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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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **BEIJING CAPITAL INTERNATIONAL AIRPORT CO., LTD.**, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

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北京首都國際機場股份有限公司 **Beijing Capital International Airport Co., Ltd.**

(a sino-foreign joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00694)

CONTINUING CONNECTED TRANSACTIONS **(1) OPERATION AND MAINTENANCE SERVICES** **FRAMEWORK AGREEMENT** **(2) SUPPLY OF AVIATION SAFETY AND SECURITY GUARD** **SERVICES AGREEMENT**

**Independent Financial Adviser to the
Independent Board Committee and the Independent Shareholders**



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 5 to 24 of this circular. A letter from the Independent Board Committee is set out on pages 25 to 26 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 27 to 54 of this circular.

The Company will convene the EGM at 3:00 p.m. on Thursday, 22 December 2022 at the Conference Room, Room 112, the Office Building of the Company, No. 9 Siwei Road, Capital Airport, Beijing, the PRC. The notice convening the EGM was despatched to the Shareholders on 3 November 2022.

The Company has despatched the reply slips for the EGM on 3 November 2022. Shareholders who intend to attend the EGM should have completed and returned the reply slips in accordance with the instructions printed thereon as soon as possible and in any event by not later than 4:30 p.m., Thursday, 1 December 2022.

Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

6 December 2022

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Aviation Security Company”	Beijing Capital Airport Aviation Security Co., Ltd., a limited liability company incorporated in the PRC, which is a wholly-owned subsidiary of the Parent Company
“Beijing Bowei”	Beijing Bowei Airport Support Limited* (北京博維航空設施管理有限公司), an enterprise established in the PRC, which is wholly-owned by the Parent Company
“Beijing Capital Airport”	Beijing Capital International Airport
“Board”	the board of Directors
“CAAC”	Civil Aviation Administration of China
“Company”	Beijing Capital International Airport Company Limited (北京首都國際機場股份有限公司), a sino-foreign joint stock limited company incorporated in the PRC with limited liability, and the H Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“COVID-19”	novel coronavirus
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary domestic share(s) of nominal value of RMB1.00 each in the registered share capital of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 3:00 p.m. on Thursday, 22 December 2022 to consider and approve, (i) the Operation and Maintenance Services Framework Agreement and the transactions contemplated thereunder, including the annual caps; and (ii) the Supply of Aviation Safety and Security Guard Services Agreement and the transactions contemplated thereunder, including the annual caps

DEFINITIONS

“Former Operation and Maintenance Services Framework Agreement”	the framework agreement dated 23 December 2019 entered into between the Company and Beijing Bowei in relation to the provision of certain operation and maintenance services by Beijing Bowei to the Company, details of which were disclosed in the relevant announcement of the Company dated 23 December 2019
“Former Supplemental Aviation Security Services Agreement”	the supplemental agreement dated 18 October 2021 in relation to the Former Supply of Aviation Safety and Security Guard Services Agreement entered into between the Company and Aviation Security Company, details of which were disclosed in the announcement of the Company dated 18 October 2021 and the circular of the Company dated 30 November 2021
“Former Supply of Aviation Safety and Security Guard Services Agreement”	the agreement dated 30 October 2019 entered into between the Company and Aviation Security Company in relation to the provision of aviation safety and security guard services by Aviation Security Company to the Company, details of which were disclosed in the announcement of the Company dated 30 October 2019 and the circular of the Company dated 3 December 2019
“H Share(s)”	overseas listed foreign share(s) of nominal value of RMB1.00 each in the registered capital of the Company
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely Mr. Jiang Ruiming, Mr. Zhang Jiali, Mr. Stanley Hui Hon-chung and Mr. Wang Huacheng established to advise the Independent Shareholders in respect of (i) the Operation and Maintenance Services Framework Agreement and the transactions contemplated thereunder, including the annual caps; and (ii) the Supply of Aviation Safety and Security Guard Services Agreement and the transactions contemplated thereunder, including the annual caps
“Independent Financial Adviser” or “Opus Capital”	Opus Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Operation and Maintenance Services Framework Agreement and the transactions contemplated thereunder, including the annual caps; and (ii) the Supply of Aviation Safety and Security Guard Services Agreement and the transactions contemplated thereunder, including the annual caps

DEFINITIONS

“Independent Shareholder(s)”	the Shareholder(s) other than the Parent Company, its associates and any other Shareholder who has a material interest in the transactions contemplated under the Operation and Maintenance Services Framework Agreement and the Supply of Aviation Safety and Security Guard Services Agreement, as the case may be
“Latest Practicable Date”	28 November 2022, being the latest practicable date prior to printing of this circular for the purpose of ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Operation and Maintenance Services”	collectively, (i) operation, maintenance and preservation services of mechanical and electric equipment system (including the lifts, escalators and automated ramps and etc.) in the terminals; (ii) operation, inspection, maintenance and preservation services of light-current system and infrastructure (broadcasting system, intercom system and light-current communication room); (iii) system security, operation, repair, maintenance and sanitary cleaning services within the baggage system area; (iv) operation and maintenance of the passenger boarding bridge and ancillary equipment; (v) operation and maintenance of automated people mover system for passengers; and (vi) other related services as requested by the Company
“Operation and Maintenance Services Framework Agreement”	the framework agreement dated 20 October 2022 entered into between the Company and Beijing Bowei in relation to the provision of the Operation and Maintenance Services by Beijing Bowei to the Company
“Parent Company”	Capital Airports Holdings Limited* (首都機場集團有限公司) (formerly known as Capital Airports Holding Company* (首都機場集團公司)), an enterprise established in the PRC and the controlling shareholder of the Company
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of RMB1.00 each in the registered capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply of Aviation Safety and Security Guard Services Agreement”	the framework agreement dated 20 October 2022 entered into between the Company and Aviation Security Company in relation to the provision of aviation safety and security guard services by Aviation Security Company to the Company
“T1”	the passenger terminal numbered one which forms part of the Beijing Capital Airport
“T2”	the passenger terminal numbered two which forms part of the Beijing Capital Airport
“T3”	the passenger terminal numbered three which forms part of the Beijing Capital Airport
“%”	per cent

* *For identification purposes only*

LETTER FROM THE BOARD



北京首都國際機場股份有限公司
Beijing Capital International Airport Co., Ltd.

(a sino-foreign joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00694)

Executive Directors:

Mr. Wang Changyi
Mr. Han Zhiliang
Mr. Zhang Guoliang

Registered office:

Capital Airport, Beijing
The PRC

Non-executive Directors:

Mr. Gao Shiqing
Mr. Jia Jianqing
Mr. Song Kun

Principal place of business in Hong Kong:

37/F, One Taikoo Place
Taikoo Place
979 King's Road
Hong Kong

Independent Non-executive Directors:

Mr. Jiang Ruiming
Mr. Zhang Jiali
Mr. Stanley Hui Hon-chung
Mr. Wang Huacheng

6 December 2022

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS
(1) OPERATION AND MAINTENANCE SERVICES
FRAMEWORK AGREEMENT
(2) SUPPLY OF AVIATION SAFETY AND SECURITY GUARD
SERVICES AGREEMENT

INTRODUCTION

References are made to the announcements of the Company dated 20 October 2022 in respect of (i) the Operation and Maintenance Services Framework Agreement and the transactions contemplated thereunder; and (ii) the Supply of Aviation Safety and Security Guard Services Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) details of the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps; (ii) the letter of recommendation from the Independent Board Committee in connection with the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps; and (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps.

I. OPERATION AND MAINTENANCE SERVICES FRAMEWORK AGREEMENT

Background

Reference is made to the announcement of the Company dated 23 December 2019 in respect of the Former Operation and Maintenance Services Framework Agreement. The Former Operation and Maintenance Services Framework Agreement will expire on 31 December 2022. As the Company and Beijing Bowei intend to continue to carry out transactions of a similar nature from time to time after 31 December 2022, on 20 October 2022, the Company and Beijing Bowei entered into the Operation and Maintenance Services Framework Agreement, pursuant to which Beijing Bowei agreed to provide the Company with the Operation and Maintenance Services at Beijing Capital Airport for a term of three years commencing from 1 January 2023 to 31 December 2025.

Material terms of the Operation and Maintenance Services Framework Agreement

The material terms of the Operation and Maintenance Services Framework Agreement are set out as follows:

Date

20 October 2022

Parties

- (a) the Company; and
- (b) Beijing Bowei.

Services

Pursuant to the Operation and Maintenance Services Framework Agreement, Beijing Bowei agreed to provide the Company with the Operation and Maintenance Services at T1, T2, T3, airfield, public area and other designated areas of Beijing Capital Airport.

LETTER FROM THE BOARD

Where the Company engages Beijing Bowei to provide such Operation and Maintenance Services, the Company and Beijing Bowei shall enter into separate definitive service agreement(s) in respect of specific service(s) to set out each Party's rights and obligations, subject to the relevant procurement management regulations and requirements of the Company and the terms of the Operation and Maintenance Services Framework Agreement. Separate definitive service agreement(s) will be entered into by the Company and Beijing Bowei based on different business requirements of Beijing Capital Airport, such as the operating systems, facilities and equipment, and vehicles. Each of the specific services to be provided by Beijing Bowei to the Company will be governed by such separate definitive agreement(s). In case of any inconsistencies between the definitive service agreement(s) and the Operation and Maintenance Services Framework Agreement, the Operation and Maintenance Services Framework Agreement shall prevail.

Term

The Operation and Maintenance Services Framework Agreement is for a term of three years, commencing from 1 January 2023 to 31 December 2025.

Condition precedent

The transactions contemplated under the Operation and Maintenance Services Framework Agreement shall be subject to the approval by the Independent Shareholders at the EGM.

Consideration and payment terms

The service fees charged by Beijing Bowei in respect of each specific service shall be set out in the relevant definitive service agreement(s) and settled by the Company on a monthly, quarterly, half-yearly or annual basis in accordance with the terms thereunder.

For the basis of determining the amount of service fees, please refer to the section headed "Operation and Maintenance Services Framework Agreement - Pricing policy" below in this circular.

Material rights and obligations of the parties

The material rights and obligations of the Company shall include but are not limited to the following:

- (1) the Company shall provide Beijing Bowei with necessary conditions and assistance to render services; and
- (2) the Company is entitled to conduct appraisal on services provided by Beijing Bowei to assess suitability of its services.

LETTER FROM THE BOARD

The material rights and obligations of Beijing Bowei shall include but are not limited to the following:

- (1) Beijing Bowei shall render services in the agreed format, content, standards and requirements and shall be subject to the management, supervision and inspection of its work by the Company; and
- (2) Beijing Bowei shall make improvements to its work on its own initiative or as requested by the Company.

