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Hong Kong Aerospace Technology Group Limited

香港航天科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1725)

MAJOR TRANSACTION IN RELATION TO AN OFFER TO LEASE THE PREMISES IN THE ADVANCED MANUFACTURING CENTRE FOR SETTING UP A HONG KONG SATELLITE MANUFACTURING CENTRE

THE OFFER TO LEASE

The Board announces that on 17 September 2021 (after trading hours), Hong Kong Satellite Manufacturing Limited (the “**Lessee**”), an indirect wholly-owned subsidiary of the Company, entered into the Offer to Lease in favour of the Hong Kong Science and Technology Parks Corporation (the “**Lessor**”), pursuant to which the Lessee accepted the offer to rent from the Lessor the Premises for a term of six (6) years commencing from the Commencement Date, which is tentatively to be on 1 April 2022. Acceptance and returning of the Offer to Lease by the Lessee constitute a fully and effectually binding obligation on both the Lessor and the Lessee. The parties shall enter into the formal Lease Agreement for the lease of the Premises. The Premises is now under construction by the Lessor as at the date of this announcement and the construction of the Premises is expected to be completed in the first quarter of 2022. The Commencement Date under the Lease Agreement is dependent on the construction completion date of the Premises.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to HKFRS 16, the entering into of the Offer to Lease will require the Group to recognise the Premises as the right-of-use assets on its balance sheet, thus the entering into of the Offer to Lease and the transaction contemplated thereunder will be regarded as an acquisition of asset by the Group under the Listing Rules.

As one or more of the applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of aggregate value of the right-of-use assets recognised by the Group pursuant to HKFRS 16 and the Investment Requirement is more than 25% but less than 100%, the entering into of the Offer to Lease and the transaction contemplated thereunder constitute a major transaction for the Company, and is subject to the reporting, announcement, circular and shareholders’ approval requirements under the Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder or any of its close associates has any material interest in the transactions contemplated under the Offer to Lease, and therefore no Shareholder is required to abstain from voting under the Listing Rules if the Company were to convene a general meeting for the approval of the transactions contemplated under the Offer to Lease. HKATH is holding 212,850,100 Shares, representing approximately 70.95% of the issued share capital of the Company as at the date of this announcement.

Pursuant to Rule 14.44 of the Listing Rules, HKATH has given written approval to approve the Offer to Lease and the transactions contemplated thereunder. Accordingly, the written approval from HKATH will be accepted in lieu of holding a general meeting of the Company for approval of the entering into of the Offer to Lease and the transactions contemplated thereunder.

GENERAL

A circular of the Company containing, among other matters, further details of the terms of the Offer to Lease, and other information as required under the Listing Rules, is expected to be despatched to the Shareholders on or before 12 October 2021.

Reference is made to the announcement of the Company dated 14 July 2021, in relation to the Company's receipt of the successful bidding notice issued by the Lessor, confirming that the Company has successfully bid for the lease of the Premises.

THE OFFER TO LEASE

The Board announces that on 17 September 2021 (after trading hours), the Lessee, an indirect wholly-owned subsidiary of the Company, entered into the Offer to Lease in favour of the Lessor, pursuant to which the Lessee accepted the offer to rent from the Lessor the Premises. Acceptance and returning of the Offer to Lease by the Lessee constitute a fully and effectually binding obligation on both the Lessor and the Lessee.

Details of the Offer to Lease are set out below:

Date : 17 September 2021

Parties : Lessee: Hong Kong Satellite Manufacturing Limited (香港衛星製造有限公司) (being an indirect wholly-owned subsidiary of the Company)

Lessor: Hong Kong Science and Technology Parks Corporation (香港科技園公司)

The Lessor is a body corporate formed under the Hong Kong Science and Technology Parks Corporation Ordinance (Chapter 565 of the Laws of Hong Kong) on 7 May 2001, being a statutory body dedicated to empowering innovation and technology advancement in Hong Kong.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Lessor is an Independent Third Party.

The Lessor is mainly involved in facilitating the research and development and application of technologies in manufacturing and service industries in Hong Kong; and supporting the development, transfer and use of new or advanced technologies in Hong Kong.

Premises : Several units on second (2nd) and eighth (8th) floors of AMC with a total gross floor area of approximately 178,205 square feet.

Lease Term : Six (6) years commencing from the Commencement Date, which is tentatively to be on 1 April 2022.

The Lessor shall have the right to postpone the Target Commencement Date for a period of six (6) months. The Lessor shall be entitled to further extend the completion of works at the Premises beyond the Long Stop Date as reasonably determined by the Lessor's authorised person.

