The internal control procedures and mechanism of the Company are adequate and fair and in the interests of the Shareholders as a whole.

We also noted from the annual report of the Company for the year ended 31 December 2021 and 2022 Annual Report that the independent non-executive Directors of the Company (the "**Independent Non-executive Directors**") had reviewed the continuing connected transactions under the Existing Satellite Transmission and Communication Services Master Agreement, and confirmed that:

- (i) these continuing connected transactions have been entered into under the usual and ordinary course of business of the Group;
- (ii) these continuing connected transactions have been conducted either on normal commercial terms; or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available from independent third parties; and
- (iii) these continuing connected transactions have been entered into in accordance with the Existing Satellite Transmission and Communication Services Master Agreement governing them on terms that were fair and reasonable and in the interests of the Shareholders as a whole.

Further, according to the annual report of the Company for the year ended 31 December 2021 and the 2022 Annual Report, the Directors have received a letter from the auditor of the Company, BDO Limited, which was engaged to report on the Group's continuing connected transactions under the Existing Satellite Transmission and Communication Services Master Agreement in accordance with Hong Kong Standard on Assurance Engagements 3000 (revised) "Assurance Engagements other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules" both issued by the Hong Kong Institute of Certified Public Accountants. BDO Limited has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions under the Existing Satellite Transmission and Communication Services Master Agreement disclosed by the Group and which has been provided by the Company to the Stock Exchange in accordance with Listing Rules 14A.56 where confirming such continuing connected transactions under the Existing Satellite Transmission and Communication Services Master Agreement: (i) have been approved by the Board of Directors; (ii) were in all material respects, in accordance with the pricing policies of the Group; (iii) were in all material respects, in accordance with the relevant agreement governing them; and (iv) have not exceeded the respective caps set out above for the year ended 31 December 2021 and 2022, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On the basis that (i) the CCT Agreement is an extension of the Existing Satellite Transmission and Communication Services Master Agreement for a further three years ending 31 December 2026 and has similar principal terms (save for the term of the CCT Agreement), including the governing mechanism, which were approved by the then independent Shareholders; (ii) prevailing pricing policy and Procurement Policy are consistent with market-oriented, fair and reasonable principles and the internal control procedures and mechanism of the Company are adequate; (iii) the principal terms under the Past Sales Specific Contracts are not less favourable to the Group than those under the Comparable Sales Contracts; (iv) the reasons for procurement of the CSCC's Satellite Services and the basis of determination of the terms for the provision of the CSCC's Satellite Services; (v) the internal control policy and the procedure as implemented by the Group assigned for the continuing connected transactions; and (vi) the Independent Non-executive Directors and BDO Limited confirmed on the relevant compliance in respect of the Continuing Connected Transactions in the annual of the Company for the year ended 31 December 2021 and the 2022 Annual Report, we concur with the Directors' view that the terms of the CCT Agreement with respect to the Company's Satellite Services and CSCC's Satellite Services are on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

V. The Caps

The Non-exempt Continuing Connected Transactions will be subject to the Caps whereby the amount of the Non-exempt Continuing Connected Transactions for each of the three years ending 31 December 2026 shall not exceed the applicable annual amount stated in the "Letter from the Board". In assessing the reasonableness of the Caps, we have discussed with the Management the bases and the underlying assumptions for determining the Caps.

Set out below are (i) the historical transaction amounts in respect of (a) the Company's Satellite Services and (b) the CSCC's Satellite Services for the year ended 31 December 2021, 2022 respectively and the nine months ended 30 September 2023; (ii) the relevant approved caps for the year ended 31 December 2021, 2022 and 2023 respectively under the Existing Satellite Transmission and Communication Services Master Agreement:

The Company's Satellite Services

<i>(HK\$' million)</i>	For the year ended 31 December		For the nine months ended 30 September 2023
	2021	2022	
Approved caps for the corresponding year	530.0	530.0	530.0
Historical transaction amounts for the corresponding year/period	368.3	394.9	260.8
Utilisation rate for the corresponding year/period	69.5%	74.5%	49.2%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The CSCC's Satellite Services