Historical figures

The historical transaction amounts of the service fees paid or payable by the Company to Beijing Bowei under the Former Operation and Maintenance Services Framework Agreement are as follows:

	For the year ended 31 December 2020 (RMB'000)	For the year ended 31 December 2021 (RMB'000)	For the year ending 31 December 2022 (RMB'000)
Service fees paid or payable by the Company to Beijing Bowei	410,366	379,647	405,405 (Note 1)
Annual caps	459,000	504,000	555,000

Note 1: Since the audited figure of the service fees payable by the Company to Beijing Bowei under the Former Operation and Maintenance Services Framework Agreement for the year ending 31 December 2022 is not available yet, this figure is only an estimated figure based on the aggregate of (i) the unaudited figure of the service fees paid by the Company to Beijing Bowei under the Former Operation and Maintenance Services Framework Agreement for the nine months ended 30 September 2022 of approximately RMB248,547,000; and (ii) the remaining portion of the total amounts of the service fees payable by the Company to Beijing Bowei for each of the subsisting definitive agreements under the Former Operation and Maintenance Services Framework Agreement for the three months ending 31 December 2022. Such total amounts have been agreed and set out in the relevant definitive agreements (and, if applicable, any supplemental agreement), and were determined based on the labour and management cost, costs for spare products and spare parts and taxes and in accordance with the pricing policies for the Former Operation and Maintenance Services Framework Agreement as disclosed in the announcement of the Company dated 23 December 2019. The Company expects that the service fees payable by the Company to Beijing Bowei for the year ending 31 December 2022 will not exceed its annual cap.

LETTER FROM THE BOARD

Annual caps

The Company expects that the annual caps for the transactions contemplated under the Operation and Maintenance Services Framework Agreement are as follows:

	For the year ending 31 December 2023 (RMB'000)	For the year ending 31 December 2024 (RMB'000)	For the year ending 31 December 2025 (RMB'000)
Annual caps	446,000	455,000	468,000

The above annual caps are determined based on the following factors:

- (i) the historical transaction amounts of the service fees paid or payable by the Company in the past three years under the Former Operation and Maintenance Services Framework Agreement;
- (ii) the change in business volume of the Company as a result of COVID-19;
- (iii) the change in demand for the relevant services required in the daily operation of the Company;
- (iv) the potential increase in labour costs and costs of spare products, spare parts, materials and consumables in the next three years;
- (v) an annual buffer of approximately 10% after taking into account items (ii), (iii) and (iv) above and the potential business needs of the Company and inflation; and
- (vi) relevant taxes and management fees.

Pricing policy

The fees for the Operation and Maintenance Services provided by Beijing Bowei under the Operation and Maintenance Services Framework Agreement will be determined by the parties upon arm's length negotiation, and such fees will be determined based on the following factors:

- 1. the relevant labour costs incurred for completion of various Operation and Maintenance Services;
- 2. all costs, including procurement, installation, transportation and management costs, incurred for completion of various Operation and Maintenance Services;
- 3. the costs of spare products, spare parts, materials and consumables for the operation, maintenance and repair of various systems; and

LETTER FROM THE BOARD

4. the profits in respect of the relevant services provided by Beijing Bowei to the Company and taxes.

In assessing the fairness and reasonableness of the transaction terms and pricing terms of the definitive service agreement(s), the Company will compare the profit margin for the relevant Operation and Maintenance Services by Beijing Bowei with that for the same types of services at Beijing Capital Airport by at least two independent third parties based on their quotations before engaging Beijing Bowei for such Operation and Maintenance Services.

The service fees and terms of the Operation and Maintenance Services to be provided by Beijing Bowei to the Company under the definitive service agreement(s) shall be determined in the ordinary course of business on normal commercial terms upon negotiation on an arm's length basis, and shall be no less favourable than the fees and terms offered by independent third parties to the Company for the provision of same types of services.

Internal control on pricing

The Company has implemented a management system to monitor the pricing standards for the transactions under the Operation and Maintenance Services Framework Agreement to ensure that the terms are on normal commercial terms as follows:

1. Prior to the entering into of the Operation and Maintenance Services Framework Agreement, the techniques and procurement department of the Company is responsible for gathering information on the historical transaction amounts of service fees paid by the Company for the relevant Operation and Maintenance Services and the related transaction information as well as the profit margin for the same type of services at Beijing Capital Airport by independent third party(ies) based on its/their quotations, and conducting assessment on the fairness and reasonableness of the transaction terms and pricing terms. Thereafter, the techniques and procurement department is responsible for the monitoring, assessment and ratings of the transactions contemplated under the Operation and Maintenance Services Framework Agreement. The finance department and the secretariat to the Board are responsible for gathering information on connected transactions and monitoring the implementation of connected transactions.
2. Prior to the signing of the definitive agreements and the implementation of the transactions contemplated under the Operation and Maintenance Services Framework Agreement, the principal officers in the techniques and procurement department who handle the relevant matters shall lodge applications with the techniques and procurement department, the finance department and the legal department of the Company and the secretariat to the Board. Such applications would only be approved upon a preliminary review conducted by the managers of the above respective departments of the Company, followed by a final review at the general manager office meeting in accordance with the internal control policies of the Company. Upon completion of the above internal review procedures based on different functions of various departments of the Company, the relevant definitive agreements will be considered and approved by the Board.

LETTER FROM THE BOARD

3. The independent non-executive Directors have reviewed and will continue to review the transactions contemplated under the Operation and Maintenance Services Framework Agreement to ensure that such transactions are entered into on normal commercial terms, fair and reasonable, and carried out pursuant to its contractual terms.
4. The auditors of the Company will conduct annual review on the transactions contemplated under the Operation and Maintenance Services Framework Agreement in relation to the pricing policy and annual caps contemplated thereunder in accordance with the Listing Rules.

Internal control on review of annual caps

The Company has implemented the following internal control measures to ensure that the annual caps for the transactions contemplated under the Operation and Maintenance Services Framework Agreement will not be exceeded:

1. The finance department of the Company provides the secretariat to the Board with information in relation to the actual transaction amounts on a monthly basis.
2. The secretariat to the Board is responsible for monitoring such transactions to ensure that the total amount of transactions does not exceed the annual caps.
3. If such amount of transactions is estimated to exceed the relevant annual cap, the person-in-charge of the relevant department of the Company will be notified so that the scale of transactions in the future may be re-estimated and arrangements may be made to issue announcements and/or to obtain the relevant approvals from the Board and the Independent Shareholders in accordance with the requirements of the Listing Rules.

Reasons for and benefits of entering into the Operation and Maintenance Services Framework Agreement

Beijing Bowei has been cooperating with the Company for 23 years since the Company was established in 1999 and is very familiar with the operation of relevant equipment and facilities of Beijing Capital Airport with ample experience in the development, installation, operation, repair and maintenance services of terminal, station and airport equipment. Since the operation of Beijing Capital Airport is highly dependent on the steady and continuous operation of various types of equipment and facilities around the clock, which requires high stability of operation, safety of management and extremely quick emergency responses to repair and maintenance services in respect of equipment and facilities, as such, the relevant operation, repair and maintenance services provided by Beijing Bowei are conducive to ensuring the stability of the daily operation and service quality of Beijing Capital Airport, which helps to maintain the continuity of operation, repair and maintenance business while ensuring the rapid responsiveness and the specialty and high efficiency required for the operation of the isolated area of Beijing Capital Airport.

LETTER FROM THE BOARD

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the Operation and Maintenance Services Framework Agreement was entered into in the ordinary course of business of the Company, on normal commercial terms that are fair and reasonable and is in the interest of the Shareholders as a whole.

Listing Rules implications

As at the Latest Practicable Date, the Parent Company is the controlling shareholder of the Company, holding approximately 58.96% of the issued share capital of the Company. Since Beijing Bowei is wholly-owned by the Parent Company, Beijing Bowei is therefore a connected person of the Company. Accordingly, the Operation and Maintenance Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the highest of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Operation and Maintenance Services Framework Agreement is more than 5%, such transactions are subject to the reporting, annual review, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

II. SUPPLY OF AVIATION SAFETY AND SECURITY GUARD SERVICES AGREEMENT

Background

Reference is made to (i) the announcement of the Company dated 30 October 2019 in respect of the Former Supply of Aviation Safety and Security Guard Services Agreement; (ii) the circular of the Company dated 3 December 2019 in respect of the Former Supply of Aviation Safety and Security Guard Services Agreement; (iii) the announcement of the Company dated 18 October 2021 in respect of the Former Supplemental Aviation Security Services Agreement; and (iv) the circular of the Company dated 30 November 2021 in respect of the Former Supplemental Aviation Security Services Agreement.

The Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement) will expire on 31 December 2022. As the Company and Aviation Security Company intend to continue to carry out transactions of a similar nature from time to time after 31 December 2022, on 20 October 2022, the Company and Aviation Security Company entered into the Supply of Aviation Safety and Security Guard Services Agreement, pursuant to which Aviation Security Company agreed to provide aviation safety and security guard services to the Company at Beijing Capital Airport for a term of three years commencing from 1 January 2023 to 31 December 2025.

Material terms of the Supply of Aviation Safety and Security Guard Services Agreement

The material terms of the Supply of Aviation Safety and Security Guard Services Agreement are set out as follows:

LETTER FROM THE BOARD

Date

20 October 2022

Parties

- (a) the Company; and
- (b) Aviation Security Company.

Services

Pursuant to the Supply of Aviation Safety and Security Guard Services Agreement, Aviation Security Company agreed to provide aviation safety and security guard services to the Company at Beijing Capital Airport, which include carrying out (i) security inspection on persons and goods, such as travellers, baggages, air cargoes, staff members and vehicles; (ii) maintenance and safeguard of aircrafts; (iii) control of passageways; (iv) explosion protection in front of terminals; (v) maintenance and repair of security inspection equipment; (vi) temperature checks; and (vii) other work related to aviation safety and security guard business in designated areas, and Aviation Security Company also agreed to make corresponding arrangement for work in relation to logistics support.

Term

The Supply of Aviation Safety and Security Guard Services Agreement is for a term of three years, commencing from 1 January 2023 to 31 December 2025.

Condition precedent

The transactions contemplated under the Supply of Aviation Safety and Security Guard Services Agreement shall be subject to the approval by the Independent Shareholders at the EGM.

Consideration and payment

The annual service fee payable by the Company to Aviation Security Company for the provision of aviation safety and security guard services by Aviation Security Company shall be calculated based on actual costs, which comprise:

- | | |
|-------------------|---|
| (i) Labour costs: | The labour costs comprise the labour costs of operating personnel, frontline management personnel, and head office management personnel engaged by Aviation Security Company for the provision of aviation safety and security guard services to the Company. |
|-------------------|---|

LETTER FROM THE BOARD

- (ii) Operating costs: The operating costs comprise back office expenses (e.g. power and energy consumption expenses, repair expenses, and rental expenses), other expenses (e.g. daily expenses and logistics expenses), business expenses, non-cash expenses and expenses for anti-epidemic supplies.
- (iii) Relevant taxes: The amount of relevant taxes shall be determined in accordance with the requirements of the PRC.