The Premises is now under construction by the Lessor as at the date of this announcement and the construction of the Premises is expected to be completed in the first quarter of 2022. The Commencement Date under the Lease Agreement is dependent on the construction completion date of the Premises.

Rent-free period : Six (6) months commencing from and inclusive of the Commencement Date, exclusive of any government rent, rate, management charges and other outgoings payable in respect of the Premises.

Usage : Manufacturing of commercial satellites and provision of smart city applications services and related business.

Rent : Rent for the first three years of the term of the lease shall be approximately HK\$39,272,000 per annum.

Rent for the following three years of the term of the lease shall be at the prevailing market rent of the Premises to be mutually agreed by the parties, in any event no less than the existing rent, being approximately HK\$39,272,000 per annum.

The rent payable by the Company for the Premises was determined with reference to the prevailing market rent for properties of similar use, floor area and location.

The rent payable by the Company for the Premises is expected to be financed by internal resources and loan facilities of the Company.

Deposit : Prior to the Offer to Lease, the Lessee had paid an application deposit in the amount of HK\$200,000 (the “**Application Deposit**”) to the Lessor to bid for the lease of the Premises.

Upon the entering into of the Offer to Lease, the Lessee shall pay a sum in the amount of approximately HK\$4,226,000 (the “**Sum**”, together with the Application Deposit, the “**Advance Payment**”) to the Lessor, which shall constitute one (1) month’s rent, management charges, government rent and rates on the Commencement Date.

Upon the entering into of the Lease Agreement, the Lessee shall pay a cash deposit (the “**Cash Deposit**”) equivalent to three (3) months’ rent, management charges, government rent and rates.

Lease Agreement : The parties shall enter into the formal Lease Agreement for the lease of the Premises.

Failure of the Lessee to execute the Lease Agreement and pay the Cash Deposit, the Lessor shall have the right to (a) terminate the Offer to Lease, forfeit the Advance Payment, and claim for further losses or damages; or (b) continue to treat the Offer to Lease as valid and subsisting and deem the Lease Agreement had already been executed by the Lessee.

Lessee's milestones : The Lessee undertook to fulfill the Investment Requirement, being the machinery, plant and equipment investment in the amount of HK\$160 million, and to complete the purchase and installation of all machinery, plant and equipment necessary for the commencement of its operations on the Premises within 12 months from the Commencement Date.

The Lessee also undertook to fulfill the Production Requirement, being to commence on the Premises a level of production amounting to HK\$100 million within 12 months from the Commencement Date.

In the event the Lessee failed to meet the Investment Requirement and/or the Production Requirement within the stipulated deadline, on demand by the Lessor, the Lessee shall be obliged to pay an additional sum to the Lessor calculated at the rate of 0.7% of the monthly rent per day for each failure until such failure had been remedied.

Option to renew : The Lessee shall have the option to renew the lease for a further term of three (3) years.

The Lessee may exercise the option for renewal by giving the Lessor notice in writing not less than 18 months before the expiry of the term.

Termination : In the event that the Lessor is unable to obtain further extension of time beyond the Long Stop Date, either party shall be entitled to terminate the Offer to Lease by giving not less than seven (7) days' prior written notice to the other party, and the Lessor shall return to the Lessee the Advance Payment (without interest).

The Lessor shall have the right to terminate the lease by giving the Lessee six (6) months' prior notice in writing in the 30th month of the term.

REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE OFFER TO LEASE

The Company is an investment holding company. The Group is principally engaged in (i) electronics manufacturing services business; and (ii) aerospace business, currently under the "Golden Bauhinia Constellation" project, which include (1) smart city with satellite big data applications and solutions; (2) satellite measurement and controlling; (3) satellite manufacturing; and (4) satellite launching.

In order to execute the “Golden Bauhinia Constellation” project, the Company needs to set up a satellite intelligent manufacturing center; a monitoring and operation control, application and data center for satellites; and also conduct corresponding research and development activities at the Premises. AMC is designed to support high value-added and advanced manufacturing in order for industries to embark on technologically innovative, high value-added and highly customised production. Considering that satellite manufacturing is a highly precised process carried out in a customised location, the Board believes that the design of AMC fulfill such needs, and the lease of the Premises will have a significant positive impact on the future development of the Group’s aerospace business.