<i>(HK\$' million)</i>	For the year ended 31 December		For the nine months ended 30 September
	2021	2022	2023
Approved caps for the corresponding year	210.0	260.0	310.0
Historical transaction amounts for the corresponding year/period	12.4	23.0	7.3
Utilisation rate for the corresponding year/period	5.9%	8.8%	2.4%

Set out below are the Caps for each of the three years ending 31 December 2026:

<i>(HK\$' million)</i>	For the year ended 31 December		
	2024	2025	2026
Caps in respect of the Company's Satellite Services	518.0	576.0	590.0
Caps in respect of the CSCC's Satellite Services	210.0	280.0	294.0

As stated in the “Letter from the Board”, the above proposed Caps are determined by the Board by reference to (i) the historical transactions amounts of the relevant services of the existing in-orbit satellites of both parties for the past two years and current year; (ii) the value of contracts on hand; (iii) the estimates on service contract value and on the potential growth in demand for satellite transmission services and telecommunication services, including CSCC's new satellite launched; (iv) the increase in satellite transmission services provided by CSCC's associate to the Group after the launch of the APSTAR-6E Satellite in 2023 as it is intended that the Group will act as distributor for the satellite resources of the APSTAR-6E Satellite; (v) the additional professional and management services (such as orbital slot licensing services, satellite telemetry, tracking and control services, hosting services and satellite operation services) to be provided by the Group to CSCC's associate in relation to the APSTAR-6E Satellite; and (vi) the estimates of satellite transmission services and telecommunication services in relation to backup and recovery to the Group's or CSCC's end-user customers under the circumstance of satellite failure or other emergency situation.

For the year ended 31 December 2021, 2022 and the nine months ended 30 September 2023, the actual aggregate transaction amounts in respect of the Company's Satellite Services were approximately HK\$368,256,742, HK\$394,860,673 and HK\$260,775,928 respectively.

For the year ended 31 December 2021, 2022 and the nine months ended 30 September 2023, the actual aggregate transaction amounts in respect of the CSCC's Satellite Services were approximately HK\$12,400,463, HK\$23,025,253 and HK\$7,324,712, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Analysis of the Caps

The Company's Satellite Services

We have reviewed the historical transaction amounts in respect of the Company's Satellite Services, and noted that the historical transaction amounts increased from approximately HK\$368.3 million for the year ended 31 December 2021 to HK\$394.9 million for the year ended 31 December 2022, which was primarily due to the increase in the demand of the Company's Satellite Services by the CSCC Group. The historical Company's Satellite Services Amounts decreased from approximately HK\$394.9 million for the year ended 31 December 2022 to approximately HK\$260.8 million (annualised: HK\$348.7 million) for the year ending 31 December 2023, which was attributable to the decrease in CSCC's demand in the Company's Satellite Services.

In addition, the utilisation rate of the historical caps (the "**Utilisation Rate of the Company's Satellite Services**"), calculated by dividing the respective actual fees paid and the annual caps in the corresponding year, was 69.5%, 74.5% and 49.2% (annualised: 65.8%) for the year ended 31 December 2021, 2022 and the year ending 31 December 2023, respectively.

The Caps in respect of the Company's Satellite Services are HK\$518 million, HK\$576 million, and HK\$590 million for the year ending 31 December 2024, 2025 and 2026, respectively. Based on our review of the forecast aggregate transaction amounts for the Company's Satellite Services (the "**Company's Satellite Services Forecast Amounts**") for the year ending 31 December 2024, 2025 and 2026, respectively, we noted that the Company's Satellite Services Forecast Amounts are determined based on (i) the historical transaction amount under the Existing Satellite Transmission and Communication Services Master Agreement; (ii) the value of the Contracts on Hand; (iii) the additional estimated value from the potential new contracts to be signed (the "**New Contracts**"); and (iv) a buffer of 10% of the contract amounts for the three years ending 31 December 2026 if the denominated currency is RMB.