The Company and Aviation Security Company shall determine the estimated costs to be incurred by Aviation Security Company for each year in advance after considering factors including but not limited to the staff arrangement, labour costs and the expected demand for aviation safety and security guard services. Thereafter, an independent third party auditing firm will be appointed to conduct financial audits in relation to the actual performance of the Supply of Aviation Safety and Security Guard Services Agreement to confirm the actual amount of the service fee. The financial audits shall be conducted on an annual basis, which shall commence in the fourth quarter each year and shall be completed by 31 January in the following year.

Furthermore, the actual amount of service fee is subject to adjustment based on a reward and punishment mechanism as follows:

- (i) Performance appraisal: Annual performance appraisals shall be conducted in respect of the unsafe incidents attributable to Aviation Security Company and its fulfilment of performance benchmarks. A sliding scale of penalties will be imposed based on the nature and severity of non-compliance (if any) with the benchmarks, such that the amount of annual service fee payable to Aviation Security Company shall be deducted in accordance with the gravity of breach.
- (ii) Reward for cost control: Aviation Security Company shall actively implement cost control measures to save costs, provided that the extent of aviation safety and operating efficiency of Beijing Capital Airport is not compromised. The amount of reward payable to Aviation Security Company shall be linked to the proportion of labour cost saved by Aviation Security Company.

LETTER FROM THE BOARD

In terms of the payment arrangement of service fee, the service fee shall be prepaid by the Company to Aviation Security Company by the end of each month, with the amount of monthly prepayment to be determined with reference to the estimated amount of annual service fee in the following manner:

$$\text{Monthly prepayment of service fee} = \frac{(\text{Estimated amount of annual service fee} \times 95\%)/12}{\text{(Note 2)}}$$

Note 2: The Company may adjust the amount of monthly prepayment (as agreed with Aviation Security Company) based on the scale of adjustment of business for each year, preliminary financial audit and the actual progress of payment. In determining the estimated amount of annual service fee, the Company and Aviation Security Company will anticipate the scale of adjustment of the number of frontline staff of Aviation Security Company and thereby calculate the estimated amount of labour costs for each year, by taking into account adjustment factors such as the forecast of business volume at Beijing Capital Airport and the need for safeguard of aviation security.

By the end of January in the following year, upon completion of the above-mentioned financial audit in respect of the actual amount of service fee payable by the Company to Aviation Security Company, the Company and Aviation Security Company shall settle the balance of service fee as follows:

$$\text{Balance of service fee} = \text{Actual amount of annual service fee for each year} - \text{Total amount of monthly prepayment of service fee for the corresponding year}$$

Other material terms

In accordance with the principle of implementation of laws and regulations, the parties shall accurately put in place laws and regulations in the safety management of Beijing Capital Airport, and ensure the comprehensive coverage of aviation safety and security guard services to safeguard the aviation security of Beijing Capital Airport.

The Company shall be responsible for coordinating the relevant departments to assist Aviation Security Company in providing aviation safety and security guard services required within the scope of the Supply of Aviation Safety and Security Guard Services Agreement.

Aviation Security Company shall establish work systems, procedures and manuals in accordance with the aviation security management system of Beijing Capital Airport, recruit adequate operating personnel with relevant qualifications, and provide trainings in accordance with the requirements imposed by the competent authorities in the industry.

Aviation Security Company shall ensure the ongoing compliance of aviation safety and security guard services with the requirements of relevant laws, regulations and rules and the safety and security requirements of the Company, and shall continuously fulfil the administrative supervision requirements imposed on Beijing Capital Airport by the

LETTER FROM THE BOARD

competent authorities in the industry. Aviation Security Company shall ensure that the safety objectives of the Company will be achieved, while the Company's requirements on the operation of security inspection and services will be continuously fulfilled.

Historical figures

The historical transaction amounts of the service fee paid or payable by the Company to Aviation Security Company under Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement) are as follows:

	For the year ended 31 December 2020 (RMB'000)	For the year ended 31 December 2021 (RMB'000)	For the year ending 31 December 2022 (RMB'000)
Service fee paid or payable by the Company to Aviation Security Company	667,080	856,210	856,210 (Note 3)
Annual caps	703,490	924,480	924,480

Note 3: Since the audited figure of the service fee payable by the Company to Aviation Security Company under the Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement) for the year ending 31 December 2022 is not yet available, this figure is only an estimated figure based on the aggregate of (i) the unaudited figure of the service fee paid by the Company to Aviation Security Company under the Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement) for the nine months ended 30 September 2022 of approximately RMB612,000,000; and (ii) the remaining portion of the total amount of service fee payable by the Company to Aviation Security Company for the three months ending 31 December 2022, which was agreed and set out in the Supply of Aviation Safety and Security Guard Services Agreement and determined based on the labour costs, operating costs and taxes and in accordance with the pricing policies of the Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement) as disclosed in the announcements of the Company dated 30 October 2019 and 18 October 2021 and the circulars of the Company dated 3 December 2019 and 30 November 2021. The Company expects that the service fee payable by the Company to Aviation Security Company for the year ending 31 December 2022 will not exceed its annual cap.

LETTER FROM THE BOARD

Annual caps

The Company expects that the annual caps for the transactions contemplated under the Supply of Aviation Safety and Security Guard Services Agreement are as follows:

	For the year ending 31 December 2023 (RMB'000)	For the year ending 31 December 2024 (RMB'000)	For the year ending 31 December 2025 (RMB'000)
Annual caps	924,480	924,480	924,480

The above annual caps are determined with reference to the following factors:

- (i) the historical transaction amounts of the service fee paid or payable by the Company to Aviation Security Company under the Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement);
- (ii) the reasonable dynamic adjustment of labour costs and the expected adjustment to the scope of safety and security guard services to satisfy the security requirements;
- (iii) the uncertainty of the COVID-19 epidemic prevention and control measures and the adjustment of business volume of Beijing Capital Airport in the next three years;
- (iv) the cost control and efficiency enhancement measures to be adopted by the Company and Aviation Security Company to strive to maintain a relatively stable level of overall costs for aviation safety and security guard services; and
- (v) an annual buffer of approximately 10% after taking into account items (ii), (iii) and (iv) above and the potential business needs of the Company and inflation.

Pricing policy

The services under the Supply of Aviation Safety and Security Guard Services Agreement are at cost basis without any profit margin charged by Aviation Security Company. As the provision of aviation safety and security guard services essentially involves labour procurement, the Company and Aviation Security Company agreed to use labour costs and expenses as the basis for determining the annual fees for the provision of such services in line with the Former Supply of Aviation Safety and Security Guard Services Agreement and the Former Supplemental Aviation Security Services Agreement, such that the labour costs and expenses equal to the aggregate amount of operating personnel costs, management personnel costs, daily costs and expenses, and related taxes.

Pursuant to the relevant requirements of the civil aviation administration authorities of the PRC, Aviation Security Company is the sole entity established in the Beijing region through which civil aviation security inspection work is conducted. Therefore, Aviation Security Company is the

LETTER FROM THE BOARD

only company which is able to provide security inspection services to passengers in Beijing Capital Airport area. Furthermore, Aviation Security Company has the expertise and more than 15 years' experience in the provision of aviation safety and security guard services at Beijing Capital Airport. As such, there are no comparable quotes of similar services from independent third parties available to the Company in the market.

Besides, Aviation Security Company undertook to the Company that it will not charge a higher level of service fee to the Company than that charged to other independent third parties (including airlines, private jet companies and logistic companies) at Beijing Capital Airport. Aviation Security Company has issued a written confirmation to the Company that the fees charged by it to other independent third parties for similar services are not more favourable than that charged by it to the Company. The aviation security department of the Company has also collated information and compared the pricing of service fee charged by the other aviation security service providers to airports in other cities of the PRC against that charged by Aviation Security Company to the Company, which indicates that the service fee charged by Aviation Security Company is relatively low compared with that charged by the other aviation security service providers to other airports.

Internal control on pricing

The Company has implemented a management system to monitor the pricing standards for the transactions under the Supply of Aviation Safety and Security Guard Services Agreement to ensure that the terms are on normal commercial terms as follows:

1. Prior to the entering into of the Supply of Aviation Safety and Security Guard Services Agreement, the aviation security department of the Company verified the unit labour costs (which are initially determined in line with the historical amount of unit labour costs under the Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement), followed by cross-checks against the fees charged by Aviation Security Company to other independent third parties for similar services, as well as comparison of the service fees charged by the aviation security providers to other airports against that charged by Aviation Security Company to the Company), and attended to the negotiation, signing and execution of the Supply of Aviation Safety and Security Guard Services Agreement. Thereafter, the aviation security department of the Company is also responsible for the subsequent monitoring and ratings in respect of the transactions contemplated under the Supply of Aviation Safety and Security Guard Services Agreement. The finance department of the Company and the secretariat to the Board are responsible for gathering information of connected transactions and monitoring the implementation of connected transactions, with a view to conducting assessment of the fairness of the transaction terms and pricing terms.
2. Prior to the signing of the definitive agreements and the implementation of the transactions contemplated under the Supply of Aviation Safety and Security Guard Services Agreement, the principal officers in the aviation security department of the Company who are responsible for handling the above-mentioned matters shall lodge applications with the aviation security department, the finance department, legal services

LETTER FROM THE BOARD

department and the secretariat to the Board. Such applications would only be approved upon a preliminary review conducted by the managers of the above respective departments of the Company, followed by a final review at the general manager office meeting in accordance with the relevant internal control policies of the Company. After the above internal review process based on different functions of various departments of the Company has been completed, the relevant definitive agreements will be considered and approved by the Board.

3. The independent non-executive Directors have reviewed and would continue to review the transactions under the Supply of Aviation Safety and Security Guard Services Agreement in accordance with the Listing Rules to ensure that such transactions are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to its contractual terms.
4. The auditors of the Company will conduct annual review on the transactions under the Supply of Aviation Safety and Security Guard Services Agreement in relation to the pricing policies and annual caps contemplated thereunder in accordance with the Listing Rules.

Internal control on review of annual caps

The Company has implemented the following internal control measures to ensure that the annual caps for the transactions contemplated under the Supply of Aviation Safety and Security Guard Services Agreement will not be exceeded:

1. The finance department of the Company provides the secretariat to the Board with information in relation to the actual transaction amounts on a monthly basis.
2. The secretariat to the Board is responsible for monitoring such transactions to ensure that the total amount of transactions does not exceed the annual caps.
3. If such amount of transactions is estimated to exceed the relevant annual cap, the person-in-charge of the relevant department of the Company will be notified so that the scale of transactions in the future may be re-estimated and arrangements may be made to issue announcements and/or to obtain the relevant approvals from the Board and the Independent Shareholders in accordance with the requirements of the Listing Rules.

