

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

- (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.

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The independent board committee comprising four independent non-executive Directors, namely Dr. Lam Sek Kong, Mr. Cui Ligu, 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.

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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 (unaudited) (HK\$ million)	2023 (unaudited) (HK\$ million)
<b>Revenue</b>	498.4	419.7
– <b>Revenue by categories</b>		
– 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
– <b>Revenue by region</b>		
– Hong Kong	45.1	65.2
– Greater China*	235.7	181.1
– Southeast Asia	170.6	127.8
– Other Regions	47.0	45.6
<b>Gross profit</b>	251.4	187.8
<b>Profit from operations</b>	195.2	172.1
<b>Profit for the period and attributable to the shareholders of the Company</b>	133.8	117.8

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

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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 (audited) (HK\$ million)	2022 (audited) (HK\$ million)
<b>Revenue</b>	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
<b>Gross profit</b>	446.4	455.1
<b>Profit from operations</b>	369.3	354.2
<b>Profit for the year and attributable to the shareholders of the Company</b>	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.

## 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.

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

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.

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.

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

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;

- (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;

- (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.

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*

(HK\$' million)	For the year ended 31 December		For the nine months ended
	2021	2022	30 September 2023
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%

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## *The CSCC's Satellite Services*

(HK\$' million)	For the year ended 31 December		For the nine months ended
	2021	2022	30 September 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:

(HK\$' million)	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.

## *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.

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.

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.

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.

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

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.*