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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

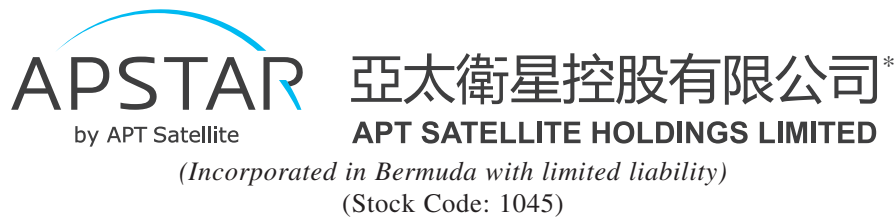
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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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**DISCLOSEABLE AND CONNECTED TRANSACTION**

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



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A letter from the Independent Board Committee is set out on page 20 of this circular.

A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 35 of this circular.

A notice convening the SGM to be held at the Company's principal place of business in Hong Kong, 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Friday, 23 September 2016 at 11:00 a.m. is set out on pages 40 to 41 of this circular. Whether or not you are able to attend and/or vote at the SGM in person, you are requested to complete and sign the enclosed form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

\* For identification purpose only

2 September 2016

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## DEFINITIONS

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

“APT International”	APT Satellite International Company Limited, a substantial shareholder of the Company holding approximately 51.67% of the issued share capital of the Company as at the Latest Practicable Date;
“APT (Shenzhen)”	亞太衛星通信(深圳)有限公司, a corporation established in the PRC and a wholly-owned subsidiary of the Company;
“associate(s)”	the meaning ascribed to it in the Listing Rules;
“Beijing Shipping”	Beijing Marine Communication Navigation Company 北京船舶通信導航有限公司, a company established in the PRC with limited liability;
“Board”	the board of Directors;
“CASC”	China Aerospace Science & Technology Corporation 中國航天科技集團公司, a state-owned corporation established in the PRC which holds effectively an aggregate 32.37% interest in the Company, including 29.47% indirect interest of the Company by virtue of holding 57.04% interest in APT International and 2.90% direct interest in the Company as at the Latest Practicable Date;
“CGWIC”	China Great Wall Industry Corporation, a company registered under the laws of the PRC and a subsidiary of CASC;
“China Aerospace Investment”	China Aerospace Investment Holdings Ltd. 航天投資控股有限公司, a company established in the PRC with limited liability;
“Company”	APT Satellite Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“Contributories”	proposed shareholders of the Joint Venture, being APT (Shenzhen), Beijing Shipping, Guo Xin (Shenzhen), Shenzhen Hao Chuang, China Aerospace Investment, Guohua Junmin, HNA EcoTech and Shenzhen Capital;

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## DEFINITIONS

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“CSCC”	中國衛通集團有限公司 (China Satellite Communications Company Limited) (formerly known as 中國衛星通信集團公司 (China Satellite Communications Corporation)), a subsidiary of CASC;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Guohua Junmin”	國華軍民融合產業發展基金管理有限公司, a company established in the PRC with limited liability;
“Guo Xin (Shenzhen)”	國新(深圳)投資有限公司, a company established in the PRC with limited liability;
“HNA EcoTech”	海航生態科技集團有限公司, a company established in the PRC with limited liability;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	an committee of the Board comprising all independent non-executive Directors established to advise the Independent Shareholders in relation to the Investors’ Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributories;
“Independent Financial Adviser”	VMS Securities Limited, a corporation licensed under the SFO for carrying out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Investors’ Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributories;
“Independent Shareholder(s)”	Shareholder(s) other than CASC, APT International and their associates;
“Investors’ Agreement”	the investors’ agreement dated 23 July 2016 entered into among the Company, Beijing Shipping, Guo Xin (Shenzhen), Shenzhen Hao Chuang and Mr. Pang Lixin in respect of the formation of the Joint Venture;

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## DEFINITIONS

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“Joint Venture”	a joint venture company (namely APT Mobile SatCom Limited 亞太衛星寬帶通信(深圳)有限公司) established in Shenzhen, Guangdong Province of the PRC pursuant to the Investors’ Agreement (as amended by the Supplemental Agreement);
“Latest Practicable Date”	30 August 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information included in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Parties”	parties to the Investors’ Agreement, being the Company, Beijing Shipping, Guo Xin (Shenzhen), Shenzhen Hao Chuang and Mr. Pang Lixin;
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan);
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be held at the Company’s principal place of business in Hong Kong, 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Friday, 23 September 2016 at 11:00 a.m. for the purpose of, among other things, approving the Investors’ Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributories by the Independent Shareholders, notice of which is set out on pages 40 to 41 of this circular;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“Shenzhen Capital”	深圳市創新投資集團有限公司, a company established in the PRC with limited liability;

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## DEFINITIONS

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“Shenzhen Hao Chuang”	深圳市昊創投資集團有限公司, a company established in the PRC with limited liability;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules;
“Supplemental Agreement”	the supplemental agreement dated 12 August 2016 entered into among APT (Shenzhen), Beijing Shipping, Guo Xin (Shenzhen), Shenzhen Hao Chuang, Mr. Pang Lixin, China Aerospace Investment, Guohua Junmin, HNA EcoTech and Shenzhen Capital to amend the Investors’ Agreement;
“%”	per cent.

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## LETTER FROM THE BOARD

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亞太衛星控股有限公司\*  
APT SATELLITE HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 1045)

*Executive Directors:*

Cheng Guangren (*President*)

Qi Liang (*Vice President*)

*Non-executive Directors:*

Yuan Jie (*Chairman*)

Lim Toon

Yin Yen-liang

Zhuo Chao

Fu Zhiheng

Lim Kian Soon

Tseng Ta-mon (*Alternate Director to Yin Yen-liang*)

*Independent Non-executive Directors:*

Lui King Man

Lam Sek Kong

Cui Liguo

Meng Xingguo

*Registered Office:*

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head Office and*

*Principal Place of Business in*

*Hong Kong:*

22 Dai Kwai Street

Tai Po Industrial Estate

Tai Po

New Territories

Hong Kong

2 September 2016

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **BACKGROUND**

Reference is made to the announcements of the Company dated 23 July 2016 and 14 August 2016 (the “**Previous Announcements**”) in relation to the Investors’ Agreement and the Supplemental Agreement in respect of the establishment of the Joint Venture.

The purpose of this circular is (i) to provide you with details of the Investors’ Agreement (as amended by the Supplemental Agreement); (ii) to set out the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Investors’ Agreement (as amended by the Supplemental Agreement) with China Aerospace Investment as one of the Contributories; (iii) to set out the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Investors’ Agreement (as amended by the Supplemental Agreement) with China Aerospace Investment as one of the Contributories; (iv) to give the Shareholders the notice of the SGM; and (v) to provide other information as required by the Listing Rules.

\* For identification purpose only

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## LETTER FROM THE BOARD

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### THE INVESTORS' AGREEMENT (AS AMENDED BY THE SUPPLEMENTAL AGREEMENT)

The principal terms of the Investors' Agreement (as amended by the Supplemental Agreement) are set out below.

**Date:** 23 July 2016 (amended by the Supplemental Agreement on 12 August 2016)

**Parties to the Investors' Agreement:**

- (1) the Company;
- (2) Beijing Shipping;
- (3) Guo Xin (Shenzhen);
- (4) Shenzhen Hao Chuang; and
- (5) Mr. Pang Lixin

**Parties to the Supplemental Agreement:**

- (1) APT (Shenzhen);
- (2) Beijing Shipping;
- (3) Guo Xin (Shenzhen);
- (4) Shenzhen Hao Chuang;
- (5) Mr. Pang Lixin;
- (6) China Aerospace Investment;
- (7) Guohua Junmin;
- (8) HNA EcoTech; and
- (9) Shenzhen Capital

As disclosed in the Previous Announcements and acknowledged by the parties in the Supplemental Agreement, after the signing of the Investors' Agreement, the Company has assigned and transferred and APT (Shenzhen) has assumed all the equity, rights and obligations of the Company under the Investors' Agreement by a separate assignment and assumption agreement entered into between the Company and APT (Shenzhen) on 23 July 2016. As at the Latest Practicable Date, APT (Shenzhen) is a wholly-owned subsidiary of the Company. APT (Shenzhen) will be the company within the Group to be responsible specifically for the investment and development of the Joint Venture.

Pursuant to the Supplemental Agreement, Mr. Pang Lixin has withdrawn from being an investor of the Joint Venture while China Aerospace Investment, Guohua Junmin, HNA EcoTech and Shenzhen Capital have become the four new investors of the Joint Venture.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, apart from the fact that China Aerospace Investment is a connected person of the Company being a 30%-controlled company held directly and indirectly by CASC, each of Beijing Shipping, Guo Xin (Shenzhen), Shenzhen Hao Chuang, Mr. Pang Lixin, Guohua Junmin, HNA EcoTech and Shenzhen Capital (as well as their respective ultimate beneficial owners) are third parties independent of the Company and its connected person. China Aerospace Investment holds 49% interest in Guohua Junmin.



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## LETTER FROM THE BOARD

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### Scope of business

The scope of business of the Joint Venture includes construction and operation of satellite communication system, satellite space segment services, satellite fixed and mobile telecommunication services, internet access, integration of networks and systems and technical consultancy services etc.

