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## **APT SATELLITE HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock code: 1045)

### **CONTINUING CONNECTED TRANSACTIONS**

As announced by the Company on 16 April 2009 and 15 September 2009, as a result of the Merger, CSCC has become a wholly-owned subsidiary of CASC and CASC controls over 50% of the issued share capital of APT International, which is the substantial shareholder of the Company. Accordingly, CSCC has become a connected person of the Company under the Listing Rules, and the transactions between the Group and CSCC (including its Associates) on an ongoing basis become continuing connected transactions.

The Board announces that for the purpose of compliance with Chapter 14A of the Listing Rules in respect of continuing connected transactions, the Company has entered into the Transponder Service Master Agreement with CSCC on 10 November 2009. As the proposed Caps for the transactions contemplated under the Transponder Service Master Agreement for the years 2009, 2010 and 2011 exceed the Threshold, these transactions constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the announcement, reporting, annual review and independent shareholders' approval requirements under the Listing Rules.

A circular containing, among other things, the details of the Transponder Service Master Agreement and the proposed Caps, a letter of recommendation from the Independent Board Committee, a letter of advice from the independent financial adviser and a notice convening the SGM, will be despatched to the shareholders of the Company as soon as practicable and within 21 days after publication of this announcement in accordance with the Listing Rules.

### **BACKGROUND**

Reference is made to the April Announcement in relation to, among other things, the Merger. Upon completion of the Merger on 14 September 2009 as announced by the Company on 15 September 2009, CSCC has become a connected person of the Company under the Listing Rules.

The Group has entered, and will continue to enter, into transactions with CSCC or its Associates from time to time in the ordinary and usual course of business of the Group. Such transactions become continuing connected transactions of the Company under the Listing Rules since completion of the Merger on 14 September 2009.

The Board announces that for the purpose of compliance with Chapter 14A of the Listing Rules in respect of continuing connected transactions, the Company has entered into the Transponder Service Master Agreement with CSCC on 10 November 2009.

### **TRANSPONDER SERVICE MASTER AGREEMENT**

Date: 10 November 2009

Parties: The Company; and  
CSCC

Validity of the agreement: From the Effective Date to 31 December 2011, subject to renewal by negotiation between the parties

#### **Services provided**

Subject to the terms and condition of the Transponder Service Master Agreement, the Company and CSCC have agreed to provide to each other (including their respective Associates) services as follows:

1. In the Mainland China market, when the Company is by itself unable to meet the requirements of its customers due to its operating conditions (for instance, in fulfilling market and industry practices in Mainland China), the Company shall provide its satellite transponder capacity on a preferential basis to CSCC, which will then sell and supply to the Company's end-user customers (the "Service In Mainland China"). In this regard, the Company shall undertake the obligation to provide satellite transponder technical support to the end-user customers and CSCC shall undertake all obligations in respect of customer maintenance other than the aforesaid technical support. The Company shall receive service fee from CSCC for the provision of satellite transponder capacity to CSCC.
2. In markets outside Mainland China, when either the Company's or CSCC's own satellite transponder capacity and/or specification is unable to meet the requirements of its end-user customers, it shall give preference to exploit the available satellite transponder of the other party for provision of service to the end-user customers (the "Service Outside Mainland China"). In this regard, the party which provides the satellite transponder shall undertake the obligation to provide satellite transponder technical support to the end-user customers and the other party shall undertake all obligations in respect of customer maintenance other than the aforesaid technical support. The Company shall receive service fee from CSCC when it provides the Service Outside Mainland China to CSCC. Likewise, the Company shall pay service fee to CSCC when it procures the Service Outside Mainland China from CSCC.

Any agreements in relation to satellite transponder service which were signed between the Company (or its Associates) and its customers, or between CSCC (or its Associates) and its customers, prior to the date of signing of the Transponder Service Master Agreement and which remain legally binding during the term of the Transponder Service Master Agreement shall not be bound by the Transponder Service Master Agreement.

### **Transaction amounts, pricing basis and settlement**

Pursuant to the Transponder Service Master Agreement, the Company and CSCC shall enter into specific contracts, orders or confirmation documents which set out the specific terms including the satellite specifications and other technical requirements, or specific service standards for satisfying the end-user customers' requirements, and such terms must be based on the principle of fairness and reasonableness and must not contravene the terms of the Transponder Service Master Agreement.