Reasons for and benefits of entering into the Supply of Aviation Safety and Security Guard Services Agreement

In view of the relevant requirements of the civil aviation administration authorities of the PRC, Aviation Security Company is the only company which is able to provide security inspection services on passengers in Beijing Capital Airport area. Furthermore, Aviation Security Company has the expertise and more than 15 years' experience in the provision of aviation safety and security guard services at Beijing Capital Airport. In previous years, the Company established satisfactory cooperation record with Aviation Security Company. The provision of aviation safety and security

LETTER FROM THE BOARD

guard services by Aviation Security Company at Beijing Capital Airport is able to ensure the safety of the passengers, aircrafts and other personnel at Beijing Capital Airport. The work related to epidemic prevention and control in Beijing Capital Airport requires a high degree of responsibility and execution capabilities of the operating personnel of Aviation Security Company. In addition to setting up security screening lanes specifically for epidemic prevention, Aviation Security Company has also been commissioned to perform tasks such as temperature checks and inspection of “Health Kit” (健康寶) etc. due to its long-standing cooperative relationship with the Company. Aviation Security Company has discharged its duties in security screening and epidemic prevention and protection while strictly adhering to the aviation security and safety standard, and has made significant contributions towards the objective of “Error-free Epidemic Prevention and Control for Passengers” (旅客防控零失誤).

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the Supply of Aviation Safety and Security Guard Services Agreement was entered into in the ordinary course of business of the Company, on normal commercial terms that are fair and reasonable and is in the interest of the Shareholders as a whole.

Listing Rules Implications

As at the Latest Practicable Date, the Parent Company is the controlling shareholder of the Company, holding approximately 58.96% of the issued share capital of the Company. Since Aviation Security Company is a wholly-owned subsidiary of the Parent Company, Aviation Security Company is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Supply of Aviation Safety and Security Guard Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Supply of Aviation Safety and Security Guard Services Agreement is more than 5%, the Supply of Aviation Safety and Security Guard Services Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

III. INFORMATION OF THE PARTIES

The Company

The Company is principally engaged in the operation of Beijing Capital Airport. It is a non-wholly owned subsidiary of the Parent Company.

The Parent Company

The Parent Company is principally engaged in the provision of ground handling services for domestic and international aviation enterprises and the provision of operation and management services, counter and premises rental services, car parking management, housing rental, property

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management, advertising agency services and other businesses to its subsidiaries. The ultimate beneficial owner of the Parent Company is CAAC, which is a state bureau administered by the Ministry of Transport of the PRC.

Beijing Bowei

Beijing Bowei is an enterprise established in the PRC and it is wholly-owned by the Parent Company. It is principally engaged in development, installation, maintenance and manufacture of airport equipment, airport equipment, spare parts supply and technical advisory services; operation and maintenance of terminal, station and freight equipment; professional contractor; and elevator maintenance.

Aviation Security Company

Aviation Security Company is a wholly-owned subsidiary of the Parent Company. It is principally engaged in the provision of aviation safety and security guard services to airports in the PRC, which include, among other things, security inspection on passengers, baggage, air cargoes, air mails and passageways, field inspections for special and chartered aircrafts, security of passageways in terminal areas, and aircraft security.

IV. BOARD'S APPROVAL

Each of the Operation and Maintenance Services Framework Agreement and the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps, were approved by the Board.

As at the Latest Practicable Date, there were no overlapping directors and senior management between the Company and each of Beijing Bowei and Aviation Security Company. Moreover, while the executive Directors and the non-executive Directors concurrently served as director, senior management or held other senior position(s) of the Parent Company, none of the Directors personally had any material interest in the transactions contemplated under the Operation and Maintenance Services Framework Agreement entered into by the Company and Beijing Bowei or the Supply of Aviation Safety and Security Guard Services Agreement entered into by the Company and Aviation Security Company. Therefore, none of the Directors had abstained from voting at the Board meeting to approve the Operation and Maintenance Services Framework Agreement and the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps.

V. EGM

The EGM will be convened at 3:00 p.m. on Thursday, 22 December 2022 at the Conference Room, Room 112, the Office Building of the Company, No. 9 Siwei Road, Capital Airport, Beijing, the PRC to consider and, if thought fit, pass resolutions to approve the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps. The relevant resolutions will be proposed by way of ordinary resolutions at the EGM for approval by the Independent Shareholders.

LETTER FROM THE BOARD

The notice convening the EGM and the proxy forms and reply slips for the EGM were despatched to the Shareholders on 3 November 2022.

Whether or not you are able to attend the meeting, please complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's H Share registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person in the EGM or any adjournment thereof if you so desire.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. The Chairman of the EGM shall therefore demand that voting on the resolutions set out in the notice of the EGM be taken by way of poll pursuant to Article 74 of the Articles of Association.

On a poll, every Shareholder present in person or by proxy or (being a corporation) by its duly authorised representative shall have one vote for each Share registered in his/her/its name in the register of members. A Shareholder entitled to more than one vote needs not cast all his/her/its votes in the same manner.

VI. APPOINTMENT OF INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders and Opus Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on (i) whether the terms of the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps, are fair and reasonable; (ii) whether the transactions contemplated under the Operation and Maintenance Services Framework Agreement and the Supply of Aviation Safety and Security Guard Services Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Company, and whether they are in the interest of the Company and the Shareholders as a whole; and (iii) how to vote on the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps.

A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 25 to 26 of this circular.

A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 54 of this circular.

LETTER FROM THE BOARD

VII. CONNECTED PERSONS WHO ARE REQUIRED TO ABSTAIN FROM VOTING ON THE RESOLUTIONS

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder is required to abstain from voting on the relevant resolution(s) at the EGM.

As at the Latest Practicable Date, the Parent Company is the controlling shareholder of the Company, holding 2,699,814,977 Domestic Shares, representing approximately 58.96% of the issued share capital of the Company, and each of Beijing Bowei and Aviation Security Company is wholly-owned by the Parent Company. As such, the Parent Company and its associates, holding 2,699,814,977 Domestic Shares, representing approximately 58.96% of the issued share capital of the Company, must abstain from voting at the EGM on the resolution(s) approving the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder.

As at the Latest Practicable Date and to the best knowledge and belief of the Directors, save as disclosed in this circular, none of the other Shareholders must abstain from voting on the relevant resolutions at the EGM.

VIII. BOOK CLOSURE PERIOD

The register of Shareholders is temporarily closed from Wednesday, 23 November 2022 to Thursday, 22 December 2022 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders of the Company whose names appear on the register of Shareholders on Thursday, 22 December 2022 are entitled to attend and vote at the EGM.

In order to qualify for the entitlement to attend and vote at the EGM, holders of H Shares whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the Company's H Share registrar, Hong Kong Registrars Limited at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong at or before 4:30 p.m. on Tuesday, 22 November 2022.

IX. RECOMMENDATION

The Board (including the independent non-executive Directors) considers that the resolutions to be proposed at the EGM, as set out in the notice of the EGM dated 3 November 2022, are in the interest of the Company and the Shareholders as a whole, and accordingly, recommends the Shareholders to vote in favour of the resolutions to be proposed at the EGM.

Your attention is also drawn to the recommendation of the Independent Board Committee as set out on pages 25 to 26 of this circular and the letter of advice from the Independent Financial Adviser as set out on pages 27 to 54 of this circular.

LETTER FROM THE BOARD

X. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board of
Beijing Capital International Airport Co., Ltd.
Meng Xianwei
Secretary to the Board



北京首都國際機場股份有限公司
Beijing Capital International Airport Co., Ltd.

(a sino-foreign joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00694)

6 December 2022

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS
(1) OPERATION AND MAINTENANCE SERVICES FRAMEWORK
AGREEMENT
(2) SUPPLY OF AVIATION SAFETY AND SECURITY GUARD SERVICES
AGREEMENT

We refer to the circular issued by the Company to the Shareholders dated 6 December 2022 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on (i) whether the terms of the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps are fair and reasonable; (ii) whether the transactions contemplated under the Operation and Maintenance Services Framework Agreement and the Supply of Aviation Safety and Security Guard Services Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Company, and whether they are in the interest of the Company and the Shareholders as a whole; and (iii) how to vote on the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps. Opus Capital has been appointed as the Independent Financial Adviser to advise the Independent Shareholders and us in this respect.

We wish to draw your attention to the letter from the Board as set out on pages 5 to 24 of the Circular and the letter from the Independent Financial Adviser as set out on pages 27 to 54 of the Circular, which contain, among other things, their advice and recommendations on (i) whether the terms of the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps are fair and reasonable; (ii) whether the transactions contemplated under the Operation and Maintenance Services Framework Agreement and the Supply of Aviation Safety and Security Guard Services Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Company, and whether they are in the interest of the Company and the Shareholders as a

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

whole; and (iii) how to vote on the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps.

Having considered the terms of the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps, and the advice and recommendation of the Independent Financial Adviser, we are of the view that the terms of the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Company, and in the interest of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps.

Yours faithfully,

For and on behalf of the Independent Board Committee

Beijing Capital International Airport Co., Ltd.

Mr. Jiang Ruiming, Mr. Zhang Jiali,

Mr. Stanley Hui Hon-chung and Mr. Wang Huacheng

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Operation and Maintenance Services Framework Agreement and the transactions contemplated thereunder, including the annual caps, and the Supply of Aviation Safety and Security Guard Services Agreement and the transactions contemplated thereunder, including the annual caps, which has been prepared for the purpose of inclusion in this circular.



18th Floor, Fung House
19-20 Connaught Road Central
Central, Hong Kong

6 December 2022

*To: the Independent Board Committee and the Independent Shareholders
Beijing Capital International Airport Co., Ltd.*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
(I) OPERATION AND MAINTENANCE SERVICES
FRAMEWORK AGREEMENT
(II) SUPPLY OF AVIATION SAFETY AND SECURITY GUARD
SERVICES AGREEMENT**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of: (i) the Operation and Maintenance Services Framework Agreement and the transactions contemplated thereunder, including the annual caps; and (ii) the Supply of Aviation Safety and Security Guard Services Agreement and the transactions contemplated thereunder, including the annual caps (together with the Operation and Maintenance Services Framework Agreement, the “**Framework Agreements**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 6 December 2022 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

BACKGROUND OF THE FRAMEWORK AGREEMENTS

Operation and Maintenance Services Framework Agreement

Reference is made to the announcement of the Company dated 23 December 2019 in respect of the Former Operation and Maintenance Services Framework Agreement. The Former Operation and Maintenance Services Framework Agreement will expire on 31 December 2022. As the Company and Beijing Bowei intend to continue to carry out transactions of a similar nature from time to time after 31 December 2022, on 20 October 2022, the Company and Beijing Bowei entered into the Operation and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Maintenance Services Framework Agreement, pursuant to which Beijing Bowei agreed to provide the Company with the Operation and Maintenance Services at Beijing Capital Airport for a term of three years commencing from 1 January 2023 to 31 December 2025.