### Capital contribution

The total registered capital of the Joint Venture will be RMB2,000 million, which will be contributed by the Contributories in cash as follows:

- (i) RMB600 million by APT (Shenzhen) (representing 30% of the equity interest in the Joint Venture);
- (ii) RMB400 million by Beijing Shipping (representing 20% of the equity interest in the Joint Venture);
- (iii) RMB200 million by Guo Xin (Shenzhen) (representing 10% of the equity interest in the Joint Venture);
- (iv) RMB250 million by Shenzhen Hao Chuang (representing 12.5% of the equity interest in the Joint Venture);
- (v) RMB200 million by China Aerospace Investment (representing 10% of the equity interest in the Joint Venture);
- (vi) RMB100 million by Guohua Junmin (representing 5% of the equity interest in the Joint Venture);
- (vii) RMB200 million by HNA EcoTech (representing 10% of the equity interest in the Joint Venture); and
- (viii) RMB50 million by Shenzhen Capital (representing 2.5% of the equity interest in the Joint Venture).

As China Aerospace Investment is a connected person of the Company under Chapter 14A of the Listing Rules, the contribution of the registered capital by China Aerospace Investment is subject to the approval of the Independent Shareholders at the SGM. If such approval cannot be obtained, the registered capital to be contributed by China Aerospace Investment will be contributed by other parties (not being a connected person of the Company) designated by China Aerospace Investment or Guohua Junmin.

Except with the approval of the board of directors of the Joint Venture, the Contributories shall pay by instalments their respective capital contribution in the following manner:

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## LETTER FROM THE BOARD

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- (i) upon the establishment of the Joint Venture, 5% of the capital contribution from each Contributory; and
- (ii) the remaining 95% of capital contribution shall be made by the Contributories within the initial two years after the formation of the Joint Venture and at such date(s) (the “**Contribution Date(s)**”) and such amount as the board of directors of the Joint Venture shall determine from time to time with reference to the establishment and actual operating conditions of the Joint Venture provided that 20 working days’ notice will be given to the Contributories in advance.

The amount of capital contribution to be made by the Contributories was arrived at after arm’s length negotiations between the Contributories with reference to the expected capital requirements of the Joint Venture. The total capital contribution of RMB2,000 million will be used to satisfy the working capital and capital expenditures of the Joint Venture.

The establishment of the Joint Venture is expected to be completed as soon as possible and in any event not later than 31 December 2016. The Company plans to finance its share of the capital contribution in the sum of RMB600 million with internal resources of the Group and/or by borrowings, if necessary. Upon establishment of the Joint Venture, the Company will be indirectly interested in 30% of the equity interest in the Joint Venture. The Joint Venture will be accounted for in the consolidated accounts of the Group as an associate company. An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions. An investment in an associate is accounted for in the consolidated financial statements of the Company under the equity method.

### **Sharing of profits**

Each Contributory shall be entitled to dividends to be declared by the Joint Venture in accordance with the percentage of contribution made by each Contributory and the Articles of Association of the Joint Venture. Each Contributory agrees that the Joint Venture shall, as far as possible and depending on the actual operating situation of the Joint Venture, apply the undistributed profits for dividends to the shareholders of the Joint Venture.

### **Restriction on equity transfer**

Unless with the prior written consent of all other shareholders of the Joint Venture, (i) APT (Shenzhen) shall not within 10 years after the establishment of the Joint Venture; and (ii) each of Beijing Shipping, Guo Xin (Shenzhen), Shenzhen Hao Chuang, China Aerospace Investment, Guohua Junmin, HNA EcoTech and Shenzhen Capital shall not within 5 years after the establishment of the Joint Venture (such 10-year or 5-year period hereinafter referred to as the “**Prohibition Period**”) transfer or sell its equity in the Joint Venture to the other shareholder of the Joint Venture or any other third party. The said restriction on equity transfer will not be applicable in case of substantial merger and acquisition in relation to the Joint Venture.

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## LETTER FROM THE BOARD

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After the Prohibition Period, if the sale or transfer of equity in the Joint Venture will or may cause APT (Shenzhen) to have a lower shareholding than the other shareholders of the Joint Venture, the shareholder who intends to sell or transfer all or part of its equity (the “**Transferring Shareholder**”) shall notify APT (Shenzhen) and Beijing Shipping in writing at least 30 days before the intended transfer. APT (Shenzhen) and Beijing Shipping shall have equal pre-emptive right to purchase the transferring equity on proportional basis according to percentage of their respective equity interest in the Joint Venture and on the same conditions as in the intended sale or transfer by the Transferring Shareholder, provided that if APT (Shenzhen) and Beijing Shipping expressly renounce the said pre-emptive right, or are deemed to have renounced the said pre-emptive right by failing to reply to the Transferring Shareholder as to whether they will exercise the said pre-emptive right within 30 days from the date of the said written notice, the Transferring Shareholder may transfer or sell its equity in accordance with the Company Law of the PRC, the Articles of Association of the Joint Venture and other relevant laws and regulations.

In the event that any one of APT (Shenzhen) or Beijing Shipping expressly renounces the said pre-emptive right, or is deemed to have renounced the said pre-emptive right to purchase the transferring equity, the remaining party will have the sole right to purchase the equity of the Transferring Shareholder.

After the Prohibition Period, if the relevant sale or transfer of equity will not or may not cause APT (Shenzhen) to have a lower shareholding than any other shareholder of the Joint Venture, the Transferring Shareholder may transfer or sell its equity in the Joint Venture in accordance with the Company Law of the PRC, the Articles of Association of the Joint Venture and other relevant laws and regulations.

Within the Prohibition Period, each Contributory shall have the right to transfer its equity in the Joint Venture to (a) its associated company with actual control or shareholding or (b) the limited partnership entity owning such Contributory or its associated company with actual control or shareholding. Other shareholders of the Joint Venture shall not have pre-emptive right in respect of the abovementioned transfers.

### **Responsibilities of APT (Shenzhen)**

Upon the establishment of the Joint Venture, APT (Shenzhen) shall, in accordance with the actual operational needs of the Joint Venture, enter into contract(s) with the Joint Venture for the provision of the following services and resources to the Joint Venture:

- (i) provision of its relevant geostationary orbital slot at such fee determined with reference to the market price and international practice among the industry.
- (ii) provision of one-stop shop monitoring and management services for the construction and delivery of communication satellite system at such fee determined with reference to the market price and international practice among the industry.
- (iii) provision of operation management services for its in-orbit satellite(s) at such fee determined with reference to the market price and international practice among the industry.

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## LETTER FROM THE BOARD

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- (iv) provision of satellite transponders in Apstar satellite system which can be used for transmission in domestic maritime and aviation business at such fee determined with reference to the market price and international practice among the industry.
- (v) authorization to the Joint Venture, during the life span of the relevant satellites, to name its satellites with the initial “亞太” (“APSTAR”) for free and authorization to the Joint Venture to use, in the ordinary course of business of the Joint Venture, all trademarks related to “APSTAR” or “亞太衛星” owned by APT (Shenzhen) or its affiliated companies for free.
- (vi) using its best endeavor to assist the Joint Venture to conduct capital utilisation, including corporate merger, custody, equity acquisition and securitization.
- (vii) without violating the principle of confidentiality among the industry internationally and based on the actual operational needs of the Joint Venture, APT (Shenzhen) shall share with the Joint Venture its experience in respect of technological services, business operation and internal management.
- (viii) selection of outstanding talents to take up core management roles in the Joint Venture. The general manager of the Joint Venture will be nominated by APT (Shenzhen) and appointed by the board of directors of the Joint Venture.
- (ix) APT (Shenzhen) undertakes that, after the establishment of the Joint Venture, it will not invest in and set up in the PRC another new company or organization which competes directly with the business of the Joint Venture.

The entering into the agreements for the above (i) to (iv) service items shall be subjected to the approval of the board of directors of the Joint Venture for which the directors nominated by APT (Shenzhen) shall abstain from voting and at least half of the directors other than those nominated by APT (Shenzhen) shall have granted consent.

### **Possible transfer of equity to management team of the Joint Venture**

The management team of the Joint Venture refers to the top-notch executives with relevant professional background and experience in satellite communication services and applications. The management team is intended to comprise the chief executive officer and other executive managers of the Joint Venture to be determined by the chief executive officer and appointed by the Joint Venture. APT (Shenzhen) will be responsible to identify, select and recommend the possible candidates to the board of directors of the Joint Venture for their consideration. The management team will be accountable to the board of directors of the Joint Venture and they are intended to perform the roles and responsibilities of a manager of a limited liability company referred to in Article 49 of the Company Law of the PRC, including but not limited to:

- (i) taking charge of the production, operation and management of the Joint Venture and organizing the implementation of the resolutions of the board of directors of the Joint Venture;

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## LETTER FROM THE BOARD

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- (ii) organizing the implementation of the annual business plans and investment plans of the Joint Venture;
- (iii) drafting the plan for the establishment of the Joint Venture's internal management organization;
- (iv) drafting the basic management system of the Joint Venture;
- (v) formulating the specific rules and regulations of the Joint Venture;
- (vi) deciding on the employment and dismissal of the management personnel of the Joint Venture.