Under the Transponder Service Master Agreement, the service fees for the use of satellite transponder shall be determined based on market-oriented, fair and reasonable principles and by mutual agreement between the two parties in accordance with the Company's prevailing pricing policy and procurement policy, and shall be settled in cash.

If at the time of signing the Transponder Service Master Agreement, the Company has already signed satellite transponder capacity contracts or related service contracts with its customers and cannot continue its contractual obligations due to any change in operating conditions as aforesaid and CSCC agrees to continue to provide the service to such customers on behalf of the Company on the same terms (including the service fees) in accordance with the signed contracts, the Company shall pay CSCC customer maintenance fee. Such customer maintenance fee shall be agreed between the Company and CSCC based on the specific terms of the relevant contracts but shall not exceed 4% of the remaining value of the relevant contracts. Such customer maintenance fee, together with the related tax levy in China arising from CSCC continuing to provide service to the end-user customers on behalf of the Company, shall be deducted from the relevant transponder service fee payable by CSCC to the Company under the Transponder Service Master Agreement. Based on estimates by the Company and CSCC, the total amount of customer maintenance fee payable by the Company to CSCC on an annual basis is expected to be approximately US\$61,000, US\$62,000 and US\$30,000 (equivalent to approximately HK\$476,000, HK\$484,000 and HK\$234,000) for each of the years 2009, 2010 and 2011, respectively. As the applicable percentage ratios (as defined under the Listing Rules) in respect of the amount of such customer maintenance fee on an annual basis is expected to be either less than 0.1% or less than 2.5% and HK\$1,000,000, the transactions in respect of such customer maintenance arrangement are exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Payment for services rendered under the Transponder Service Master Agreement shall be settled on normal commercial terms which may include monthly, quarterly or annual payments or lump-sum payment arrangements.

Based on estimates by the Company and CSCC, (i) the aggregate transaction amounts in respect of the Service In Mainland China rendered under the Transponder Service Master Agreement for the years 2009, 2010 and 2011 shall be US\$25,000,000, US\$28,500,000 and US\$29,500,000, respectively; (ii) the aggregate transaction amounts in respect of the Service Outside Mainland China rendered by the Company to CSCC under the Transponder Service Master Agreement for the years 2009, 2010 and 2011 shall be US\$600,000, US\$1,800,000 and US\$2,400,000, respectively; and (iii) the aggregate transaction amounts in respect of the Service Outside Mainland China rendered by CSCC to the Company under the Transponder Service Master Agreement for the years 2009, 2010 and 2011 shall be US\$900,000, US\$3,400,000 and US\$3,400,000, respectively.

### **Condition and other principal terms**

The Transponder Service Master Agreement shall take effect after approval by the Independent Shareholders at the SGM and will expire on 31 December 2011, subject to negotiation for renewal by both parties.

Both parties have warranted (i) to provide services to the other party and/or its Associates; and (ii) to pay the other party and/or its Associates the transponder service fees, customer maintenance fees and tax levy in accordance with the terms of the Transponder Service Master Agreement.

Both parties have also undertaken to provide service assurance to the end-user customers in respect of the relevant satellite transponder technology and to indemnify each other for any compensation (including, but not limited to, compensation for interruption, default or other duty), responsibility and expenses arising from the other party's failure to perform its obligation to provide satellite transponder technical support to the end-user customers or any other obligations under the Transponder Service Master Agreement. The specific provisions in respect of the undertaking will be set out in the specific service contracts, orders or confirmation documents which shall be based on the principle of fairness and reasonableness and on normal commercial terms.