As at the Latest Practicable Date, the Parent Company is the controlling shareholder of the Company, holding approximately 58.96% of the issued share capital of the Company. Since Beijing Bowei is wholly-owned by the Parent Company, Beijing Bowei is therefore a connected person of the Company. Accordingly, the Operation and Maintenance Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the highest of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the transactions contemplated under the Operation and Maintenance Services Framework Agreement is more than 5%, such transactions are subject to the reporting, annual review, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Supply of Aviation Safety and Security Guard Services Agreement

Reference is made to (i) the announcement of the Company dated 30 October 2019 in respect of the Former Supply of Aviation Safety and Security Guard Services Agreement; (ii) the circular of the Company dated 3 December 2019 in respect of the Former Supply of Aviation Safety and Security Guard Services Agreement; (iii) the announcement of the Company dated 18 October 2021 in respect of the Former Supplemental Aviation Security Services Agreement; and (iv) the circular of the Company dated 30 November 2021 in respect of the Former Supplemental Aviation Security Services Agreement.

The Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement) will expire on 31 December 2022. As the Company and Aviation Security Company intend to continue to carry out transactions of a similar nature from time to time after 31 December 2022, on 20 October 2022, the Company and Aviation Security Company entered into the Supply of Aviation Safety and Security Guard Services Agreement, pursuant to which Aviation Security Company agreed to provide aviation safety and security guard services to the Company at Beijing Capital Airport for a term of three years commencing from 1 January 2023 to 31 December 2025.

As at the Latest Practicable Date, the Parent Company is the controlling shareholder of the Company, holding approximately 58.96% of the issued share capital of the Company. Since Aviation Security Company is a wholly-owned subsidiary of the Parent Company, Aviation Security Company is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Supply of Aviation Safety and Security Guard Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Supply of Aviation Safety and Security Guard Services Agreement is more than 5%, the Supply of Aviation Safety and Security Guard Services Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

EGM

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder is required to abstain from voting on the relevant resolution(s) at the EGM.

As at the Latest Practicable Date, the Parent Company is the controlling shareholder of the Company, holding 2,699,814,977 Domestic Shares, representing approximately 58.96% of the issued share capital of the Company, and each of Beijing Bowei and Aviation Security Company is wholly-owned by the Parent Company. As such, the Parent Company and its associates, holding 2,699,814,977 Domestic Shares, representing approximately 58.96% of the issued share capital of the Company, must abstain from voting at the EGM on the resolution(s) approving the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder.

As at the Latest Practicable Date and to the best knowledge and belief of the Directors, save as disclosed in the Circular, none of the other Shareholders must abstain from voting on the relevant resolution(s) at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee (comprising all the independent non-executive Directors), namely Mr. Jiang Ruiming, Mr. Zhang Jiali, Mr. Stanley Hui Hon-chung and Mr. Wang Huacheng, has been established to advise the Independent Shareholders on: (i) whether the terms of the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps, are fair and reasonable; (ii) whether the respective transactions contemplated under the Operation and Maintenance Services Framework Agreement and the Supply of Aviation Safety and Security Guard Services Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Company, and whether they are in the interest of the Company and the Shareholders as a whole; and (iii) how to vote on the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps. Our appointment as the Independent Financial Adviser in this respect has been approved by the Independent Board Committee.

OUR INDEPENDENCE

We were appointed as the Independent Financial Adviser to advise the independent shareholders of the Company in respect of: (i) the Former Supplemental Aviation Safety and Security Guard Services Agreement and the transactions contemplated thereunder, including the revised annual caps, details of which are set out in the circular of the Company dated 30 November 2021; (ii) the flexible retail and f& b resources usage agreement, the domestic retail resources usage agreement (as varied by the flexible retail and f& b resources usage agreement), as well as the transactions contemplated thereunder, including the relevant annual caps, details of which are set out in the circular of the Company dated 8 October 2021; and (iii) the supply of power and energy agreement and the international retail management agreement and their

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

respective annual caps, details of which are set out in the circular of the Company dated 4 December 2020 (collectively, the “**Past Appointments**”). The Past Appointments are completed and independent to our current appointment.

As at the Latest Practicable Date, save for the Past Appointments, we did not have any relationship with, or interest in, the Company, the Parent Company, Aviation Security Company, Beijing Bowei or other parties that could reasonably be regarded as relevant to our independence. During the two years immediately prior to this letter, save for the Past Appointments, we have not: (i) acted as an independent financial adviser to the Company; (ii) provided any services to the Company; or (iii) had any relationship with the Company. Apart from the normal professional fees paid or payable to us in connection with the Past Appointments and the current appointment as the Independent Financial Advisor, no arrangements exist whereby we had received or will receive any fees or benefits from the Company, the Parent Company, Aviation Security Company, Beijing Bowei or other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, among other things:

- (i) the Operation and Maintenance Services Framework Agreement;
- (ii) the Supply of Aviation Safety and Security Guard Services Agreement;
- (iii) the interim report of the Company for the six months ended 30 June (“**HY**”) 2022 (the “**2022 Interim Report**”);
- (iv) the annual report of the Company for the year ended 31 December (“**FY**”, which is also applicable to the year ending 31 December) 2021 (the “**2021 Annual Report**”); and
- (v) other information as set out in the Circular.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Group (collectively, the “**Management**”). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were provided or made and continued to be so up to the Latest Practicable Date.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided to us by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors jointly and severally accept full responsibility for the Circular and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, the information contained in the 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 in the Circular misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms of the Framework Agreements, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Framework Agreements, we have taken into consideration the following principal factors and reasons:

1. Information on the Parties

1.1. The Company

The Company is principally engaged in the operation of Beijing Capital Airport. It is a non-wholly owned subsidiary of the Parent Company.

1.2. The Parent Company

The Parent Company is principally engaged in the provision of ground handling services for domestic and international aviation enterprises and the provision of operation and management services, counter and premises rental services, car parking management, housing rental, property management, advertising agency services and other businesses to its subsidiaries. The ultimate beneficial owner of the Parent Company is CAAC, which is a state bureau administered by the Ministry of Transport of the PRC.

1.3. Beijing Bowei

Beijing Bowei is an enterprise established in the PRC and it is wholly-owned by the Parent Company. It is principally engaged in development, installation, maintenance and manufacture of airport equipment, airport equipment, spare parts supply and technical advisory services; operation and maintenance of terminal, station and freight equipment; professional contractor; and elevator maintenance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.4. Aviation Security Company

Aviation Security Company is a wholly-owned subsidiary of the Parent Company. It is principally engaged in the provision of aviation safety and security guard services to airports in the PRC, which include, among other things, security inspection on passengers, baggage, air cargoes, air mails and passageways, field inspections for special and chartered aircrafts, security of passageways in terminal areas, and aircraft security.

2. Material terms of the Framework Agreements

2.1. Operation and Maintenance Services Framework Agreement

Set out below are the material terms of the Operation and Maintenance Services Framework Agreement:

Date

20 October 2022

Parties

- (a) the Company; and
- (b) Beijing Bowei.

Services

Pursuant to the Operation and Maintenance Services Framework Agreement, Beijing Bowei agreed to provide the Company with the Operation and Maintenance Services at T1, T2, T3, airfield, public area and other designated areas of Beijing Capital Airport.

Where the Company engages Beijing Bowei to provide such Operation and Maintenance Services, the Company and Beijing Bowei shall enter into separate definitive service agreement(s) in respect of specific service(s) to set out each Party's rights and obligations, subject to the relevant procurement management regulations and requirements of the Company and the terms of the Operation and Maintenance Services Framework Agreement. Separate definitive service agreement(s) will be entered into by the Company and Beijing Bowei based on different business requirements of Beijing Capital Airport, such as the operating systems, facilities and equipment, and vehicles. Each of the specific services to be provided by Beijing Bowei to the Company will be governed by such separate definitive agreement(s). In case of any inconsistencies between the definitive service agreement(s) and the Operation and Maintenance Services Framework Agreement, the Operation and Maintenance Services Framework Agreement shall prevail.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Term

The Operation and Maintenance Services Framework Agreement is for a term of three years, commencing from 1 January 2023 to 31 December 2025.

Consideration and payment terms

The service fees charged by Beijing Bowei in respect of each specific service shall be set out in the relevant definitive service agreement(s) and settled by the Company on a monthly, quarterly, half yearly or annual basis in accordance with the terms thereunder.

Pricing policy

As stated in the Letter from the Board, the fees for the Operation and Maintenance Services provided by Beijing Bowei under the Operation and Maintenance Services Framework Agreement will be determined by the parties upon arm's length negotiation, and such fees will be determined based on the following factors:

- (i) the relevant labour costs incurred for completion of various Operation and Maintenance Services;
- (ii) all costs, including procurement, installation, transportation and management costs, incurred for completion of various Operation and Maintenance Services;
- (iii) the costs of spare products, spare parts, materials and consumables for the operation, maintenance and repair of various systems; and
- (iv) the profits in respect of the relevant services provided by Beijing Bowei to the Company and taxes.

In assessing the fairness and reasonableness of the transaction terms and pricing terms of the definitive service agreement(s), the Company will compare the profit margin for the relevant Operation and Maintenance Services by Beijing Bowei with that for the same types of services at Beijing Capital Airport by at least two independent third parties based on their quotations before engaging Beijing Bowei for such Operation and Maintenance Services.

The service fees and terms of the Operation and Maintenance Services to be provided by Beijing Bowei to the Company under the definitive service agreement(s) shall be determined in the ordinary course of business on normal commercial terms upon negotiation on an arm's length basis, and shall be no less favourable than the fees and terms offered by independent third parties to the Company for the provision of same types of services.

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Assessment

In assessing the abovementioned pricing policy, we have obtained and reviewed the internal meeting material of the Board meeting which approved the Operation and Maintenance Services Framework Agreement and the transactions contemplated thereunder, including the annual caps (the “**Board Meeting Material**”). As noted from the review of the Board Meeting Material, the factors considered for determining the fees for the Operation and Maintenance Services provided by Beijing Bowei under the Operation and Maintenance Services Framework Agreement are consistent with the aforesaid factors under the above sub-section headed “Pricing policy” under the section headed “2.1. Operation and Maintenance Services Framework Agreement”.

We have randomly selected, obtained and reviewed: (i) two definitive service agreements entered into between the Group and independent third parties during the period under the Former Operation and Maintenance Services Framework Agreement (the “**Former Operation and Maintenance Period**”) for the provision of, among other things, operation and maintenance services of mechanical and electric equipment system and system security, operation, repair and maintenance services which are comparable to the Operation and Maintenance Services, by the independent third parties to the Group during the Former Operation and Maintenance Period (the “**Independent Operation and Maintenance Samples**”); and (ii) two out of 13 definitive service agreements entered into between the Group and Beijing Bowei for the provision of certain operation and maintenance services by Beijing Bowei to the Group during the Former Operation and Maintenance Period under the Former Operation and Maintenance Services Framework Agreement (the “**Bowei Operation and Maintenance Samples**”). As the Independent Operation and Maintenance Samples and the Bowei Operation and Maintenance Samples were randomly selected, the service period covered more than one year of the Former Operation and Maintenance Period and the Bowei Operation and Maintenance Samples accounted for more than 15% of the total number of definitive service agreements entered into between the Group and Beijing Bowei for the provision of certain operation and maintenance services by Beijing Bowei to the Group during the Former Operation and Maintenance Period under the Former Operation and Maintenance Services Framework Agreement, we consider the Independent Operation and Maintenance Samples and the Bowei Operation and Maintenance Samples are fair and representative.