The management team or company held by the management team may acquire from Shenzhen Hao Chuang at cost its equity interest in the Joint Venture equivalent to the capital contribution of RMB50 million in the registered capital of the Joint Venture in accordance with the policy and plan in relation to the holding of equity interest by the management team as determined by the shareholders and board of directors of the Joint Venture. In the event that such equity interest in the Joint Venture is transferred from Shenzhen Hao Chuang to the management team of the Joint Venture, the capital in the Joint Venture contributed by Shenzhen Hao Chuang and the management team will amount to RMB200 million (representing 10% of the equity interest in the Joint Venture) and RMB50 million (representing 2.5% of the equity interest in the Joint Venture) respectively. All shareholders of the Joint Venture shall renounce their pre-emptive right in respect of the abovementioned transfer of equity interest. If any part of the capital contribution in respect of such equity interest has not been paid after such transfer, the management team of the Joint Venture is permitted to pay the outstanding amount by instalments within initial 3 years after completion of the registration of such transfer of equity interest.

If the policy and plan in relation to the holding of equity interest by the management team is not confirmed and implemented within 3 months after the establishment of the Joint Venture, Guo Xin (Shenzhen), HNA EcoTech and Shenzhen Capital (collectively as the “**Withdrawing Shareholders**”) shall have the right to withdraw from the Joint Venture. With the consent of other Contributories, APT (Shenzhen) may acquire or shall use its best efforts to find other appropriate investors (including but not limited to other Contributories) to acquire the equity interest held by the Withdrawing Shareholders. If the acquisition of equity interest by APT (Shenzhen) is not agreed by other Contributories or APT (Shenzhen) is unable to find other appropriate investors, the equity interest of the Withdrawing Shareholders in the Joint Venture may be reduced as determined by the shareholders of the Joint Venture.

### **Board composition of the Joint Venture**

Shareholders of the Joint Venture will be entitled to appoint directors to the board of directors based on the principle that every 10% equity interest in the Joint Venture shall be entitled to appoint one director.

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## LETTER FROM THE BOARD

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The employee representative of the Joint Venture will be appointed as one of the directors of the Joint Venture. According to the Article 44 of the Company Law of the PRC, a limited liability company shall establish a board of directors with 3 to 13 directors. If the company is formed by the investment of two or more state-owned enterprises, the board of directors should include employee representative. Such employee representative shall be elected by democratic process through the meeting of employee representatives or general meeting of employees or other means. The employee representative must be a formal and full-time employee of the Joint Venture. Once the employee is elected through the above-mentioned process, he/she will have a dual role in the Joint Venture, namely (a) an employee and (b) a member of the board of directors representing the views of the employees of the Joint Venture.

After the management team of the Joint Venture has acquired equity interest in the Joint Venture from Shenzhen Hao Chuang as mentioned above, the management team may also appoint one director to the board of directors of the Joint Venture.

The board composition of the Joint Venture (assuming that the management team of the Joint Venture has acquired equity interest in the Joint Venture from Shenzhen Hao Chuang) is set out below:

<b>Contributories</b>	<b>Equity interest in the Joint Venture</b>	<b>Number of board seats</b>
APT (Shenzhen)	30%	3
Beijing Shipping	20%	2
Guo Xin (Shenzhen)	10%	1
Shenzhen Hao Chuang	10%	1
China Aerospace Investment	10%	1
Guohua Junmin	5%	–
HNA EcoTech	10%	1
Shenzhen Capital	2.5%	–
	<hr/>	<hr/>
Sub-total for Contributories	97.5%	9
Management team of the Joint Venture	2.5%	1
Employee representative of the Joint Venture	–	1
	<hr/>	<hr/>
<b>Total</b>	<b>100%</b>	<b>11</b>

### **Increase of capital of the Investors' Agreement**

After the establishment of the Joint Venture and up to 31 December 2016, if a new investor (the “**New Shareholder**”, who is not one of the Contributories and is recommended by APT (Shenzhen)) is interested in investing in the Joint Venture, all shareholders of the Joint Venture shall consent to such investment by the New Shareholder. The registered capital of the Joint Venture shall be increased according to the contribution made by the New Shareholder while the total registered capital of the Joint Venture shall not exceed RMB2 billion upon investment by the New Shareholder. However if, at the time

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## LETTER FROM THE BOARD

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of the intended investment by the New Shareholder, the total registered capital of the Joint Venture is RMB2 billion or more or the New Shareholder intends to join after 31 December 2016, the shareholders of the Joint Venture may oppose the intended investment to be made by the New Shareholder. As the share capital committed has already been up to RMB2 billion, the said nomination rights of APT (Shenzhen) is not applicable.

Apart from the above, if the Joint Venture needs to further increase its registered capital, each Contributory shall have priority in subscribing the additional registered capital in accordance with the percentage of contribution made by each Contributory at the relevant time.

### **Early termination of the Investors' Agreement**

Upon occurrence of one of the followings, the Investors' Agreement (as amended by the Supplemental Agreement) may be terminated with the written consent of the Contributories:

- (i) all Contributories have given their written consent for not setting up the Joint Venture;
- (ii) all Contributories have a material dispute on whether to set up the Joint Venture and have failed to reach a consensus or settle such material dispute within six months after the occurrence of such material dispute;
- (iii) the setting up of the Joint Venture becomes objectively impossible as a result of earthquake, typhoon, flood, fire, warfare or other force majeure event which is unforeseeable and the occurrence and the result of which is unpreventable or unavoidable; or
- (iv) the setting up of the Joint Venture may violate any mandatory laws or regulations or due to the changes of the relevant laws, regulations or policies, rendering it impossible to set up the Joint Venture.

In the event of the early termination of the Investors' Agreement (as amended by the Supplemental Agreement), each Contributory may be refunded for its paid contribution after deducting the relevant expenses incurred as a result of the establishment of the Joint Venture.

### **REASONS AND BENEFITS FOR ENTERING INTO THE TRANSACTION**

The Group is engaged in the provision of satellite transponder capacity and related service. Its strategy is to become one of the leading regional providers of satellite transponder capacity and related services in the Asia Pacific region.

The investment in the Joint Venture by the Group will enable the Group, through the Joint Venture, to develop the high throughput satellite ("HTS"), which by contrast to traditional satellite technology, offer many times the throughput of the conventional satellites under a new allocated orbital spectrum but at a relatively higher cost of development. The development of HTS by the Group through the Joint Venture will enable the Group, while controlling the scale of its investment, to keep abreast of the latest development in the satellite industry and hence to enhance its competitive edge in market

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## LETTER FROM THE BOARD

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competition over the region with both conventional and high throughput transponder capacities. Amending the Investors' Agreement by entering into the Supplemental Agreement will enable the Group to include additional investors to join the Joint Venture and increase the total capital contribution for the satellite project.

### INFORMATION OF THE GROUP AND THE PARTIES TO THE INVESTORS' AGREEMENT AND THE SUPPLEMENTAL AGREEMENT

#### **The Company**

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

#### **APT (Shenzhen)**

A corporation established in Shenzhen under PRC law and is an indirectly wholly-owned subsidiary of the Company.

#### **Beijing Shipping**

A subsidiary wholly-owned by China Transport Telecommunication Information Center (CTTIC)\*, is responsible for all system in maritime satellite services in China and global all-weather Sea, Land, and Aero applications and solutions.

#### **Guo Xin (Shenzhen)**

A company incorporated in Shenzhen under PRC law and is a wholly-owned subsidiary of 中國國新控股有限責任公司, mainly for investment and development in industry, equity investment and investment consultancy.

#### **Shenzhen Hao Chuang**

A conglomerate group in Shenzhen with various investments including real estate development, financial investment, internet technology, engineering and construction, hotel and catering, cultural and sport. The shareholders of Shenzhen Hao Chuang are Mr. Chen Shaozhong (陳少忠) and Mr. Chen Shaohua (陳少華).

#### **Mr. Pang Lixin**

A citizen of PRC who has withdrawn from being an investor representing the management team who involves in development and operation of the Joint Venture.



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## LETTER FROM THE BOARD

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### **China Aerospace Investment**

A company incorporated in PRC mainly for investment and asset management, corporate management, commercialization and development of aerospace products, consultancy services, technological services, satellite and electronic system equipment, software and system integration. It is a 30% controlled company held directly and indirectly by CASC. The shareholders of China Aerospace Investment are Times Electronics Corporation\* (中國航天時代電子公司), The Export-Import Bank of China\* (中國進出口銀行), CNIC Corporation Limited (國新國際投資有限公司), PICC Property and Casualty Company Limited (中國人民財產保險股份有限公司), Cinda Investment Company Limited\* (信達投資有限公司), Zhongxing Telecommunication Equipment Corporation\* (中興通訊股份有限公司), China Everbright Investment and Assets Management Co., Ltd.\* (中國光大投資管理有限責任公司), State Development and Investment Corporation\* (國家開發投資公司), Xian Aerospace Technology Industry Corporation\* (西安航天科技工業公司), China Great Wall Industry Corporation\* (中國長城工業集團有限公司), China Energy Conservation and Environmental Protection Group\* (中國節能環保集團公司), CASC, China Academy of Launch Vehicle Technology\* (中國運載火箭技術研究院), Shanghai Academy of Spaceflight Technology\* (上海航天技術研究院), China Academy of Aerospace Aerodynamics\* (中國航天空氣動力技術研究院), Sichuan Aerospace Industry Group Co., Ltd.\* (四川航天工業集團有限公司), Xian Xiang Yang Aerospace Industry Corporation\* (西安向陽航天工業總公司), China Chengda Engineering Co. Ltd.\* (中國成達工程有限公司) and China Academy of Space Technology\* (中國空間技術研究院).