## PROPOSED CAPS

The Board proposes to set the Caps, i.e. the maximum annual aggregate value, in respect of the provision of the Service In Mainland China pursuant to the Transponder Service Master Agreement for the years 2009, 2010 and 2011 as follows:

	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Aggregate transaction amount in respect of the provision of the Service In Mainland China by the Group to CSCC (or its Associates)	25,000	28,500	29,500
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Proposed Caps</b> <b>(Based on US\$1 = HK\$7.80 for reference purpose)</b>	<b>195,000</b>	<b>222,300</b>	<b>230,100</b>

The above proposed Caps are determined by the Board by reference to (i) the historical transaction amount of the relevant service, including the assignment of satellite transponder agreements as a result of the termination of APSTAR 2R in July 2009; (ii) the value of contracts on hand; and (iii) the estimates on service contract value and on the potential growth in demand for satellite broadcasting services and telecommunication services by the Group's end-user customers in Mainland China.

For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the actual aggregate transaction amounts in respect of the provision of the Service in Mainland China by the Group to CSCC (or its Associates) were approximately HK\$16,309,000, HK\$12,471,000, HK\$11,432,000 and HK\$26,029,000 (unaudited), respectively. Based on existing customer contracts on hand, the Company estimates that, subject to Independent Shareholders' approval of the Transponder Service Master Agreement, the total value of existing customer contracts that shall be transferred to CSCC due to change in operating conditions (for instance, in fulfilling market and industry practices in Mainland China) and be continued by CSCC on behalf of the Company before the end of 2009 shall be approximately US\$20.6 million (approximately HK\$161 million). CSCC shall receive customer maintenance fee from the Company for continuation of these contracts, details of which are described under the sub-section headed "Transaction amounts, pricing basis and settlement" above.

The Board proposes to set the Caps in respect of the provision of the Service Outside Mainland China pursuant to the Transponder Service Master Agreement for the years 2009, 2010 and 2011 as follows:

	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Aggregate transaction amount in respect of the provision of the Service Outside Mainland China by the Group to CSCC (or its Associates)	600	1,800	2,400
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Proposed Caps</b> <b>(Based on US\$1 = HK\$7.80 for reference purpose and rounded up to the nearest HK\$100,000)</b>	<b>4,700</b>	<b>14,100</b>	<b>18,800</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Aggregate transaction amount in respect of the provision of the Service Outside Mainland China by CSCC (or its Associates) to the Group	900	3,400	3,400
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Proposed Caps</b> <b>(Based on US\$1 = HK\$7.80 for reference purpose and rounded up to the nearest HK\$100,000)</b>	<b>7,100</b>	<b>26,600</b>	<b>26,600</b>

The above proposed Caps are determined by the Board by reference to (i) the potential growth in demand for satellite broadcasting services and telecommunication services by the Group's end-user customers in markets outside Mainland China; (ii) the satellite transponder capacity of the Group for its international business; and (iii) the satellite transponder capacity of CSCC in markets outside Mainland China.

For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, there had not been any transactions in respect of the provision of the Service Outside Mainland China between the Company and CSCC (and their respective Associates). Based on discussion between the Company and CSCC, it is expected that the provision of the Service Outside Mainland China by CSCC to the Company, or vice versa, may commence by the end of 2009.

## **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 service.

## **INFORMATION ON CSCC**

Upon completion of the Merger on 14 September 2009, CSCC has become a wholly-owned subsidiary of CASC, which is a State-owned corporation and is principally 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.

## **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 they each possess 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 Service Outside Mainland China to CSCC under the Transponder Service Master Agreement.

The arrangements under the Transponder Service Master Agreement are expected to enable the Group to strengthen its business relationship with its end-user customers through CSCC as well as exploring new business opportunities in the Mainland China market. In markets outside Mainland China, the Group may also expand its revenue stream by exploitation of the available satellite transponder capacity of CSCC or provision of its own satellite transponder capacity to CSCC.

The transactions between the Group and CSCC (and its Associates) have been, and are expected to be, conducted in the ordinary and usual course of business of the Group and on normal commercial terms. The Directors (excluding the independent non-executive Directors whose view will be formed after considering the advice of the

independent financial adviser) are of the view that the transactions contemplated under the Transponder Service Master Agreement are in the interests of the Company and its shareholders as a whole and are on normal commercial terms, and the proposed Caps are fair and reasonable.