From the review of the Independent Operation and Maintenance Samples and the Bowei Operation and Maintenance Samples, it is noted that the determination factors of the service fees in the Independent Operation and Maintenance Samples and the Bowei Operation and Maintenance Samples are consistent with the aforesaid factors under the above sub-section headed “Pricing policy” under the section headed “2.1. Operation and Maintenance Services Framework Agreement”. Further, it is noted from the breakdown of the service fees calculations in the Independent Operation and Maintenance Samples and the Bowei Operation and Maintenance Samples that the profit margin in respect of the relevant services provided by Beijing Bowei to the Company was lower than that provided by independent third parties to the Company.

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In view of the above, we consider the terms of the pricing policy under the Operation and Maintenance Services Framework Agreement are fair and reasonable.

2.2. Supply of Aviation Safety and Security Guard Services Agreement

Set out below are the material terms of the Supply of Aviation Safety and Security Guard Services Agreement:

Date

20 October 2022

Parties

- (a) the Company; and
- (b) Aviation Security Company.

Services

Pursuant to the Supply of Aviation Safety and Security Guard Services Agreement, Aviation Security Company agreed to provide aviation safety and security guard services to the Company at Beijing Capital Airport, which include carrying out (i) security inspection on persons and goods, such as travellers, baggages, air cargoes, staff members and vehicles; (ii) maintenance and safeguard of aircrafts; (iii) control of passageways; (iv) explosion protection in front of terminals; (v) maintenance and repair of security inspection equipment; (vi) temperature checks; and (vii) other work related to aviation safety and security guard business in designated areas, and Aviation Security Company also agreed to make corresponding arrangement for work in relation to logistics support.

Term

The Supply of Aviation Safety and Security Guard Services Agreement is for a term of three years, commencing from 1 January 2023 to 31 December 2025.

Consideration and payment

The annual service fee payable by the Company to Aviation Security Company for the provision of aviation safety and security guard services by Aviation Security Company shall be calculated based on actual costs, which comprise:

- (i) Labour costs : The labour costs comprise the labour costs of operating personnel, frontline management personnel, and head office management personnel engaged by Aviation Security Company for the provision of aviation safety and security guard services to the Company.

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- (ii) Operating costs : The operating costs comprise back office expenses (e.g. power and energy consumption expenses, repair expenses, and rental expenses), other expenses (e.g. daily expenses and logistics expenses), business expenses, non-cash expenses and expenses for anti-epidemic supplies.
- (iii) Relevant taxes : The amount of relevant taxes shall be determined in accordance with the requirements of the PRC.

The Company and Aviation Security Company shall determine the estimated costs to be incurred by Aviation Security Company for each year in advance after considering factors including but not limited to the staff arrangement, labour costs and the expected demand for aviation safety and security guard services. Thereafter, an independent third party auditing firm will be appointed to conduct financial audits in relation to the actual performance of the Supply of Aviation Safety and Security Guard Services Agreement to confirm the actual amount of the service fee. The financial audits shall be conducted on an annual basis, which shall commence in the fourth quarter each year and shall be completed by 31 January in the following year.

Furthermore, the actual amount of service fee is subject to adjustment based on a reward and punishment mechanism as follows:

- (i) Performance appraisal : Annual performance appraisals shall be conducted in respect of the unsafe incidents attributable to Aviation Security Company and its fulfilment of performance benchmarks. A sliding scale of penalties will be imposed based on the nature and severity of non-compliance (if any) with the benchmarks, such that the amount of annual service fee payable to Aviation Security Company shall be deducted in accordance with the gravity of breach.
- (ii) Reward for cost control : Aviation Security Company shall actively implement cost control measures to save costs, provided that the extent of aviation safety and operating efficiency of Beijing Capital Airport is not compromised. The amount of reward payable to Aviation Security Company shall be linked to the proportion of labour cost saved by Aviation Security Company.

In terms of the payment arrangement of service fee, the service fee shall be prepaid by the Company to Aviation Security Company by the end of each month, with the amount of monthly prepayment to be determined with reference to the estimated amount of annual service fee in the following manner:

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$$\begin{array}{l} \text{Monthly prepayment} \\ \text{of service fee} \end{array} = (\text{Estimated amount of annual service fee} \times 95\%) / 12 \quad (\text{Note 2})$$

Note 2: The Company may adjust the amount of monthly prepayment (as agreed with Aviation Security Company) based on the scale of adjustment of business for each year, preliminary financial audit and the actual progress of payment. In determining the estimated amount of annual service fee, the Company and Aviation Security Company will anticipate the scale of adjustment of the number of frontline staff of Aviation Security Company and thereby calculate the estimated amount of labour costs for each year, by taking into account adjustment factors such as the forecast of business volume at Beijing Capital Airport and the need for safeguard of aviation security.

By the end of January in the following year, upon completion of the above-mentioned financial audit in respect of the actual amount of service fee payable by the Company to Aviation Security Company, the Company and Aviation Security Company shall settle the balance of service fee as follows:

$$\begin{array}{l} \text{Balance of} \\ \text{service fee} \end{array} = \text{Actual amount of annual service fee for each year} - \text{Total amount of monthly prepayment of service fee for the corresponding year}$$

Other material terms

In accordance with the principle of implementation of laws and regulations, the parties shall accurately put in place laws and regulations in the safety management of Beijing Capital Airport, and ensure the comprehensive coverage of aviation safety and security guard services to safeguard the aviation security of Beijing Capital Airport.

The Company shall be responsible for coordinating the relevant departments to assist Aviation Security Company in providing aviation safety and security guard services required within the scope of the Supply of Aviation Safety and Security Guard Services Agreement.

Aviation Security Company shall establish work systems, procedures and manuals in accordance with the aviation security management system of Beijing Capital Airport, recruit adequate operating personnel with relevant qualifications, and provide trainings in accordance with the requirements imposed by the competent authorities in the industry.

Aviation Security Company shall ensure the ongoing compliance of aviation safety and security guard services with the requirements of relevant laws, regulations and rules and the safety and security requirements of the Company, and shall continuously fulfil the administrative supervision requirements imposed on Beijing Capital Airport by the competent authorities in the industry. Aviation Security Company shall ensure that the safety objectives of the Company will be achieved, while the Company's requirements on the operation of security inspection and services will be continuously fulfilled.

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Pricing policy

As stated in the Letter from the Board, the services under the Supply of Aviation Safety and Security Guard Services Agreement are at cost basis without any profit margin charged by Aviation Security Company. As the provision of aviation safety and security guard services essentially involves labour procurement, the Company and Aviation Security Company agreed to use labour costs and expenses as the basis for determining the annual fees for the provision of such services in line with the Former Supply of Aviation Safety and Security Guard Services Agreement and the Former Supplemental Aviation Security Services Agreement, such that the labour costs and expenses equal to the aggregate amount of operating personnel costs, management personnel costs, daily costs and expenses, and related taxes.

Pursuant to the relevant requirements of the civil aviation administration authorities of the PRC, Aviation Security Company is the sole entity established in the Beijing region through which civil aviation security inspection work is conducted. Therefore, Aviation Security Company is the only company which is able to provide security inspection services to passengers in Beijing Capital Airport area. Furthermore, Aviation Security Company has the expertise and more than 15 years' experience in the provision of aviation safety and security guard services at Beijing Capital Airport. As such, there are no comparable quotes of similar services from independent third parties available to the Company in the market.

Besides, Aviation Security Company undertook to the Company that it will not charge a higher level of service fee to the Company than that charged to other independent third parties (including airlines, private jet companies and logistic companies) at Beijing Capital Airport. Aviation Security Company has issued a written confirmation to the Company that the fees charged by it to other independent third parties for similar services are not more favourable than that charged by it to the Company. The aviation security department of the Company has also collated information and compared the pricing of service fee charged by the other aviation security service providers to airports in other cities of the PRC against that charged by Aviation Security Company to the Company, which indicates that the service fee charged by Aviation Security Company is relatively low compared with that charged by the other aviation security service providers to other airports.

Assessment

To assess the aforementioned pricing policy, we noted that the services under the Supply of Aviation Safety and Security Guard Services Agreement are at cost basis without any profit margin charged by Aviation Security Company. We have made enquiry to the Company and confirmed that the adoption of labour costs and expenses as the basis for determining the annual fees for the provision of such services is consistent with that in the Former Supply of Aviation Safety and Security Guard Services Agreement and the Former Supplemental Aviation Security Services Agreement.

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It is further noted that Aviation Security Company undertook to the Company that it will not charge a higher level of service fee to the Company than that charged to other independent third parties (including airlines, private jet companies and logistic companies) at Beijing Capital Airport.

We have randomly selected, obtained and reviewed two out of approximately 20 agreements entered into between Aviation Security Company and independent third parties, being two airlines which are independent to Aviation Security Company and the Company, on the basis that the agreements were effective for at least one year during the period under the Former Supply of Aviation Safety and Security Guard Services Agreement (the “**Former Aviation Security Period**”) and effective until 2022 to reflect the latest market practice, for the provision of services similar to those under the Supply of Aviation Safety and Security Guard Services Agreement such as providing security inspection on persons and goods by Aviation Security Company to independent third parties (the “**Independent Aviation Security Samples**”).

As the Independent Aviation Security Samples were randomly selected, the service period covered more than one year of the Former Aviation Security Period, the Independent Aviation Security Samples were effective until 2022 which serves as a reference of the latest market practice and accounted for approximately 10% of the total number of service agreements entered into between the Aviation Security Company and independent third parties for the provision of services similar to those under the Supply of Aviation Safety and Security Guard Services Agreement during the Former Aviation Security Period, we consider the Independent Aviation Security Samples are fair and representative. It is noted that the pricing policy in the Independent Aviation Security Samples is in line with that in the Supply of Aviation Safety and Security Guard Services Agreement.

We have also obtained and reviewed an agreement entered into between Aviation Security Company and Beijing Daxing International Airport (the “**Daxing Agreement**”), which the Parent Company is currently engaged in the aeronautical and non-aeronautical businesses as stated in “General Information” in the appendix to the Circular. As noted from the Daxing Agreement, Aviation Security Company was engaged to provide services similar to those under the Supply of Aviation Safety and Security Guard Services Agreement by Aviation Security Company and the pricing policy in the Daxing Agreement is in line with that in the Supply of Aviation Safety and Security Guard Services Agreement.