### **Guohua Junmin**

A company incorporated in PRC mainly for investment management and consultancy for non-security business, security investments and management. The shareholders of Guohua Junmin are South Industry Assets Management Co. Ltd.\* (南方工業資產管理有限責任公司), China State Shipbuilding Investment and Development Co., Ltd.\* (中船投資發展有限公司), Guangdong Yuecai Investment Co. Ltd.\* (廣東粵財創業投資有限公司), China Shipbuilding Industry Capital Holding Co. Ltd.\* (中國船舶重工集團資本控股有限公司), PICC Asset Management Company Limited\* (中國人保資產管理有限公司), Guangzhou Hang Tou Jun Qi Enterprise Management Service Co. Ltd.\* (廣州航投君企企業管理服務有限責任公司), China National Nuclear Fund Management (Beijing) Co. Ltd.\* (中核產業基金管理(北京)有限公司), China Nuclear Engineering Corporation Limited\* (中國核工業建設股份有限公司), SINOMACH Capital Holding Corporation\* (國機資本控股有限公司) and China Aerospace Investment.

### **HNA EcoTech**

A company incorporated in PRC mainly for research and development of scientific and technical products, data centre, cloud services, system integration and software development and operation, web services and maintenance, and information technology related services. It is a subsidiary of HNA Group\* (海航集團有限公司) in PRC. The shareholders of HNA EcoTech are HNA Group\* (海航集團有限公司), CDB Development Fund\* (國開發基金有限公司), Beijing Haiyingfuming Investment Partnership\* (北京海瀛富明投資合夥企業) and NHA Holding\* (海航實業集團有限公司).

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## LETTER FROM THE BOARD

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### Shenzhen Capital

A company incorporated in PRC mainly for venture capital business and consultancy, management services, and property development and operation. The shareholders of Shenzhen Capital are Shenzhen Yuanzhi Investment Co. Ltd.\* (深圳市遠致投資有限公司), Shenzhen Galaxy Real Estate Development Co. Ltd.\* (深圳市星河房地產開發有限公司), ZTE Corporation\* (中興通訊股份有限公司), Shenzhen Energy Group Co. Ltd.\* (深圳能源集團股份有限公司), Guangdong Electric Power Development Co. Ltd.\* (廣東電力發展股份有限公司), Septwolves Group Holding Co. Ltd.\* (福建七匹狼集團有限公司), Shanghai Dazhong Public Utility (Group) Co. Ltd.\* (上海大眾公用事業(集團)股份有限公司), Futian Investment\* (深圳市福田投資發展公司), Shenzhen Liye Group Co. Ltd.\* (深圳市立業集團有限公司), Shenzhen Yantian Port Group Co. Ltd.\* (深圳市鹽田港集團有限公司), Shenzhen Yixin Investment Co. Ltd.\* (深圳市億鑫投資有限公司), State-owned Assets Supervision and Administration Commission of the People's Government of Shenzhen Municipality\* (深圳市人民政府國有資產監督管理委員會) and Guangshen Railway Co. Ltd.\* (廣深鐵路股份有限公司).

\* For identification purpose only.

### IMPLICATIONS OF THE LISTING RULES

CASC and its associates are interested in an aggregate of approximately 57.04% equity interest in APT International, which in turn is a substantial shareholder of the Company holding approximately 51.67% of the issued share capital of the Company as at the Latest Practicable Date. In addition to the shareholding held by APT International, CASC and its associates are also interested in an aggregate of another approximately 2.90% of the issued share capital of the Company as at the Latest Practicable Date. As approximately 34.9% of the equity interest in China Aerospace Investment is owned by CASC, China Aerospace Investment is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, entering into the Supplemental Agreement to amend the Investors' Agreement and establishment of the Joint Venture contemplated thereunder with China Aerospace Investment as one of the Contributories constitute a connected transaction for the Company.

Since one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the establishment of the Joint Venture exceed 5% but are less than 25%, entering into the Supplemental Agreement to amend the Investors' Agreement and establishment of the Joint Venture contemplated thereunder with China Aerospace Investment as one of the Contributories constitute a discloseable transaction and a non-exempt connected transaction for the Company.

As such, the Investors' Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributories are subject to the requirements of reporting, announcement and approval by the Independent Shareholders at the SGM. In view of the interests of CASC in the Investors' Agreement (as amended by the Supplemental Agreement), CASC, APT International and their associates, who are interested in an aggregate of approximately 54.57% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting on the resolution approving the Investors' Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributories at the SGM. If such approval is not granted by the Independent Shareholders,

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## LETTER FROM THE BOARD

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APT (Shenzhen) will proceed with the transactions contemplated under the Investors' Agreement (as amended by the Supplemental Agreement) on the basis that China Aerospace Investment will not be one of the Contributors and, as disclosed above, the registered capital to be contributed by China Aerospace Investment will be contributed by other parties (not being a connected person of the Company) designated by China Aerospace Investment or Guohua Junmin.

As (i) Mr. Yuan Jie, a non-executive Director and the Chairman of the Company, is also concurrently a vice president of CASC; (ii) Mr. Cheng Guangren, an executive Director and the President of the Company, is also concurrently the non-executive director of CSCC; (iii) Mr. Qi Liang, an executive Director, is also concurrently the deputy chief accountant for CSCC; (iv) Mr. Zhuo Chao, a non-executive Director, is also concurrently a director and general manager of CSCC; and (v) Mr. Fu Zhiheng, a non-executive Director, is also concurrently the vice-president of CGWIC; they have abstained from voting on the relevant board resolution(s) for approving the Investors' Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributors to avoid any conflict of interest. Save for the above, none of the Directors has material interest or conflict of interest in the Investors' Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributors and none of them is required to abstain from voting on the relevant board resolutions.

In the event that (i) APT (Shenzhen) receives notice from the Transferring Shareholder of its intention to sell or transfer all or part of its equity in the Joint Venture or (ii) the Withdrawing Shareholders have decided to withdraw from the Joint Venture as the policy and plan in relation to the holding of equity interest by the management team is not confirmed and implemented within 3 months after the establishment of the Joint Venture, and in either case APT (Shenzhen) has decided to acquire the equity interest held by the Withdrawing Shareholders with the consent of other Contributors, the Company will calculate the percentage ratios pursuant to Rule 14.75 of the Listing Rules in respect of any exercise of its rights to acquire additional interests in the Joint Venture (if applicable) and will comply with any applicable reporting, announcement, circular and/or shareholders' approval requirements under Chapter 14 and/or any other relevant provisions of the Listing Rules with reference to the relevant percentage ratios before APT (Shenzhen) exercises such rights.

Based on the shareholding structure of the Joint Venture contemplated under the Investors' Agreement (as amended by the Supplemental Agreement), the Joint Venture will become an associate of CASC and therefore a connected person of the Company under Chapter 14A of the Listing Rules if the contribution of the registered capital by China Aerospace Investment is approved by the Independent Shareholders at the SGM and China Aerospace Investment becomes a Contributor holding 10% interest in the Joint Venture. As such, the provision of services and resources by the Group (including APT (Shenzhen)) to the Joint Venture will constitute continuing connected transactions for the Company. The Group will enter into separate contract(s) with the Joint Venture for such transactions and comply with any applicable reporting, announcement, circular and/or shareholders' approval requirements under Chapter 14A and/or any other relevant provisions of the Listing Rules.

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## LETTER FROM THE BOARD

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### SGM

There is set out on pages 40 to 41 of this circular a notice convening the SGM to be held at the Company's principal place of business in Hong Kong at 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Friday, 23 September 2016 at 11:00 a.m. at which an ordinary resolution will be proposed for the approval by the Independent Shareholders by poll the Investors' Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributories.

Whether or not you are able to attend the SGM in person, you are requested to complete and sign the enclosed form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than forty-eight (48) hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

In compliance with the Listing Rules, the votes to be taken at the SGM in respect of the Investors' Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributories will be taken by poll, the results of which will be announced after the SGM.

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

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

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

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Directors (excluding the members of the Independent Board Committee) consider that the Investors' Agreement (as amended by the Supplemental Agreement) have been entered into in the ordinary and usual course of business and the terms of the Investors' Agreement and its amendments under the Supplemental Agreement with China Aerospace Investment as one of the Contributories were agreed on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole. Therefore, the Directors (excluding the members of the Independent Board Committee) recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Investors' Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributories.

### ADDITIONAL INFORMATION

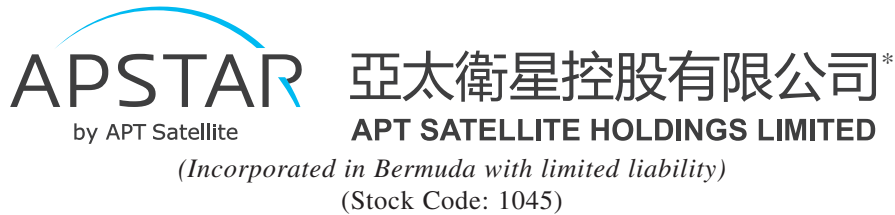
Your attention is drawn to the letters from the Independent Board Committee and from the Independent Financial Adviser which are respectively set out on pages 20 and 21 to 35 of this circular. Additional information is also set out in the Appendix of this circular for your information.

By Order of the Board  
**APT Satellite Holdings Limited**  
**Yuan Jie**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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2 September 2016

*To the Independent Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

We refer to the circular dated 2 September 2016 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the Investors’ Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributories and to advise the Independent Shareholders as to the fairness and reasonableness of the same. The Independent Financial Adviser, VMS Securities Limited, has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **RECOMMENDATION**

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 19 of the Circular, and the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Investors’ Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributories as set out on pages 21 to 35 of the Circular.

Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we concur with the views of the Independent Financial Adviser and consider that the Investors’ Agreement (as amended by the Supplemental Agreement) have been entered into in the ordinary and usual course of business and the terms of the Investors’ Agreement and its amendments under the Supplemental Agreement with China Aerospace Investment as one of the Contributories were agreed on normal commercial terms and in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed in the SGM to approve the Investors’ Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the Contributories.

Yours faithfully,

For and on behalf of  
**APT Satellite Holdings Limited**  
**Independent Board Committee**

**Lui King Man**  
*Independent*  
*Non-executive Director*

**Lam Sek Kong**  
*Independent*  
*Non-executive Director*

**Cui Ligu**  
*Independent*  
*Non-executive Director*

**Meng Xingguo**  
*Independent*  
*Non-executive Director*

\* For identification purpose only

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Set out below is the text of the letter of advice from VMS Securities Limited to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this Circular.*



VMS Securities Limited  
49/F, One Exchange Square  
8 Connaught Place, Central, Hong Kong  
香港中環康樂廣場8號交易廣場1期49樓  
Tel/電話: (852) 2996 2100  
Fax/傳真: (852) 2996 1210

2 September 2016

*To: the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION FORMATION OF JOINT VENTURE**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Investors' Agreement (amended by the Supplemental Agreement) with, among others, China Aerospace Investment as one of the Contributories, details of which are set out in the "Letter from the Board" contained in the circular (the "**Circular**") dated 2 September 2016, of which this letter forms part. Unless otherwise stated, terms defined in the Circular shall have the same meanings in this letter.

According to the Supplemental Agreement dated 12 August 2016 supplementing the Investors' Agreement dated 23 July 2016, APT (Shenzhen) (being the Company's wholly-owned subsidiary), China Aerospace Investment (being a connected person of the Company as detailed below) and other six independent third parties of Contributories will contribute to establish the Joint Venture.

CASC and its associates are interested in an aggregate of approximately 57.04% equity interest in APT International, which in turn is a substantial shareholder of the Company holding approximately 51.67% of the issued share capital of the Company as at the Latest Practicable Date. In addition to the shareholding held by APT International, CASC and its associates are also interested in an aggregate of another approximately 2.90% of the issued share capital of the Company as at the Latest Practicable Date. As approximately 34.90% of the equity interest in China Aerospace Investment is owned by CASC, China Aerospace Investment is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, entering into the Investors' Agreement (amended by the Supplemental Agreement) to establish the Joint Venture with China Aerospace Investment as one of the Contributories constitutes a connected transaction for the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Since one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the establishment of the Joint Venture exceed 5% but are less than 25%, entering into the Investors' Agreement (amended by the Supplemental Agreement) to establish the Joint Venture with China Aerospace Investment as one of the Contributories constitutes a discloseable transaction and a non-exempt connected transaction for the Company.

The business scope of the Joint Venture includes construction and operation of satellite communication system satellite space segment services, satellite fixed and mobile telecommunication services, internet access, integration of networks and systems and technical consultancy services etc.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to consider the terms of the Investors' Agreement (amended by the Supplemental Agreement) and to advise the Independent Shareholders as to whether the transaction contemplated under the Investors' Agreement (amended by the Supplemental Agreement) has been entered into in the ordinary and usual course of business and the terms were on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, we were independent from and not connected with the Group under Rule 13.84 of the Listing Rules, and accordingly, qualified to give the independent advice regarding the Investors' Agreement (amended by the Supplemental Agreement). Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

During the past two years, VMS had been engaged as the independent financial adviser for a discloseable and connected transaction in relation to procurement and launch of satellite by a connected person of the Company (see Company's circular dated 9 November 2015 for details). The professional fees for the aforesaid appointment have already been fully settled. We are not aware of the existence of change in any circumstances that would affect our independence. As such, we consider that we are eligible to give independent advice on the Investors' Agreement (amended by the Supplemental Agreement).

### **BASIS AND ASSUMPTIONS OF OUR OPINION**

In formulating our opinion, we have relied solely on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company and/or the management of the Company (the "**Management**", including the Directors and/or the senior management staff of the Company). 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 Company and/or the Management for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the Latest Practicable Date. We have assumed that all the opinions and representations made or provided by the Company and/or the Management contained in the Circular have been reasonably made after due and careful enquiry.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We consider that we have reviewed all the 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 opinion. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company 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 or China Aerospace Investment.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

#### 1. Information on the Group and China Aerospace Investment

*(a) Principal business of 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 services.

APT (Shenzhen) is a corporation established in Shenzhen under the PRC law and is an indirectly wholly owned subsidiary of the Company. As stated in the Letter from the Board, APT (Shenzhen) will be the company within the Group to be responsible specifically for the investment and development of the Joint Venture.

*(b) Historical financial information of the Group*

The following is a summary of the Group's latest audited financial information for the two years ended 31 December 2014 and 2015 extracted from the annual report of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**").

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)
Revenue	1,194,411	1,247,518
Gross profit	728,513	779,828
Profit from operations	647,860	689,523
Profit before taxation	626,135	618,789
Profit for the year and attributable to equity shareholders of the Company	513,831	508,045
	<b>As at 31 December</b>	
	<b>2015</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)
Total assets	6,141,254	6,564,257
Total liabilities	(1,690,889)	(2,554,755)
	<hr/>	<hr/>
Net assets	<u>4,450,365</u>	<u>4,009,502</u>

*For the years ended 31 December 2014 and 2015*

According to the 2015 Annual report, the Group's revenue came from (i) provision of satellite transponder capacity and related services; (ii) provision of satellite-based broadcasting and telecommunications services; and (iii) service income. For the year ended 31 December 2015, income from provision of satellite transponder capacity and related services contributed approximately 96.8% to the Group's total revenue (2014: 97.3%) and was the Group's major source of revenue. For the year ended 31 December 2015, the Group's revenue slightly decreased approximately 4.3% when compared to the previous year. Such decrease was mainly resulted from non-renewal of certain transponder leasing contracts after their expiries which in return, led to a decrease in the average transponder utilisation rate of the Group's satellites.

Gross profit margin for the year ended 31 December 2015 remained fairly stable when compared to the previous year and was approximately 61.0% (2014: 62.5%).

Profit from operation for the year ended 31 December 2015 decreased approximately HK\$41.7 million from the previous year. Such decrease was mainly attributable to the net effect of the (i) decrease in gross profit of approximately HK\$51.3 million; (ii) increase in impairment losses recognised in respect of property, plant and equipment, club memberships and trade and other receivables of approximately HK\$32.6 million which most of them are one-off in nature; (iii)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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increase in foreign currencies exchange loss of approximately HK\$13.3 million which is mainly due to loss brought about by depreciation of Renminbi against Hong Kong dollar; and (iv) increase in other service income of approximately HK\$52.4 million mainly due to the Group's receipt of prepayment refund from a fellow subsidiary engaged for its provision of satellite launch and associated services (detailed in the Company's announcement dated 17 August 2012).

Income tax ratio remained stable at approximately 17.9% of the profit before taxation for the years ended 31 December 2014 and 2015.

As at 31 December 2015, total assets decreased approximately HK\$423.0 million. According to the 2015 Annual report, the decrease was mainly caused by decrease in cash and bank balances resulting from the progress payments made by the Group for satellites and other equipment. Total liabilities decreased approximately HK\$863.9 million which was mainly due to the settlement of capital expenditures of APSTAR-9.

(c) *Principal Business of China Aerospace Investment*

As stated in the Letter from the Board, China Aerospace Investment is a company incorporated in the PRC mainly for investment and asset management, corporate management, commercialization and development of aerospace products, consultancy services, technological services, satellite and electronic system equipment software and system integration.

## **2. Reasons for and benefits of the formation of the joint venture**

The Group is engaged in the provision of satellite transponder capacity and related service. Its strategy is to become one of the leading regional providers of satellite transponder capacity and related services in the Asia Pacific Region.

As stated in the Letter from the Board, the investment in the Joint Venture by the Group will enable the Group, through the Joint Venture, to develop the high throughput satellite ("HTS"), which by contrast to traditional satellite technology, offer many times the throughput of the conventional satellites under a new allocated orbital spectrum but at a relatively higher cost of development. The development of HTS by the Group through the Joint Venture will enable the Group, while controlling the scale of its investment, to keep abreast of the latest development in the satellite industry and hence to enhance its competitive edge in market competition over the region with both conventional and high throughput transponder capacities. Amending the Investors' Agreement by entering into the Supplemental Agreement will enable the Group to include additional investors to join the Joint Venture and increase the total capital contribution for the satellite project.