As such, the Board is of the view that the terms and conditions of the Offer to Lease are fair and reasonable, and the entering into of each of the Offer to Lease, and subsequently, the Lease Agreement, is in the interests of the Company and the Shareholders as a whole. In the event there is any major changes to the terms of the formal Lease Agreement, the Company will make further announcement(s) to update the Shareholders as and when appropriate.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to HKFRS 16, the entering into of the Offer to Lease will require the Group to recognise the Premises as the right-of-use assets on its balance sheet, thus the entering into of the Offer to Lease and the transaction contemplated thereunder will be regarded as an acquisition of asset by the Group under the Listing Rules.

As one or more of the applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of aggregate value of the right-of-use assets recognised by the Group pursuant to HKFRS 16 and the Investment Requirement is more than 25% but less than 100%, the entering into of the Offer to Lease and the transaction contemplated thereunder constitute a major transaction for the Company, and is subject to the reporting, announcement, circular and shareholders’ approval requirements under the Chapter 14 of the Listing Rules.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, no Shareholder or any of its close associates has any material interest in the transactions contemplated under the Offer to Lease, and therefore no Shareholder is required to abstain from voting under the Listing Rules if the Company were to convene a general meeting for the approval of the transactions contemplated under the Offer to Lease. HKATH is holding 212,850,100 Shares, representing approximately 70.95% of the issued share capital of the Company as at the date of this announcement.

Pursuant to Rule 14.44 of the Listing Rules, HKATH has given written approval to approve the Offer to Lease and the transactions contemplated thereunder. Accordingly, the written approval from HKATH will be accepted in lieu of holding a general meeting of the Company for approval of the entering into of the Offer to Lease and the transactions contemplated thereunder.

GENERAL

A circular of the Company containing, among other matters, further details of the terms of the Offer to Lease, and other information as required under the Listing Rules, is expected to be despatched to the Shareholders on or before 12 October 2021.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“AMC”	the Advanced Manufacturing Centre located at Tseung Kwan O Industrial Estate, Hong Kong
“Board”	the board of the Directors
“Commencement Date”	the date to be specified in a notice from the Lessor to the Lessee notifying the Lessee that the Premises are ready for handover
“Company”	Hong Kong Aerospace Technology Group Limited (香港航天科技集團有限公司), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1725)
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HKATH”	Hong Kong Aerospace Technology Holdings Limited (香港航天科技控股有限公司), a company incorporated in Hong Kong with limited liability and the Controlling Shareholder of the Company
“HKFRS 16”	the “Hong Kong Financial Reporting Standard 16 — Leases” issued by the Hong Kong Institute of Certified Public Accountants, sets out the principles for the recognition, measurement, presentation and disclosure of leases
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent Third Party”	any person or company and their respective ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules
“Investment Requirement”	the machinery, plant and equipment investment in the amount of HK\$160 million to be provided by the Lessee for the commencement of its operations on the Premises within 12 months from the Commencement Date
“Lease Agreement”	the formal lease agreement to be entered into by the Lessor and the Lessee for the lease of the Premises
“Lessee”	Hong Kong Satellite Manufacturing Limited (香港衛星製造有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“Lessor”	Hong Kong Science and Technology Parks Corporation (香港科技園公司), being a body corporate formed under the Hong Kong Science and Technology Parks Corporation Ordinance (Chapter 565 of the Laws of Hong Kong)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	1 October 2022, being the latest date for the Commencement Date to take effect
“Offer to Lease”	the offer to lease letter issued by the Lessor and accepted and entered into by the Lessee on 17 September 2021, setting out the principal terms of the lease of the Premises
“Premises”	several units on second (2nd) and eighth (8th) floors of AMC with a total gross floor area of approximately 178,205 square feet
“Production Requirement”	a level of production amounting to HK\$100 million by the Lessee within 12 months from the Commencement Date on the Premises

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Commencement Date”	tentatively to be on 1 April 2022
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.

By order of the Board
Hong Kong Aerospace Technology Group Limited
Sun Fengquan
Co-Chairman and Chief Executive Officer

Hong Kong, 17 September 2021

As at the date of this announcement, the Board comprises Mr. Sun Fengquan (Co-Chairman and Chief Executive Officer), Mr. Lam Kin Fung Jeffrey, Ms. Ku Ka Lee Clarie (Vice Chairman) and Mr. Ma Fujun as executive Directors; Dr. Lam Lee G. (Co-Chairman) and Dr. Yip Chung Yin as non-executive Directors; and Mr. Brooke Charles Nicholas, Mr. Hung Ka Hai Clement, Mr. Leung Kwong Ho and Mr. Lo Chi Chung William as independent non-executive Directors.