In view of the above, we consider the terms of the pricing policy under the Supply of Aviation Safety and Security Guard Services Agreement are fair and reasonable.

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3. Internal control

3.1. Operation and Maintenance Services Framework Agreement

Internal control on pricing

As stated in the Letter from the Board, the Company has implemented a management system to monitor the pricing standards for the transactions under the Operation and Maintenance Services Framework Agreement to ensure that the terms are on normal commercial terms as follows:

- (i) Prior to the entering into of the Operation and Maintenance Services Framework Agreement, the techniques and procurement department of the Company is responsible for gathering information on the historical transaction amounts of service fees paid by the Company for the relevant Operation and Maintenance Services and the related transaction information as well as the profit margin for the same type of services at Beijing Capital Airport by independent third party(ies) based on its/their quotations, and conducting assessment on the fairness and reasonableness of the transaction terms and pricing terms. Thereafter, the techniques and procurement department is responsible for the monitoring, assessment and ratings of the transactions contemplated under the Operation and Maintenance Services Framework Agreement. The finance department and the secretariat to the Board are responsible for gathering information on connected transactions and monitoring the implementation of connected transactions.
- (ii) Prior to the signing of the definitive agreements and the implementation of the transactions contemplated under the Operation and Maintenance Services Framework Agreement, the principal officers in the techniques and procurement department who handle the relevant matters shall lodge applications with the techniques and procurement department, the finance department and the legal department of the Company and the secretariat to the Board. Such applications would only be approved upon a preliminary review conducted by the managers of the above respective departments of the Company, followed by a final review at the general manager office meeting in accordance with the internal control policies of the Company. Upon completion of the above internal review procedures based on different functions of various departments of the Company, the relevant definitive agreements will be considered and approved by the Board.
- (iii) The independent non-executive Directors have reviewed and will continue to review the transactions contemplated under the Operation and Maintenance Services Framework Agreement to ensure that such transactions are entered into on normal commercial terms, fair and reasonable, and carried out pursuant to its contractual terms.

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- (iv) The auditors of the Company will conduct annual review on the transactions contemplated under the Operation and Maintenance Services Framework Agreement in relation to the pricing policy and annual caps contemplated thereunder in accordance with the Listing Rules.

Assessment

To assess the internal control on pricing, we have obtained and reviewed: (i) the application and approval record prior to the entering into of the Operation and Maintenance Services Framework Agreement (the “**Operation and Maintenance Record**”); (ii) the assessment and ratings record for all the definitive agreements entered into between the Group and Beijing Bowei under the Former Operation and Maintenance Services Framework Agreement (the “**Assessment Record**”); and (iii) two out of 13 application and approval records prior to the signing of the definitive agreements and the implementation of the transactions under the Former Operation and Maintenance Services Framework Agreement (the “**Former Operation and Maintenance Record**”) after considering that there was an application and approval record for each of the 13 definitive agreement. As the Former Operation and Maintenance Record were randomly selected, the approvals in the Former Operation and Maintenance Record were obtained during the Former Operation and Maintenance Period and the Former Operation and Maintenance Record accounted for more than 15% of the total number of application and approval records during the Former Operation and Maintenance Period under the Former Operation and Maintenance Services Framework Agreement, we consider the Former Operation and Maintenance Record are fair and representative.

We have also made reference to the relevant disclosure under the paragraph headed “Continuing Connected Transactions” under the sub-section headed “Connected Transactions” under the section headed “Report of the Board” in the 2021 Annual Report (the “**CCT Extraction**”).

From the review of the Operation and Maintenance Record, it is noted that the application for the entering into of the Operation and Maintenance Services Framework Agreement was lodged together with the internal review of the legal apartment. The application was then approved by different departments such as the finance department and the secretariat to the Board.

From the review of the Assessment Record, it is noted that the techniques and procurement department conducted the monitoring, assessment and ratings not only on the transactions under the Former Operation and Maintenance Services Framework Agreement but also on the transactions under the definitive agreements entered into with independent third parties. The Assessment Record contains the information of, among others, (i) the major terms of each of the definitive agreements such as the contract term and contract amount; and (ii) the assessment and ratings of each definitive agreement in terms of a score, a ranking and a grading based on the Group’s internal assessment criteria. After our enquiry with the Company, we understand that all the definitive agreements entered into with Beijing Bowei and independent third parties were subject to the same set of assessment criteria and the

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Company would take into consideration of the assessment results upon renewal of the corresponding definitive agreements. It is further noted that the assessment results of the definitive agreements entered into with Beijing Bowei were at the same or a higher level compared with those entered into with independent third parties in terms of score and grading.

From the review of the Former Operation and Maintenance Record, it is noted that an application was lodged by the principal officer in the techniques and procurement department with the techniques and procurement department, the finance department and the legal department of the Company and the secretariat to the Board before entering into definitive agreements under the Former Operation and Maintenance Services Framework Agreement. The application was then reviewed by the managers of the aforementioned corresponding departments of the Company. It is also noted that suggestion of amending specific terms of the definitive agreement was given during the review. There was a final review at the general manager office and the approval from the general manager was obtained.

From the review of the CCT Extraction, it is noted that the transactions under the Former Operation and Maintenance Services Framework Agreement were reviewed by the independent non-executive Directors and the independent non-executive Directors confirmed that such transactions were entered into in the ordinary and usual course of business of the Company, on normal commercial terms or on terms no less favourable than the terms offered by independent third parties to the Company and according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. It is further noted that the Company's auditor issued his unqualified letter containing its findings and conclusions in respect of, among others, the transactions under the Former Operation and Maintenance Services Framework Agreement were in accordance with the Listing Rules.

In view of the above, we consider that the internal control on pricing is sufficient.

Internal control on review of annual caps

As stated in the Letter from the Board, the Company has implemented the following internal control measures to ensure that the annual caps for the transactions contemplated under the Operation and Maintenance Services Framework Agreement (the “**Operation and Maintenance Annual Caps**”) will not be exceeded:

- (i) The finance department of the Company provides the secretariat to the Board with information in relation to the actual transaction amounts on a monthly basis.
- (ii) The secretariat to the Board is responsible for monitoring such transactions to ensure that the total amount of transactions does not exceed the annual caps.
- (iii) If such amount of transactions is estimated to exceed the relevant annual cap, the person-in-charge of the relevant department of the Company will be notified so that the scale of transactions in the future may be re-estimated and arrangements

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may be made to issue announcements and/or to obtain the relevant approvals from the Board and the Independent Shareholders in accordance with the requirements of the Listing Rules.

Assessment

To assess the internal control on review of Operation and Maintenance Annual Caps, we have obtained and reviewed the record of the actual transaction amounts from January 2020 to June 2022 under the Former Operation and Maintenance Services Framework Agreement on a monthly basis (the “**Historical Operation and Maintenance Monthly Record**”).

After our discussion with the Company, we understand that the finance department of the Company provided the secretariat to the Board with the Historical Operation and Maintenance Monthly Record and the secretariat to the Board was responsible for monitoring such transactions to ensure that the total amount of transactions did not exceed the annual caps under the Former Operation and Maintenance Services Framework Agreement (the “**Former Operation and Maintenance Annual Caps**”) which is consistent with the internal review procedures as stated in the Letter from the Board.

Further, it is noted from the sub-section headed “Historical figures” under the section headed “Material terms of the Operation and Maintenance Services Framework Agreement” in the Letter from the Board that the Company expects that the service fees payable by the Company to Beijing Bowei for FY2022 will not exceed the Former Operation and Maintenance Annual Cap. It reflects that the Company has procedures in place to monitor the total amount of transactions under the Former Operation and Maintenance Services Framework Agreement.

In view of the above, we consider that the internal control on review of Operation and Maintenance Annual Caps is sufficient.

3.2. Supply of Aviation Safety and Security Guard Services Agreement

Internal control on pricing

As stated in the Letter from the Board, the Company has implemented a management system to monitor the pricing standards for the transactions under the Supply of Aviation Safety and Security Guard Services Agreement to ensure that the terms are on normal commercial terms as follows:

- (i) Prior to the entering into of the Supply of Aviation Safety and Security Guard Services Agreement, the aviation security department of the Company verified the unit labour costs (which are initially determined in line with the historical amount of unit labour costs under the Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement), followed by cross-checks against the fees charged by Aviation Security Company to other independent third parties for

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similar services, as well as comparison of the service fees charged by the aviation security providers to other airports against that charged by Aviation Security Company to the Company), and attended to the negotiation, signing and execution of the Supply of Aviation Safety and Security Guard Services Agreement. Thereafter, the aviation security department of the Company is also responsible for the subsequent monitoring and ratings in respect of the transactions contemplated under the Supply of Aviation Safety and Security Guard Services Agreement. The finance department of the Company and the secretariat to the Board are responsible for gathering information of connected transactions and monitoring the implementation of connected transactions, with a view to conducting assessment of the fairness of the transaction terms and pricing terms.

- (ii) Prior to the signing of the definitive agreements and the implementation of the transactions contemplated under the Supply of Aviation Safety and Security Guard Services Agreement, the principal officers in the aviation security department of the Company who are responsible for handling the above-mentioned matters shall lodge applications with the aviation security department, the finance department, legal services department and the secretariat to the Board. Such applications would only be approved upon a preliminary review conducted by the managers of the above respective departments of the Company, followed by a final review at the general manager office meeting in accordance with the relevant internal control policies of the Company. After the above internal review process based on different functions of various departments of the Company has been completed, the relevant definitive agreements will be considered and approved by the Board.
- (iii) The independent non-executive Directors have reviewed and would continue to review the transactions under the Supply of Aviation Safety and Security Guard Services Agreement in accordance with the Listing Rules to ensure that such transactions are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to its contractual terms.
- (iv) The auditors of the Company will conduct annual review on the transactions under the Supply of Aviation Safety and Security Guard Services Agreement in relation to the pricing policies and annual caps contemplated thereunder in accordance with the Listing Rules.

Assessment

To assess the internal control on pricing, we have obtained and reviewed: (i) the application and approval record prior to the entering into of the Supply of Aviation Safety and Security Guard Services Agreement (the “**Aviation Security Record**”); (ii) the application and approval record prior to the entering into of the Former Supplemental Aviation Security Services Agreement (the “**Supplemental Aviation Security Record**”); and (iii) the record of cross-checking the unit labour costs in various airports in the PRC in 2019 and 2020 and the

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unit labour costs of different industries in Beijing, being the same city as Beijing Capital Airport, in 2021 (the “**Cross-check Record**”). We have also made reference to the CCT Extraction.

From the review of the Aviation Security Record and the Supplemental Aviation Security Record, it is noted that the application for the entering into of Supply of Aviation Safety and Security Guard Services Agreement and the Former Supplemental Aviation Security Services Agreement was lodged together with the internal review of the legal department. The application was then approved by different departments such as the finance department and the secretariat to the Board.