We note that the formation of Joint Venture is in line with the strategy of the Group to become one of the leading regional providers of satellite transponder capacity and related services in the Asia Pacific Region and benefits the Group in terms of risk diversification. Accordingly, we are of the view that the entering into the Investors' Agreement (amended by the Supplemental Agreement) is commercially justifiable and in the ordinary and usual course of business of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3. Principal terms of the Investors' Agreement (amended by the Supplemental Agreement)

(a) *Capital contribution, profits sharing and early termination*

Capital contribution

According to the Supplemental Agreement dated 12 August 2016 (amending the Investors' Agreement dated 23 July 2016), APT (Shenzhen) (being the Company's wholly-owned subsidiary), China Aerospace Investment (being a connected person of the Company) and other six independent third parties of Contributors (being Beijing Shipping, Shenzhen Hao Chuang, Guo Xin (Shenzhen), HNA EcoTech, Guohua Junmin and Shenzhen Capital) will contribute to establish the Joint Venture with details as below:

<b>Contributors</b>	<b>Amount to be contributed RMB million</b>	<b>Equity interest in the Joint Venture %</b>
APT (Shenzhen), a wholly-owned subsidiary of the Company	600	30%
China Aerospace Investment, a connected person	200	10%
	800	40%
Independent third parties:		
Beijing Shipping	400	20%
Shenzhen Hao Chuang	250	12.5%
Guo Xin (Shenzhen)	200	10%
HNA EcoTech	200	10%
Guohua Junmin	100	5%
Shenzhen Capital	50	2.5%
	1,200	60%
<b>Total</b>	<b>2,000</b>	<b>100%</b>

The amount of capital contribution to be made by the Contributors was arrived at after arm's length negotiations among the Contributors with reference to the expected capital requirements of the Joint Venture. The total registered capital of the Joint Venture will be RMB2,000 million and will be used to satisfy the working capital and capital expenditure of the Joint Venture.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, apart from the fact that China Aerospace Investment is a connected person of the Company being a 30%-controlled company held directly and indirectly by CASC, each of Beijing Shipping, Shenzhen Hao Chuang, Guo Xin (Shenzhen), HNA EcoTech, Guohua Junmin and Shenzhen Capital (as well as their respective ultimate beneficial owners) are third parties independent of the Company and its connected person. China Aerospace Investment holds 49% interest in Guohua Junmin.

As China Aerospace Investment is a connected person of the Company under Chapter 14A of the Listing Rules, the contribution of the registered capital by China Aerospace Investment is subject to the approval of the Independent Shareholders at the SGM. If such approval cannot be obtained, the registered capital to be contributed by China Aerospace Investment will be contributed by other parties (not being a connected person of the Company) designated by China Aerospace Investment or Guohua Junmin.

### Profit sharing

As stated in the Letter from the Board, each Contributory shall be entitled to dividends to be declared by the Joint Venture in accordance with the percentage of contribution made by each Contributory and the Articles of Association of the Joint Venture. Each Contributory agrees that the Joint Venture shall, as far as possible and depending on the actual operating situation of the Joint Venture, apply the undistributed profits for dividends to the shareholders of the Joint Venture.

### Early termination

As stated in the Letter from the Board, each Contributory may be returned for its paid contribution after deducting the relevant expenses incurred as a result of the establishment of the Joint Venture in the event of the early termination of the Investors' Agreement (amended by the Supplemental Agreement).

From the above, we noted that the respective amounts which the Contributories are willing to commit are determined based on arm's length negotiation with reference to the expected capital requirements of the Joint Venture. Based on the fact that (i) the amount of capital contribution to be made by the Contributories is proportionate to their respective shareholding in the Joint Venture; and (ii) the total capital contribution is to meet the capital requirements of the Joint Venture, we are of the view that the basis of determining the capital contribution is fair and reasonable. Also, the profit sharing and the amount of any returning capital (after deducting the relevant expenses incurred) to the Contributories in the case of early termination is to be made on a pro rata basis based on their respective shareholding in the Joint Venture. On the above bases, we consider that the terms regarding the profit sharing and the early termination are fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(b) *Restriction on equity transfer*

As stated in the Letter from the Board, unless with the prior written consent of all other shareholders of the Joint Venture, (i) APT (Shenzhen) shall not within 10 years after the establishment of the Joint Venture; and (ii) each of China Aerospace Investment, Beijing Shipping, Shenzhen Hao Chuang, Guo Xin (Shenzhen), HNA EcoTech, Guohua Junmin and Shenzhen Capital shall not within 5 years after the establishment of the Joint Venture (such 10-year or 5-year period hereinafter referred to as the “**Prohibition Period**”) transfer or sell its equity in the Joint Venture to the other shareholder of the Joint Venture or any other third party. The said restriction on equity transfer will not be applicable in case of substantial merger and acquisition in relation to the Joint Venture.

After the Prohibition Period, if the sale or transfer of equity in the Joint Venture will or may cause APT (Shenzhen) to have a lower shareholding than the other shareholders of the Joint Venture, the shareholder who intends to sell or transfer all or part of its equity (the “**Transferring Shareholder**”) shall notify APT (Shenzhen) and Beijing Shipping in writing at least 30 days before the intended transfer. APT (Shenzhen) and Beijing Shipping shall have equal pre-emptive right to purchase the transferring equity on proportional basis according to percentage of their respective equity interest in the Joint Venture and on the same conditions as in the intended sale or transfer by the Transferring Shareholder, provided that if APT (Shenzhen) and Beijing Shipping expressly renounce the said pre-emptive right, or are deemed to have renounced the said pre-emptive right by failing to reply to the Transferring Shareholder as to whether they will exercise the said pre-emptive right within 30 days from the date of the said written notice, the Transferring Shareholder may transfer or sell its equity in accordance with the Company Law of the PRC, the Articles of Association of the Joint Venture and other relevant laws and regulations.

In the event that any one of APT (Shenzhen) or Beijing Shipping expressly renounces the said pre-emptive right, or is deemed to have renounced the said pre-emptive right to purchase the transferring equity, the remaining party will have the sole right to purchase the equity of the Transferring Shareholder.

After the Prohibition Period, if the relevant sale or transfer of equity will not or may not cause APT (Shenzhen) to have a lower shareholding than any other shareholder of the Joint Venture, the Transferring Shareholder may transfer or sell its equity in the Joint Venture in accordance with the Company Law of the PRC, the Articles of Association of the Joint Venture and other relevant laws and regulations.

Within the Prohibition Period, each Contributory shall have the right to transfer its equity in the Joint Venture to (i) its associated company with actual control or shareholding; or (ii) the limited partnership entity owning such Contributory or its associated company with actual control or shareholding. Other shareholders of the Joint Venture shall not have pre-emptive right in respect of the abovementioned transfers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As stated in the Letter from the Board, in the event that APT (Shenzhen) receives notice from the Transferring Shareholder of its intention to sell or transfer all or part of its equity in the Joint Venture, the Company will calculate the percentage ratios pursuant to Rule 14.75 of the Listing Rules in respect of any exercise of the pre-emptive right and will comply with any applicable reporting, announcement, circular and/or shareholders' approval requirements under Chapter 14 and/or any other relevant provision of the Listing Rules with reference to the relevant percentage ratios before APT (Shenzhen) exercises the pre-emptive right.

We noted that the Prohibition Period for APT (Shenzhen) is 10-year which is longer than the 5-year of all other Contributories. The Management advised that APT (Shenzhen) will be providing services core to the business and critically important to the existence and sustainability of the Joint Venture which include among others, the licensing of the geostationary orbital slot, one-stop shop monitoring and management services for the construction and delivery of communication satellite system and operation management services for in-orbit satellite(s) of the Joint Venture. In this regard, the longer Prohibition Period imposed on APT (Shenzhen) is purposive to strengthen the confidence of the other Contributories to make investment in the Joint Venture. As such, we are of the view that the longer Prohibition Period for APT (Shenzhen) is commercially justifiable.

The other terms regarding the restriction on equity transfer are in essence to ensure that APT (Shenzhen) (i) is given the first right of refusal when there is any equity transfer; and (ii) will be able to maintain the highest shareholding among all other Contributories. The Management advised that the preferential terms for APT (Shenzhen) is to recognize its core and important role in the Joint Venture. As such, the other Contributories expect APT (Shenzhen) to be and remain to be the leading shareholder in the Joint Venture having the highest shareholding among all other Contributories. As APT (Shenzhen) is granted with these preferential terms with commercial reality which is no less favourable to the Group, we consider that such terms are fair and reasonable.

*(c) Responsibilities of APT (Shenzhen)*

As stated in the Letter from the Board, upon the establishment of the Joint Venture, APT (Shenzhen) shall, in accordance with the actual operational needs of the Joint Venture, enter into contract(s) with the Joint Venture for the provision of the following services and resources to the Joint Venture:

- (i) provision of its relevant geostationary orbital slot at such fee determined with reference to the market price and international practice among the industry;
- (ii) provision of one-stop shop monitoring and management services for the construction and delivery of communication satellite system at such fee determined with reference to the market price and international practice among the industry;
- (iii) provision of operation management services for its in-orbit satellite(s) at such fee determined with reference to the market price and international practice among the industry;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (iv) provision of satellite transponders in Apstar satellite system which can be used for transmission in domestic maritime and aviation business at such fee determined with reference to the market price and international practice among the industry;
- (v) authorization to the Joint Venture, during the life span of the relevant satellites, to name its satellites with the initial “亞太” (“APSTAR”) for free and authorization to the Joint Venture to use, in the ordinary course of business of the Joint Venture, all trademarks related to “APSTAR” or “亞太衛星” owned by APT (Shenzhen) or its affiliated companies for free;
- (vi) using its best endeavor to assist the Joint Venture to conduct capital utilisation, including corporate merger, custody, equity acquisition and securitization;
- (vii) without violating the principle of confidentiality among the industry internationally and based on the actual operational needs of the Joint Venture, APT (Shenzhen) shall share with the Joint Venture its experience in respect of technological services, business operation and internal management; and
- (viii) selection of outstanding talents to take up core management roles in the Joint Venture. The general manager of the Joint Venture will be nominated by APT (Shenzhen) and appointed by the board of directors of the Joint Venture.