We have reviewed the calculation working of the Company's Satellite Services' Forecast Amounts and assessed the reasonableness of such calculation as follows.

For the historical transaction amounts of the Company's Satellite Services as analysed above, we are of view that the historical transaction amounts represented the relatively stable demand from the CSCC Group regarding the Company's Satellite Services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also reviewed the breakdown list of value from the contracts on hand by respective years, which is the statistics arrived by the Company in accordance to the signed valid contract with CSCC Group regarding the Company's Satellite Services as of 30 September 2023 and calculated based on the remaining contract value to be contemplated under the latter respective years as set out in the corresponding contracts. It is noted that the value from the Contracts on Hand regarding the Company's Satellite Services is approximately HK\$119.1 million, HK\$65.6 million and HK\$58.6 million for the year ending 31 December 2024, 2025 and 2026, respectively. We noted from the management that majority of contracts between the CSCC Group and the Group will be renewed on yearly basis, and we are of the view that it is reasonable to expect that the value from the contracts on hand regarding the Company's Satellite Services will be much higher when it comes to the year 2024, 2025 and 2026 given that (i) the value from the contracts on hand will be calculated once these contracts are executed and renewed in the year 2024, 2025 and 2026 respectively and (ii) the forecast value for the New Contracts for each of the three years ending 31 December 2026 as mentioned below.

To arrive the Caps regarding the Company's Satellite Services, firstly, the Group will review the historical transaction amounts Existing Satellite Transmission and Communication Services Master Agreement in matrix (i) by different services under the Company's Satellite Services; and (ii) by different CSCC group members under the CSCC Group. We have reviewed the calculation working and noted that for each service under Company's Satellite Services, the company will adopt the highest historical transaction amounts for each service with each CSCC Group member, and based on the available signed valid contracts, if the value from the contracts on hand for such service with such CSCC Group members will be higher than the aforesaid highest historical transaction amounts, the Company will also add such difference to arrive the Caps.

Considering the (i) over-20 year business relationship between the CSCC Group and the Group; (ii) the relatively stable demand from the CSCC Group as demonstrated by the historical transaction amounts of the Company's Satellite Services under the Existing Satellite Transmission and Communication Services Master Agreement; and (iii) as of 30 September 2023, the remaining valid value from the contracts on hand between the CSCC Group and the Group to be contemplated in the future years, and (iv) according to the prior dealings, the majority of contracts regarding the Company's Satellite Services will be renewed every year, we are of the view that it is reasonable to adopt the highest historical transaction amounts under the Existing Satellite Transmission and Communication Services Master Agreement together with increment from the value from the contracts on hand (if any) as one of the calculation elements to arrive the Cap of the Company's Satellite Services.

Secondly, after considering the highest historical transaction amounts under the Existing Satellite Transmission and Communication Services Master Agreement together with any increment from the value from the contracts on hand (if any), the Caps will be further arrived by adding the forecast value for the New Contracts.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the supporting calculation and/or the underlying supporting email records or the agreement of such forecast value for the New Contracts, and noted that such estimated new revenue (as presented with a buffer of 10%) is attributed to (i) the estimated new revenue from the satellite transponder services of approximately HK\$53.9 million, HK\$111.6 million and HK\$119.0 million between the Group and CSCC for each of the three years ending 31 December 2026, primarily due to the new demand from two projects of the CSCC, and one of the which will not be commenced until the second half year of year 2024, rendering the full year estimated new revenue for the year ending 31 December 2025 and 2026 as approximately twice the amount of that for the half year of year 2024; (ii) according to the potential commitment table sent from one of CSCC's associate company to the Group by email, the maximum estimated new revenue from the satellite transponder services of approximately HK\$7.1 million, HK\$7.1 million and HK\$13.7 million to be procured by one of CSCC's associate company for each of the three years ending 31 December 2026; (iii) the estimated new revenue from the telecommunication value-added services and other related professional services of approximately HK\$15.6 million for each of the three years ending 31 December 2026 regarding the additional professional and management services (such as orbital slot licensing services, satellite telemetry, tracking and control services, hosting services and satellite operation services) to be provided by the Group to CSCC's associate in relation to the APSTAR-6E Satellite, which had been launched in 2023, in accordance with the cooperation agreement as signed in 2020.