## **LISTING RULES REQUIREMENTS**

Following completion of the Merger on 14 September 2009, CSCC has become a connected person of the Company under the Listing Rules and the transactions between the Company and CSCC on an ongoing basis constitute continuing connected transactions under the Listing Rules. For the purpose of compliance with Chapter 14A of the Listing Rules in respect of continuing connected transactions, the Company has entered into the Transponder Service Master Agreement with CSCC on 10 November 2009. As the proposed Caps for the transactions contemplated under the Transponder Service Master Agreement for the years 2009, 2010 and 2011 exceed the Threshold, these transactions constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the announcement, reporting, annual review and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising the independent non-executive Directors has been appointed to consider the terms of the Transponder Service Master Agreement and the proposed Caps. An independent financial adviser has also been appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the Transponder Service Master Agreement and the proposed Caps.

A circular containing, among other things, the details of the Transponder Service Master Agreement and the proposed Caps, a letter of recommendation from the Independent Board Committee, a letter of advice from the independent financial adviser and a notice convening the SGM, will be despatched to the shareholders of the Company as soon as practicable and within 21 days after publication of this announcement in accordance with the Listing Rules.

As at the date of this announcement, CASC controls more than 50% of the issued share capital of APT International, which holds approximately 51.83% of the issued share capital of the Company. CASC and its Associates and a subsidiary of CSCC are also interested in an aggregate of approximately 10.45% of the total issued share capital of the Company. CSCC is a wholly-owned subsidiary of CASC. In view of CSCC's interest in the transactions contemplated under the Transponder Service Master Agreement, APT International, CASC, CSCC and their respective Associates will be required to abstain from voting at the SGM in respect of the resolution to approve the Transponder Service Master Agreement and the proposed Caps.



## DEFINITIONS

Capitalised terms used in this announcement have the following meanings unless the context requires otherwise:

“April Announcement”	the announcement of the Company dated 16 April 2009 in relation to, among other things, the Merger
“APT International”	APT Satellite International Company Limited, a substantial shareholder of the Company holding approximately 51.83% of the issued share capital of the Company as at the date of this announcement
“Associate(s)”	has the same meaning as defined in the Listing Rules
“Board”	the Board of Directors
“Cap(s)”	the estimated maximum aggregate annual value(s) of the transaction amount for each of the three financial years referred to in the section headed “Proposed Caps” in this announcement
“CASC”	中國航天科技集團公司(China Aerospace Science & Technology Corporation)
“Company”	APT Satellite Holdings Limited
“CSCC”	中國衛星通信集團公司(China Satellite Communications Corporation)
“Director(s)”	the director(s) of the Company
“Effective Date”	the date on which the Transponder Service Master Agreement is approved by the Independent Shareholders at the SGM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Transponder Service Master Agreement and the proposed Caps

“Independent Shareholders”	shareholders of the Company, other than APT International, CASC, CSCC and their respective Associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mainland China”	the People’s Republic of China
“Merger”	the merger of CSCC into CASC as its wholly-owned subsidiary, details of which were described in the announcement of the Company dated 16 April 2009
“SGM”	the special general meeting of the Company to be convened and held for the purpose of considering, and if thought fit, approving, among others, the Transponder Service Master Agreement and the proposed Caps
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Threshold”	being 2.5% when the relevant amount on an annual basis is expressed in terms of the percentage ratios (as defined in Chapter 14A of the Listing Rules), or HK\$10,000,000 provided that each of such percentage ratios is on an annual basis less than 25%
“Transponder Service Master Agreement”	the agreement entered into between the Company and CSCC dated 10 November 2009 in relation to, among other things, the provision of satellite transponder service
“US\$”	United States dollars, the lawful currency of the United States of America

By Order of the Board  
**Dr. Brian Lo**  
*Company Secretary*

Hong Kong, 10 November 2009

The directors of the Company as at the date of this announcement are as follows:

*Executive Directors:*

Cheng Guangren (President) and Qi Liang (Vice President)

*Non-Executive Directors:*

Rui Xiaowu (Chairman), Lim Toon, Yin Yen-liang, Wu Zhen Mu, Yong Foo Chong, Wu Jinfeng and Tseng Ta-mon (Alternate Director to Yin Yen-liang)

*Independent Non-Executive Directors:*

Huan Guocang, Lui King Man, Lam Sek Kong and Cui Ligu