Based on the shareholding structure of the Joint Venture contemplated under the Investors’ Agreement (amended by the Supplemental Agreement), the Joint Venture will become an associate of CASC and therefore a connected person of the Company under Chapter 14A of the Listing Rules if the contribution of the registered capital by China Aerospace Investment is approved by the Independent Shareholders at the SGM and China Aerospace Investment becomes a Contributory holding 10% interest in the Joint Venture. As such, the provision of services and resources by the Group (including APT (Shenzhen)) to the Joint Venture will constitute continuing connected transactions for the Company. The Group will enter into separate contract(s) with the Joint Venture for such transactions and comply with any applicable reporting, announcement, circular and/or shareholders’ approval requirements under Chapter 14A and/or any other relevant provisions of the Listing Rules.

APT (Shenzhen) undertakes that, after the establishment of the Joint Venture, it will not invest in and set up in the PRC another new company or organization which competes directly with the business of the Joint Venture.

It is noted that (i) the Group will enter into separate contract(s) with the Joint Venture for provision of any services and resources to the Joint Venture; and (ii) the Company will comply with any applicable requirements under the Listing Rules if the Joint Venture is to become a connected person of the Company. The above ensure that provision of any services and resources to the Joint Venture will be carried out on an arm’s length basis and the terms will be on normal commercial terms.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For the non-competing undertaking, the Management confirmed that it only applies to the situation when the Group is to set up new business and operation which competes directly with the business of the Joint Venture in the PRC but not on its existing business and thus, it will not have any material adverse effect to the existing business and operation of the Group.

Based on the above, we consider that the terms regarding the responsibilities of APT (Shenzhen) are fair and reasonable.

*(d) Possible transfer of equity to management team of the Joint Venture*

As stated in the Letter from the Board, the management team of the Joint Venture or company held by the management team of the Joint Venture may acquire from Shenzhen Hao Chuang at cost its equity interest in the Joint Venture equivalent to the capital contribution of RMB50 million in the registered capital of the Joint Venture in accordance with the policy and plan in relation to the holding of equity interest by the management team of the Joint Venture as determined by the shareholders and board of directors of the Joint Venture. In the event that such equity interest in the Joint Venture is transferred from Shenzhen Hao Chuang to the management team of the Joint Venture, the capital in the Joint Venture contributed by Shenzhen Hao Chuang and the management team will amount to RMB200 million (representing 10% of the equity interest in the Joint Venture) and RMB50 million (representing 2.5% of the equity interest in the Joint Venture) respectively. All shareholders of the Joint Venture shall renounce their pre-emptive right in respect of the abovementioned transfer of equity interest. If any part of the capital contribution in respect of such equity interest has not been paid after such transfer, the management team of the Joint Venture is permitted to pay the outstanding amount by instalments within initial 3 years after completion of the registration of such transfer of equity interest.

If the policy and plan in relation to the holding of equity interest by the management team of the Joint Venture is not confirmed and implemented within 3 months after the establishment of the Joint Venture, Guo Xin (Shenzhen), HNA EcoTech and Shenzhen Capital (collectively as the “**Withdrawing Shareholders**”) shall have the right to withdraw from the Joint Venture. With the consent of other Contributories, APT (Shenzhen) may acquire or shall use its best efforts to find other appropriate investors (including but not limited to other Contributories) to acquire the equity interest held by the Withdrawing Shareholders. If the acquisition of equity interest by APT (Shenzhen) is not agreed by other Contributories or APT (Shenzhen) is unable to find other appropriate investors, the equity interest of the Withdrawing Shareholders in the Joint Venture may be reduced as determined by the shareholders of the Joint Venture.

As stated in the Letter from the Board, in the event that (i) APT (Shenzhen) receives notice from the Transferring Shareholder of its intention to sell or transfer all or part of its equity in the Joint Venture or (ii) the Withdrawing Shareholders have decided to withdraw from the Joint Venture as the policy and plan in relation to the holding of equity interest by the management team is not confirmed and implemented within 3 months after the establishment of the Joint Venture, and in either case APT (Shenzhen) has decided to acquire the equity interest held by the Withdrawing Shareholders with the consent of other Contributories, the Company will calculate the percentage ratios pursuant to Rule 14.75 of the Listing Rules in respect of any exercise of its rights to acquire additional interests in the Joint Venture (if applicable) and will comply with any

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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applicable reporting, announcement, circular and/or shareholders' approval requirements under Chapter 14 and/or any other relevant provision of the Listing Rules with reference to the relevant percentage ratios before APT (Shenzhen) exercises such rights. In this regard, in any event, if APT (Shenzhen) is to acquire the equity interest held by the Withdrawing Shareholders (which falls into the scope of Transferring Shareholder), the Company will then comply with the relevant requirement of the Listing Rules.

Based on the above, we consider that the terms regarding the possible transfer of equity to management team of the Joint Venture are fair and reasonable as (i) all shareholders of the Joint Venture shall renounce their pre-emptive rights in respect of the possible transfer of equity to management team of the Joint Venture which are equitable among all shareholders of the Joint Venture; and (ii) only APT (Shenzhen) has the first right to acquire the equity interest held by the Withdrawing Shareholders with the consent of other Contributories which is no less favourable to the Group.

*(e) Increase of capital of the Joint Venture*

As stated in the Letter from the Board, after the establishment of the Joint Venture and up to 31 December 2016, if a new investor (the “**New Shareholder**”, who is not one of the Contributories and is recommended by APT (Shenzhen)) is interested in investing in the Joint Venture, all shareholders of the Joint Venture shall consent to such investment by the New Shareholder. The registered capital of the Joint Venture shall be increased according to the contribution made by the New Shareholder while the total registered capital of the Joint Venture shall not exceed RMB2 billion upon investment by the New Shareholder. However if, at the time of the intended investment by the New Shareholder, the total registered capital of the Joint Venture is RMB2 billion or more or the New Shareholder intends to join after 31 December 2016, the shareholders of the Joint Venture may oppose the intended investment to be made by the New Shareholder. As the share capital committed has already been up to RMB2 billion, the said nomination rights of APT (Shenzhen) is not applicable.

Apart from the above, if the Joint Venture needs to further increase its registered capital, each Contributory shall have priority in subscribing the additional registered capital in accordance with the percentage of contribution made by each Contributory at the relevant time.

Given (i) consent has to be obtained from all the shareholders of the Joint Venture for introducing the New Shareholder before 31 December 2016; (ii) all the shareholders of the Joint Venture may oppose the intended investment to be made by the New Shareholder if the total registered capital of the Joint Venture is RMB2 billion or more or the New Shareholder intends to join after 31 December 2016; and (iii) each of the Contributory shall have priority in subscribing the additional registered capital in a pro rata basis, we consider that the terms regarding increase of capital of the Joint Venture are equitable among all parties and no less favourable to the Group and thus, fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(f) *Board composition of the Joint Venture*

As stated in the Letter from the Board, (i) shareholders of the Joint Venture will be entitled to appoint directors to the board based on the principle that every 10% equity interest in the Joint Venture shall be entitled to appoint one director; (ii) the employee representative of the Joint Venture will be appointed as one of the directors of the Joint Venture; and (iii) after the management team of the Joint Venture has acquired equity interest in the Joint Venture from Shenzhen Hao Chuang (as mentioned above), the management team may also appoint one director to the board of directors of the Joint Venture.

The board composition of the Joint Venture assuming the management team of the Joint Venture has acquired equity interest in the Joint Venture from Shenzhen Hao Chuang is below:

<b>Contributories</b>	<b>Equity interest in the Joint Venture %</b>	<b>Number of board seats</b>
APT (Shenzhen), a wholly-owned subsidiary of the company	30%	3
China Aerospace Investment, a connected person	10%	1
	40%	4
Independent third parties:		
Beijing Shipping	20%	2
Guo Xin (Shenzhen)	10%	1
Shenzhen Hao Chuang	10%	1
HNA EcoTech	10%	1
Guohua Junmin	5%	–
Shenzhen Capital	2.5%	–
	57.5%	5
Sub-total for Contributories	97.5%	9
Management team	2.5%	1
Employee representative	–	1
<b>Total</b>	<b>100%</b>	<b>11</b>

According to the Management, (i) the board seat granted to the management team will enable the representative of the management to participate in the board discussion and decision process and ensure that the view of the management is reflected and taken into account in the board decision. This is an important process to ensure the board of directors in the Joint Venture will fully take into account the view of the management team; and (ii) the board seat granted to the employee representative is a legal requirement under Article 44 of the Company Law of the PRC which the Joint Venture has to comply with as it is a company to be established in the PRC subject to the Company Law of the PRC.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on the terms in respect of the board composition, APT (Shenzhen) will secure three board seats out of a total eleven board members representing approximately 27.3% of the board representation. The 27.3% board representation is lower than the 30% equity interest in the Joint Venture to be held by APT (Shenzhen) after additional two board seats granted to the management team and the employee representative not based on the proportionate percentage of shareholding of the Joint Venture.