We understand from the Management that most of the payments under the Group's transponder utilisation agreements are denominated in United States Dollars, while part of the revenue generated from the Mainland China is denominated in RMB. The fluctuation of RMB exchange rate against Hong Kong dollars may adversely affect the Group's operating results. Given the current economic situations of the exchange rate fluctuations between the RMB and the USD, we are of the view that such buffer of 10% of the contract amounts is fair and reasonable.

Having considered the above, we concur with the Directors' view that the respective Caps in respect of the Company's Satellite Services for the three years ending 31 December 2026 have been arrived at on a fair and reasonable basis.

The CSCC's Satellite Services

We note that the actual historical aggregate transaction amounts in respect of the CSCC's Satellite Services (the "**Historical CSCC's Satellite Services Amounts**") increased from approximately HK\$12.4 million for the year ended 31 December 2021 to approximately HK\$23 million for the year ended 31 December 2022, which was mainly due to the increase in demand in the CSCC's Satellite Services from the Group's customers. The Historical CSCC's Satellite Services Amounts decreased from approximately HK\$23 million for the year ended 31 December 2022 to approximately HK\$7.3 million (annualised: HK\$9.7 million) for the year ending 31 December 2023, which was mainly due to the decrease in demand in transponder service from the Group's customers on the CSCC's Satellite Services during the year of 2023.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The utilisation rate of the historical caps (the “**Utilisation Rate of the CSCC’s Satellite Services**”), calculated by dividing the respective actual fees paid and the annual caps in the corresponding year, was 5.9%, 8.8% and 2.4% (annualised: 3.2%) for the year ended 31 December 2021, 2022 and the year ending 31 December 2023, respectively, which was primarily attributable the launch of the APSTAR-6D Satellite since the third quarter of 2020 and the Group has demand from the transponder services from the APSTAR-6D Satellite.

The Caps in respect of the CSCC’s Satellite Services are HK\$210.0 million, HK\$280.0 million and HK\$294.0 million for the year ending 31 December 2024, 2025 and 2026, respectively. Based on our review of the forecast aggregate transaction amounts for the CSCC’s Satellite Services (the “**CSCC’s Satellite Services Forecast Amounts**”) for the year ending 31 December 2024, 2025 and 2026, respectively, we noted that the CSCC’s Satellite Services Forecast Amounts are determined based on (i) the historical transaction amount under the Existing Satellite Transmission and Communication Services Master Agreement; (ii) the value of the Contracts on Hand; (iii) the additional estimated value from the potential new contracts to be signed (the “**New Contracts**”); and (iv) a buffer of 10% of the contract amounts for the three years ending 31 December 2026 taking into account of the probable fluctuation of prices of CSCC’s Satellite Services.

We have reviewed the calculation working of the CSCC’s Satellite Services’ Forecast Amounts and assessed the reasonableness of such calculation as follows.

We understand from the Management that the value of the contracts on hand in relation to the CSCC’s Satellite Services is approximately HK\$4.8 million, HK\$2.2 million and HK\$2.2 million for the year ending 31 December 2024, 2025 and 2026 respectively, which is the statistics arrived by the Company in accordance to the signed valid contract with CSCC Group regarding the CSCC’s Satellite Services as of 30 September 2023 and calculated based on the remaining contract value to be contemplated under the latter respective years as set out in the corresponding contracts. Since the Company resumes the market development plan and it is also expected that there will be increase in demand of CSCC’s Satellite Services in the coming years after Covid-19 Pandemic, we are of the view that it is reasonable to expect that the value from the contracts on hand regarding the CSCC’s Satellite Services will be much higher when it comes to the year 2024, 2025 and 2026.

