ASCENDERCAPITAL

Dr. Cheng Guangren
No. 22 Dai Kwai Street, Tai Po Industrial Estate,
Tai Po, New Territories Hong Kong

4th November 2019

For the attention of: The Board of Directors of APT Satellite

Dear Dr. Cheng,

We are writing to you as shareholders of APT Satellite regarding the Company's capital allocation and shareholder return policies. Our goal is simply to maximize value for all shareholders, and it is our sincere hope that the Board of Directors can use the contents of this letter to shape company policy toward that end.

The business of APT Satellite has been very well managed, as evidenced by the Company's long-term track record of strong profitability and attractive return on equity (ROE) even in face of a tough industry environment in recent years.

HKD M	2013	2014	2015	2016	2017	2018
EQUITY	3,576	4,010	4,450	4,849	5,301	5,647
NET INCOME	545	508	513	493	504	507
ROE	15.2%	12.7%	11.5%	10.2%	9.5%	9.0%

We also applaud the management's capital allocation policy in the past years. By keeping the payout ratio low, APT was able to invest more than HKD 3.6 billion in capital expenditures for new satellites since 2013 without overstretching the balance sheet.

HKD M	2013	2014	2015	2016	2017	2018
CAPEX*	29	340	1,383	675	623	636
PAYOUT RATIO**	14%	15%	16%	16%	16%	21%
NET CASH (NC)	409	642	562	245	61	258
NC AS A % OF EQUITY	11%	16%	13%	5%	1%	5%

However, as APT's fleet of satellites has been fully replenished, we expect the company to have minimal capital expenditure needs in the next 4 to 5 years. The next round of investments should only begin in around 2024 for replacing APSTAR-7 in 2027. As the

*Capital Expenditure includes capital contribution to JV
** Payout Ratio as a percentage of net income

capital funding profile has matured, we believe the capital allocation policy should be modified.

As of 30 June 2019, APT has HKD 536 million in net cash. Netting off the HKD 210 million still required for APSTAR-6D, APT should have HKD 326 million in net cash. Without the need to invest in new satellites, we conservatively estimate that APT can generate at least HKD 830 million of free cash flows after the launch of APSTAR-6D in 2020. If the payout ratio remains at only 20% of free cash flows, net cash as a percentage of equity will exceed 40% by 2023.

HKD M	2019	2020	2021	2022	2023
FCF	800	830	830	830	830
DIVIDEND PAID OUT	160	166	166	166	166
NET CASH (NC)	966	1,630	2,294	2,958	3,622
EQUITY	6,287	6,951	7,615	8,279	8,943
NC AS A % OF EQUITY	14%	22%	29%	35%	40%

To avoid creating an overcapitalized balance sheet that would drag down its ROE, we suggest the company to increase its payout ratio to at least 70% of free cash flows in the next few years until 2023, after which the company can bring down the payout ratio so it can fund the next round of investments in new satellites.

Here is what the balance sheet will look like if the payout ratio is raised to 70% of free cash flows:

HKD M	2019	2020	2021	2022	2023
FCF	800	830	830	830	830
DIVIDEND PAID OUT	560	581	581	581	581
NET CASH	566	815	1,064	1,313	1,562
EQUITY	5,887	6,136	6,385	6,634	6,883
NC AS A % OF EQUITY	10%	13%	17%	20%	23%

Even if the dividend payments are raised to HKD 580 million per year, net cash on your balance sheet could still increase to 23% of total equity by 2023, or more than HKD 1.5 billion. This should provide enough capital flexibility to invest in the next fleet of satellites.

Extreme Undervaluation Due to Low Payout Ratio

COMPANY NAME	P/B	5-YR AVG. ROA	EBIT MARGIN
APT SATELLITE	0.5	7.7%	48%
SES	1.4	5.3%	20%
ECHOSTAR	0.9	2.1%	9%
EUTELSAT	1.6	4.4%	40%
SPEEDCAST	1.8	-0.8%	20%
AVG. EX APT	1.4	2.8%	22%

Despite having significantly better return on assets (ROA) and EBIT margin, APT is trading at only 50% of its book value, while the average of the major comparable companies is at 1.4x book value. We believe the low payout ratio of APT has contributed to this extreme undervaluation of APT Satellite.

Increasing annual dividend payments to HKD 580 million will boost the dividend yield of APT Satellite to nearly 20%. Under the current low interest environment, this will attract investors to bid up APT Satellite share price, lowering the dividend yield to a more normal single digit level. This suggests the share price of APT Satellite should at least double to reach 1x P/B. We thus expect that more efficient capital allocation will be rewarded by the market with a normalized valuation.

Conclusion

It is the fiduciary duty of the Board of Director to maximize value for all shareholders of APT Satellite.

We firmly believe that all shareholders would greatly benefit from an increase in payout ratio. Importantly, due to the Company's strong market position and stable cash flows, APT Satellite will remain safe with a continually growing net cash balance.

As such, we recommend the Board of Directors to start returning excess capital to shareholders by increasing its dividend payout ratio to 70% starting for the fiscal year 2019. We believe APT should pay HKD 0.6 per share in dividend each year. Since HKD 0.045 per share was paid as the interim dividend, we suggest APT to declare a final dividend of HKD 0.555 per share in March 2020. We are confident that this capital allocation policy will bring APT's valuation inline with its global peers.

Should you have any questions or comments, please do not hesitate to contact us on +852 3758 2609. We look forward to discussing in more details the contents of this letter.

In the meantime, we look forward to the Board's acknowledgement of the receipt of this letter.

Kind Regards,

Edouard Mercier
edouard@ascendercapital.com and

Andrin Bachmann
andrin@ascendercapital.com