All other Contributories will be affected in the same way as APT (Shenzhen). In this regard, this is equitable among all parties. Also, taking into account the expected benefit from engaging the management team and the statutory requirement to have employee representative to the board of the Joint Venture, we consider that the dilution of the board representation by APT (Shenzhen) as compared to its equity interest in the Joint Venture is justifiable. On the above bases, we consider that the terms in respect of the board composition are fair and reasonable.

In summary, based on the above analysis, we consider the terms of the Investors' Agreement (amended by the Supplemental Agreement) to be normal commercial terms negotiated among the Contributories. In addition, taking into account (i) the pro rata capital injection by the Group and other Contributories based on their respective shareholding interest in the Joint Venture; (ii) that the terms are equitable among all Contributories and no less favourable to the Group; and (iii) the Group, through APT (Shenzhen), shall have the right to appoint representation on the board of directors of the Joint Venture, which ensures that the Group will be involved in the strategic decision making and operation of the Joint Venture, we are of view that the terms of the Investors' Agreement (amended by the Supplemental Agreement) are fair and reasonable.

#### **4. Financial position of the Group**

Pursuant to the Investors' Agreement (amended by the Supplemental Agreement), the Contributories shall pay by instalments their respective capital contribution in the following manner:

- (i) 5% of the capital contribution upon the establishment of the Joint Venture; and
- (ii) the remaining 95% of the capital contribution within the initial two years after the formation of the Joint Venture and at such date(s) and such amount as the board of directors of the Joint Venture shall determine from time to time with reference to the establishment and actual operating conditions of the Joint Venture.

The Group has to contribute RMB600 million. As stated in the Letter from the Board, the Company plans to finance its share of the capital contribution with internal resources of the Group and/or by borrowings, if necessary. According to the above contribution schedule, RMB30 million will be paid upon the establishment of the Joint Venture and the remaining RMB570 million will be contributed within the initial two years after the formation of the Joint Venture.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We can see that most of the contribution will be spread over as long as in two years after the establishment of the Joint Venture which would not cause immediate financial pressure to the Group. According to the 2015 Annual Report, the unpledged cash and bank balances as at 31 December 2015 was approximately HK\$1,237.5 million and the cash generated from the operating activities for the year were approximately HK\$843.8 million. According to the interim results for the six months ended 30 June 2016, the unpledged cash and bank balances as at 30 June 2016 was approximately HK\$875.2 million. Also, the Management advised that the unutilized banking facilities as at 30 June 2016 were approximately HK\$1,175.5 million. Based on the above, we are of the view that the Group has sufficient financial resources to invest into the Joint Venture.

### **Recommendation**

Having considered the principal factors and reasons discussed above, we are of the view that the terms of the Investors' Agreement (amended by the Supplemental Agreement) are on normal commercial terms and fair and reasonable as the Independent Shareholders are concerned and the entering into of the Investors' Agreement (amended by the Supplemental Agreement) is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Investors' Agreement (amended by the Supplemental Agreement) and the transaction contemplated thereunder at the SGM.

Yours faithfully  
For and on behalf of  
**VMS Securities Limited**

**Nick Man**  
*Managing Director*  
*Corporate Finance*

Mr. Nick Man is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of VMS Securities Limited to carry on Type 6 (advising on corporate finance) regulated activity under the SFO. Mr. Nick Man has over 10 years of experience in the corporate finance industry and has participated in the provision of independent financial advisory services for connected transactions involving companies listed in Hong Kong.

## 1. RESPONSIBILITY

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

## 2. DISCLOSURE OF INTERESTS

### (a) Interest of Directors

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

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

*Note:*

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

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

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

- (a) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group taken as a whole;
- (b) none of the Directors had any direct or indirect interest in any assets acquired or disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, the Company or any of its subsidiaries since 31 December 2015, the date up to which the latest published audited consolidated financial statements of the Group were made; and
- (c) (i) Mr. Yuan Jie, a non-executive Director and the Chairman of the Company, was also concurrently vice president of CASC and the chairman of the board of director of APT International; (ii) Mr. Cheng Guangren, an executive Director and the President of the Company, was also concurrently a non-executive director of CSCC and a director of APT International; (iii) Mr. Qi Liang, an executive Director, was also concurrently the deputy chief accountant for CSCC and a director of APT International; (iv) Mr. Zhuo Chao, a non-executive Director, was also concurrently a director and general manager of CSCC and a director of APT International; (v) Mr. Fu Zhiheng, a non-executive Director, was also concurrently the vice president of CGWIC and a director of APT International; and (vi) Mr. Lim Toon, Mr. Lim Kian Soon and Dr. Yin Yen-liang, non-executive Directors, and Mr. Tseng Ta-mon (alternate Director to Dr. Yin Yen-liang), were also concurrently directors of APT International.

### **3. DIRECTORS' SERVICE CONTRACTS**

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

### **4. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors and their respective close associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder).

### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up.

**6. EXPERT'S QUALIFICATIONS AND CONSENT**

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

<b>Name</b>	<b>Qualification</b>
VMS Securities Limited	a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

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

- (a) did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2015, being the date up to which the latest published audited consolidated financial statements of the Group were made up; and
- (c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they respectively appear.

The letter of advice given by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders was made on 2 September 2016 for incorporation in this circular.

**7. MISCELLANEOUS**

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

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copy of the following documents are available for inspection at the head office of the Company at 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong, during normal business hours from the date of this circular up to and including the date of SGM:

- (i) the Investors' Agreement;
- (ii) the Supplemental Agreement;



- (iii) letter from the Independent Board Committee to the Independent Shareholders dated 2 September 2016, the text of which is set out on page 20 of this circular;
- (iv) letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders dated 2 September 2016, the text of which is set out on pages 21 to 35 of this circular;
- (v) the consent letter issued by the Independent Financial Adviser referred to in the paragraph headed “Expert’s qualifications and consent” in this appendix; and
- (vi) this circular.

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## NOTICE OF THE SGM

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**NOTICE IS HEREBY GIVEN** that a special general meeting of APT Satellite Holdings Limited (the “**Company**”) will be held at its principal place of business in Hong Kong, 22 Dai Kwai Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Friday, 23 September 2016, at 11:00 a.m. or at any adjournment thereof for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments, as ordinary resolution of the Company:

### ORDINARY RESOLUTION

“**THAT:**

- (a) China Aerospace Investment Holdings Ltd. 航天投資控股有限公司 (“**China Aerospace Investment**”) as one of the proposed shareholders of the joint venture company (namely APT Mobile SatCom Limited 亞太衛星寬帶通信(深圳)有限公司) established in Shenzhen, Guangdong Province of the People’s Republic of China (the “**Joint Venture**”) pursuant to, and as a party to the transaction contemplated under, the Investors’ Agreement as amended by the Supplemental Agreement (each as defined and described in the circular of the Company dated 2 September 2016 (the “**Circular**”)) in relation to the formation of the Joint Venture, a copy of the Circular marked “**A**” together with a copy of the Investors’ Agreement marked “**B**” and a copy of the Supplemental Agreement marked “**C**” being tabled before the meeting and initialed by the chairman of the meeting for identification purpose, be and are hereby approved, confirmed and ratified; and
- (b) the directors of the Company be and are hereby authorised to do all such further acts and things and sign, seal, execute, perfect and deliver all such documents on behalf of the Company as they may in their absolute discretion consider necessary, desirable or expedient for the purposes of and in connection with the implementation and/or give full effect to any matters relating to the Investors’ Agreement (as amended by the Supplemental Agreement) and the transactions contemplated thereunder with China Aerospace Investment as one of the proposed shareholders of the joint venture company.”

By Order of the Board  
**APT Satellite Holdings Limited**  
**Dr. Brian Lo**  
Company Secretary

Hong Kong, 2 September 2016

\* For identification purpose only

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## NOTICE OF THE SGM

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*Registered office:*

Clarendon House  
2 Church Street  
Hamilton, HM 11  
Bermuda

*Head office and principal place of business in Hong Kong:*

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

*Notes:*

1. The ordinary resolution to be considered at the special general meeting will be determined by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. On voting by poll, each member shall have one vote for each share held in the Company. The results of the poll will be published on the website of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.apstar.com](http://www.apstar.com)) respectively.
2. A member of the Company who is entitled to attend and vote at the special general meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy. A proxy need not be a member of the Company. If more than one proxy is appointed, the number of shares in respect of which each proxy so appointed must be specified in the relevant form of proxy.
3. A form of proxy for use at the special general meeting is enclosed herewith and such form is also published on the websites of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.apstar.com](http://www.apstar.com)) respectively.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the special general meeting or any adjourned meeting thereof (as the case maybe) and in default thereof the form of proxy shall not be treated as valid.
5. Completion and return of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the special general meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. As at the date of this notice, the board of the Company comprises 13 directors with Mr. Cheng Guangren (President) and Mr. Qi Liang (Vice President) as executive directors; Mr. Yuan Jie (Chairman), Mr. Lim Toon, Dr. Yin Yen-liang, Mr. Zhuo Chao, Mr. Fu Zhiheng, Mr. Lim Kian Soon and Mr. Tseng Ta-mon (alternate director to Dr. Yin Yen-liang) as non-executive directors and Dr. Lui King Man, Dr. Lam Sek Kong, Mr. Cui Liguang and Dr. Meng Xingguo as independent non-executive directors.
7. If the ordinary resolution above cannot be passed, the registered capital to be contributed by China Aerospace Investment will be contributed by other parties (not being a connected person of the Company) designated by China Aerospace Investment or 國華軍民融合產業發展基金管理有限公司.