To arrive the Caps regarding the CSCC’s Satellite Services, firstly, the Group will review the historical transaction amounts Existing Satellite Transmission and Communication Services Master Agreement in matrix (i) by different services under the CSCC’s Satellite Services; and (ii) by different CSCC group members under the CSCC Group. We have reviewed the calculation working and noted that for each service under CSCC’s Satellite Services, the company will adopt the highest historical transaction amounts for each service with each CSCC Group member, and based on the available signed valid contracts, if the value from the contracts on hand for such service with such CSCC Group members will be higher than the aforesaid highest historical transaction amounts, the Company will also add such difference to arrive the Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the historical transaction amounts of the CSCC's Satellite Services as mentioned above, we are of view that, considering (i) the potential value from the contracts on hand upon renewal of the contracts regarding CSCC's Satellite Services at the requests from the end-customers of the Group; and (ii) the expected increasing demand for CSCC's Satellite Services in the coming years as a result of more marketing and sales activities resumed after Covid-19 Pandemic, we are of the view that it is reasonable to adopt the highest historical transaction amounts under the Existing Satellite Transmission and Communication Services Master Agreement together with increment from the value from the contracts on hand (if any) as one of the calculation elements to arrive the CAP of the Company's Satellite Services.

Secondly, after considering the highest historical transaction amounts under the Existing Satellite Transmission and Communication Services Master Agreement together with increment from the value from the contracts on hand (if any), the Caps will be further arrived by adding the forecast value for the New Contracts.

We understand from the Management that the forecast value for the New Contracts (as presented with a buffer of 10%) is attributed to (i) the estimated new procurement amounts of the satellite transponder capacities the CSCC's newly launched satellite of ChinaSat-26 of approximately HK\$20.6 million, HK\$30.9 million and HK\$41.2 million from the CSCC Group for each of the three years ending 31 December 2026; (ii) the estimated new procurement of satellite transponder services for the purpose of backup and recovery from the CSCC Group of approximately HK\$121.3 million, HK\$80.9 million for the two years which is the year ending 31 December 2024 and 2025, respectively; (iii) the estimated new procurement amounts of the satellite transponder capacities of the APSTAR-6D Satellite of approximately HK\$1.6 million and HK\$8.3 million from the CSCC Group for the year ending 31 December 2025 and 2026 respectively. There will be no estimated new procurement amount of the satellite transponder capacities of the APSTAR-6D Satellite projected by the Company for the year ending 31 December 2024, which is mainly due to the estimated procurement of the satellite transponder services is projected as the same as the procurement amount in year ending 31 December 2023; and (iv) the estimated new procurement amounts of the satellite transponder capacities of the APSTAR-6E Satellite of approximately HK\$29.1 million, HK\$123.8 million and HK\$211.5 million from the CSCC Group for each of the three years ending 31 December 2026.

We have discussed with the Management regarding the basis of such forecast value for the New Contracts, and noted that (i) the estimated new procurement amounts of the CSCC Group's newly launched satellite ChinaSat-26 is projected on the expected increase in the average contractual capacity from 1000Mbps to 2000Mbps during the three years ending 31 December 2026 under the Group's development plan; (ii) the estimated new procurement of satellite transponder services for the purpose of backup and recovery from the CSCC Group is based on the possible satellite capacity needed under satellite failure or other emergency situations and the decrease in demand of back-up capacity needs; and (iii) the estimated new procurement amounts of the satellite services of APSTAR-6E satellite which is launched in 2023 is based on the potential demands from customers on this newly launched satellite and the increase in average contractual capacity increasing from 3700Mbps to 10600Mbps and 14900Mbps during the three years ending 31 December 2026. Given in addition to the historical transaction amounts and the increment from value of the contracts on hand (if any), such estimates are based on the Group's prior dealings and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

market development plan in accordance with the market sentiments, we are of the view that the Company is fair and reasonable to arrive such estimate forecast value for the New Contracts by different services needs from different satellites.

As the buffer of 10% of the contract amounts for the three years ending 31 December 2026 taking into account of the probable fluctuation of prices of CSCC's Satellite Services, which is the party to set out their sale prices, we are of the view that as the Group is a purchaser, such buffer of 10% of the contract amounts is fair and reasonable.

Having considered the above, we concur with the Directors' view that the respective Caps for the CSCC's Satellite Services for three years ending 31 December 2026 have been arrived at on a fair and reasonable basis.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the Non-exempt Continuing Connected Transactions and the Caps are in the interests of the Company and the Shareholders as a whole; (ii) the Non-exempt Continuing Connected Transactions are in the ordinary and usual course of business of the Company; and (iii) the terms of the Non-exempt Continuing Connected Transactions are on normal commercial terms, fair and reasonable so far as the Shareholders are concerned.

Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolution to approve the CCT Agreement, the Non-exempt Continuing Connected Transactions and the Caps at the upcoming SGM.

Yours faithfully,
For and on behalf of
Messis Capital Limited

Anderson Wong
Managing Director

Mr. Anderson Wong is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of MESSIS CAPITAL LIMITED to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in corporate finance industry.

1. RESPONSIBILITY

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement contained herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interest of Directors

As at the Latest Practicable Date, interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) of the Directors and chief executive of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the “**Model Code**”), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director/ chief executive of the Company	Nature of Interest	<i>Note</i>	Total number of Shares interested as at the Latest Practicable Date	Approximate percentage of total issued share capital of the Company as at the Latest Practicable Date
Dr. Meng Xingguo (“ Dr. Meng ”)	Interest of spouse	1	438,000	0.05%

Note:

1. Dr. Meng’s wife held 438,000 Shares. Pursuant to the SFO, Dr. Meng was deemed to be interested in the same parcel of Shares held by his spouse.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short position in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed herein, as at the Latest Practicable Date:

- (a) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group taken as a whole; and
- (b) none of the Directors had any direct or indirect interest in any assets acquired or disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, the Company or any of its subsidiaries since 31 December 2022, the date up to which the latest published audited consolidated financial statements of the Group were made.

As at the Latest Practicable Date, none of the Directors was a director or employee of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Save and except that (i) Mr. Wang Hongbin, an executive Director and the President of the Company, is also concurrently the chairman of China Satellite Communications (Hong Kong) Corporation Limited, which is the wholly-owned subsidiary of CSCC, and the director of APT Mobile Satcom Limited (an associate of CASC under Chapter 14A of the Listing Rules); (ii) Mr. Yan Zhao, an executive Director and the Vice President of the Company, is also concurrently the director of APT Mobile Satcom Limited (an associate of CASC under Chapter 14A of the Listing Rules); (iii) Mr. Sun Jing, a non-executive Director and the chairman of the Company, is also concurrently the chairman of CSCC; (iv) Mr. Fu Zhiheng, a non-executive Director, is also concurrently president of China Great Wall Industry Corporation (an associate of CASC under Chapter 14A of the Listing Rules); and (v) Ms. Li Xiaomei, a non-executive Director, is also concurrently a director of Sino Satellite Communications Company Limited, which is the wholly-owned subsidiary of CSCC.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract or a proposed service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective close associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. EXPERT'S QUALIFICATIONS AND CONSENT

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualification
Messis Capital Limited	a corporation licensed under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the Independent Financial Adviser:

- (a) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2022, being the date up to which the latest published audited consolidated financial statements of the Group were made up; and
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they respectively appear.

The letter of advice given by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders was made on 22 November 2023 for incorporation in this circular.

7. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

8. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.apstar.com) for a period of 14 days from the date of this circular:

- (i) the CCT Agreement;
- (ii) the Existing Satellite Transmission and Communication Services Master Agreement;
- (iii) letter from the Independent Board Committee dated 22 November 2023, the text of which is set out on pages 22 to 23 of this circular;
- (iv) letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders dated 22 November 2023, the text of which is set out on pages 24 to 48 of this circular; and
- (v) the consent letter issued by the Independent Financial Adviser referred to in the paragraph headed “Expert’s qualifications and consent” in this appendix.

NOTICE OF THE SPECIAL GENERAL MEETING



亞太衛星控股有限公司*

APT SATELLITE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 1045)

NOTICE IS HEREBY GIVEN that a special general meeting of APT Satellite Holdings Limited (the “**Company**”) will be held at its principal place of business in Hong Kong, 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Thursday, 14 December 2023, at 11:00 a.m. or at any adjournment thereof for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**

- (a) the satellite transmission and communication services master agreement dated 28 September 2023 (the “**CCT Agreement**”) entered into between the Company and 中國衛通集團股份有限公司 (China Satellite Communications Company Limited) (“**CSCC**”) in respect of the provision of satellite transmission service, value-added service for satellite telecommunication and other related professional and management services between the Company and/or its subsidiaries and CSCC and/or its associates, as defined and described in the circular of the Company dated 22 November 2023 (the “**Circular**”), a copy of the Circular marked “A” together with a copy of the CCT Agreement marked “B” being tabled before the meeting and initialled by the chairman of the meeting for identification purpose, and the transactions contemplated thereunder and in connection therewith be and are hereby approved, confirmed and ratified;
- (b) the Caps (as defined in the Circular) for each of the three financial years ending 31 December 2026 as contemplated under the CCT Agreement be and are hereby approved; and
- (c) the directors of the Company be and are hereby authorised to do all such further acts and things and sign, seal, execute, perfect and deliver all such documents on behalf of the Company as they may in their absolute discretion consider necessary, desirable or expedient for the purposes of and in connection with the implementation and/or give full effect to any matters relating to the CCT Agreement and the transactions contemplated thereunder.”

By Order of the Board
APT Satellite Holdings Limited
Lau Tsui Ling Shirley
Company Secretary

Hong Kong, 22 November 2023

* For identification purpose only

NOTICE OF THE SPECIAL GENERAL MEETING

Registered office:

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

Head office and principal place of business:

22 Dai Kwai Street
Tai Po Industrial Estate
Tai Po
New Territories
Hong Kong

Notes:

1. The ordinary resolution to be considered at the special general meeting will be determined by poll pursuant to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited. On voting by poll, each member shall have one vote for each share held in the Company. The results of the poll will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.apstar.com) respectively.
2. A member of the Company who is entitled to attend and vote at the special general meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy. A proxy need not be a member of the Company.
3. A form of proxy for use at the special general meeting is enclosed herewith and such form is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.apstar.com) respectively.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 11:00 a.m. on Tuesday, 12 December 2023 (i.e. 48 hours before the time appointed for holding the special general meeting or any adjourned meeting thereof) and in default thereof the form of proxy shall not be treated as valid.
5. For the purpose of determining the entitlement to attend and vote at the special general meeting, the register of members of the Company will be closed from Monday, 11 December 2023 to Thursday, 14 December 2023 (both days inclusive), during which period no transfer of shares will be effected. Members of the Company whose names appear on the register of members of the Company at the close of business on Friday, 8 December 2023 will be entitled to attend and vote at the special general meeting. In order to be entitled to attend and vote at the special general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, 8 December 2023.
6. Completion and return of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the special general meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. As at the date of this notice, the board of the Company are Mr. Wang Hongbin (President) and Mr. Yan Zhao (Vice President) as Executive Directors; Mr. Sun Jing (Chairman), Dr. Yin Yen-liang, Mr. Fu Zhiheng, Mr. Lim Kian Soon, Mr. Lim Seng Kong, Ms. Li Xiaomei and Mr. Tseng Ta-mon (Alternate Director to Dr. Yin Yen-liang) as Non-executive Directors and Dr. Lam Sek Kong, Mr. Cui Liguang and Dr. Meng Xingguo and Ms. Yim Ka Man as Independent Non-executive Directors.
8. If tropical cyclone warning signal number 8 or above, or a black rainstorm warning signal is in effect any time and remains in force 2 hours before the time of the special general meeting on the date of the special general meeting, the special general meeting will be postponed. The Company will publish an announcement on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.apstar.com) respectively to notify the shareholders of the Company of the date, time and place of the rescheduled meeting.
9. References to time and dates are to Hong Kong time and dates.