From the review of the Cross-check Record, it is noted that: (i) the number of operating personnel for different positions such as security and safety check; (ii) the breakdown of operating personnel for each position which include management staff and execution staff; (iii) the unit labour cost; and (iv) the total labour cost of security and safety services in various airports in the PRC was cross-checked. Further, it is noted from the Cross-check Record that the unit labour cost of different industries in Beijing was also cross-checked as a reference.

From the review of the CCT Extraction, it is noted that the transactions under the Former Supply of Aviation Safety and Security Guard Services Agreement were reviewed by the independent non-executive Directors and the independent non-executive Directors confirmed that such transactions were entered into in the ordinary and usual course of business of the Company, on normal commercial terms or on terms no less favourable than the terms offered by independent third parties to the Company and according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. It is further noted that the Company’s auditor issued his unqualified letter containing its findings and conclusions in respect of, among others, the transactions under the Former Supply of Aviation Safety and Security Guard Services Agreement were in accordance with the Listing Rules.

In view of the above, we consider that the internal control on pricing is sufficient.

Internal control on review of annual caps

As stated in the Letter from the Board, the Company has implemented the following internal control measures to ensure that the annual caps for the transactions contemplated under the Supply of Aviation Safety and Security Guard Services Agreement (the “**Aviation Security Annual Caps**”) will not be exceeded:

- (i) The finance department of the Company provides the secretariat to the Board with information in relation to the actual transaction amounts on a monthly basis.
- (ii) The secretariat to the Board is responsible for monitoring such transactions to ensure that the total amount of transactions does not exceed the annual caps.

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- (iii) If such amount of transactions is estimated to exceed the relevant annual cap, the person-in-charge of the relevant department of the Company will be notified so that the scale of transactions in the future may be re-estimated and arrangements may be made to issue announcements and/or to obtain the relevant approvals from the Board and the Independent Shareholders in accordance with the requirements of the Listing Rules.

Assessment

To assess the internal control on review of Aviation Security Annual Caps, we have obtained and reviewed the record of the actual transaction amounts from January 2020 to June 2022 under the Former Supply of Aviation Safety and Security Guard Services Agreement on a monthly basis (the “**Historical Aviation Security Monthly Record**”).

After our discussion with the Company, we understand that the finance department of the Company provided the secretariat to the Board with the Historical Aviation Security Monthly Record and the secretariat to the Board was responsible for monitoring such transactions to ensure that the total amount of transactions did not exceed the annual caps under the Former Supply of Aviation Safety and Security Guard Services Agreement (the “**Former Aviation Security Annual Caps**”) which is consistent with the internal review procedures as stated in the Letter from the Board.

Further, it is noted from the sub-section headed “Historical figures” under the section headed “Material terms of the Supply of Aviation Safety and Security Guard Services Agreement” in the Letter from the Board that the Company expects that the service fees payable by the Company to Aviation Security Company for FY2022 will not exceed the Former Aviation Security Annual Cap. It reflects that the Company has procedures in place to monitor the total amount of transactions under the Former Supply of Aviation Safety and Security Guard Services Agreement.

In view of the above, we consider that the internal control on review of Aviation Security Annual Caps is sufficient.

4. Historical transaction amounts and the annual caps

4.1. Operation and Maintenance Services Framework Agreement

Historical transaction amounts and the Former Operation and Maintenance Annual Caps

The historical transaction amounts of the service fees paid by the Company to Beijing Bowei under the Former Operation and Maintenance Services Framework Agreement and the Former Operation and Maintenance Annual Caps are as follows:

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	FY2020 <i>RMB'000</i>	FY2021 <i>RMB'000</i>	FY2022 <i>RMB'000</i>
Service fees paid by the Company to Beijing Bowei	410,366	379,647	405,405 <i>(Note 1)</i>
Former Operation and Maintenance Annual Caps	459,000	504,000	555,000
Utilisation of the Former Operation and Maintenance Annual Caps	89.4%	75.3%	73.0%

Note 1: Since the audited figure of the service fees payable by the Company to Beijing Bowei under the Former Operation and Maintenance Services Framework Agreement for FY2022 is not available yet, this figure is only an estimated figure based on the aggregate of (i) the unaudited figure of the service fees paid by the Company to Beijing Bowei under the Former Operation and Maintenance Services Framework Agreement for the nine months ended 30 September 2022 of approximately RMB248,547,000; and (ii) the remaining portion of the total amounts of the service fees payable by the Company to Beijing Bowei for each of the subsisting definitive agreements under the Former Operation and Maintenance Services Framework Agreement for the three months endings 31 December 2022. Such total amounts have been agreed and set out in the relevant definitive agreements (and, if applicable, any supplemental agreement), and were determined based on the labour and management cost, costs for spare products and spare parts and taxes and in accordance with the pricing policies for the Former Operation and Maintenance Services Framework Agreement as disclosed in the announcement of the Company dated 23 December 2019. The Company expects that the service fees payable by the Company to Beijing Bowei for FY2022 will not exceed its annual cap.

Operation and Maintenance Annual Caps

The Operation and Maintenance Annual Caps are as follows:

	FY2023 <i>RMB'000</i>	FY2024 <i>RMB'000</i>	FY2025 <i>RMB'000</i>
Operation and Maintenance Annual Caps	446,000	455,000	468,000

As stated in the Letter from the Board, the Operation and Maintenance Annual Caps are determined based on the following factors:

- (i) the historical transaction amounts of the service fees paid or payable by the Company in the past three years under the Former Operation and Maintenance Services Framework Agreement;
- (ii) the change in business volume of the Company as a result of COVID-19;

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- (iii) the change in demand for the relevant services required in the daily operation of the Company;
- (iv) the potential increase in labour costs and costs of spare products, spare parts, materials and consumables in the next three years;
- (v) an annual buffer of approximately 10% after taking into account items (ii), (iii) and (iv) above and the potential business needs of the Company and inflation; and
- (vi) relevant taxes and management fees.

Assessment

To assess the above determination basis of Operation and Maintenance Annual Caps, we reviewed the historical transaction amounts. As shown in the above table, the historical transaction amount for FY2020 and FY2021 under the Former Operation and Maintenance Services Framework Agreement amounted to approximately RMB410.4 million and RMB379.6 million respectively, representing a very high utilisation of approximately 89.4% and 75.3% of the Former Operation and Maintenance Annual Caps for FY2020 and FY2021 respectively. As stated in the Letter from the Board, the transaction amount for FY2022 is estimated to be approximately RMB405.4 million, representing an utilisation of approximately 73.0% of the Former Operation and Maintenance Annual Cap for FY2022.

It is noted that the overall utilisation of the Former Operation and Maintenance Annual Caps was relatively high. It is also noted that there is a reduction in the Operation and Maintenance Annual Caps compared with the Former Operation and Maintenance Annual Caps even though the utilisation of the Former Operation and Maintenance Annual Caps was relatively high as illustrated above. The Operation and Maintenance Annual Cap for FY2023 of RMB446.0 million represents a decrease of RMB109.0 million or approximately 19.6% compared with the Former Operation and Maintenance Annual Cap for FY2022. Given that: (i) the historical transaction amount for FY2020 and FY2021 were slightly above and below RMB400.0 million respectively; (ii) the estimated transaction amount for FY2022 (based on the information currently available to the Company as at the Latest Practicable Date) to be approximately RMB405.4 million; and (iii) a buffer of approximately 10.0%, being the difference of the aforementioned estimated transaction amount for FY2022 of RMB405.4 million and the Operation and Maintenance Annual Cap for FY2023 of RMB446.0 million is observed. After our discussion with the Management, we understand that a buffer is reserved to provide the Group with flexibility to cater for the potential business needs of the Company and the potential increase in inflation in the PRC which we considered such buffer is appropriate. As such, we consider that the Operation and Maintenance Annual Cap for FY2023 of RMB446.0 million is fair and reasonable.

As noted from the 2021 Annual Report, the cumulative aircraft movements and the cumulative cargo and mail throughput increased in FY2021 compared with those in FY2020 while the cumulative passenger throughput decreased in FY2021 compared with that in

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FY2020. As noted from the 2022 Interim Report, the cumulative aircraft movements, the cumulative passenger throughput and the cumulative cargo and mail throughput decreased in HY2022 compared with those in HY2021. The continuous impact of the COVID-19 outbreak on the cumulative aircraft movements, the cumulative passenger throughput and the cumulative cargo and mail throughput during the period under the Operation and Maintenance Services Framework Agreement remains uncertain.

It is noted that the Operation and Maintenance Annual Cap: (i) for FY2024 of RMB455.0 million represents a slight increase of approximately 2.0% compared with that for FY2023; and (ii) for FY2025 of RMB468.0 million represents a slight increase of approximately 2.9% compared with that for FY2024. Such slight increase is considered fair and reasonable for the potential increase in labour costs and costs of spare products, spare parts, materials and consumables in FY2024 and FY2025.

Based on the above, we consider that the Operation and Maintenance Annual Caps are fair and reasonable.

4.2. *Supply of Aviation Safety and Security Guard Services Agreement*

Historical transaction amounts and Former Aviation Security Annual Caps

The following table shows the transaction amounts of the service fee paid or payable by the Company to Aviation Security Company under Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement).

	FY2020 (RMB'000)	FY2021 (RMB'000)	FY2022 (RMB'000)
Service fee paid or payable by the Company to Aviation Security Company	667,080	856,210	856,210 ^(Note 3)
Former Aviation Security Annual Caps	703,490	924,480	924,480
Utilisation of the Former Aviation Security Annual Caps	94.8%	92.6%	92.6%

Note 3: Since the audited figure of the service fee payable by the Company to Aviation Security Company under the Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement) for FY2022 is not yet available, this figure is only an estimated figure based on the aggregate of (i) the unaudited figure of the service fee paid by the Company to Aviation Security Company under the Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement) for the nine months ended 30 September 2022 of approximately RMB612,000,000; and (ii) the remaining portion of the total

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amount of service fee payable by the Company to Aviation Security Company for the three months ending 31 December 2022, which was agreed and set out in the Supply of Aviation Safety and Security Guard Services Agreement and determined based on the labour costs, operating costs and taxes and in accordance with the pricing policies of the Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement) as disclosed in the announcements of the Company dated 30 October 2019 and 18 October 2021 and the circulars of the Company dated 3 December 2019 and 30 November 2021. The Company expects that the service fee payable by the Company to Aviation Security Company for FY2022 will not exceed its annual cap.

Aviation Security Annual Caps

The Aviation Security Annual Caps are as follows:

	FY2023	FY2024	FY2025
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aviation Security Annual Caps	924,480	924,480	924,480

As stated in the Letter from the Board, the Aviation Security Annual Caps are determined based on the following factors:

- (i) the historical transaction amounts of the service fees paid or payable by the Company to Aviation Security Company under the Former Supply of Aviation Safety and Security Guard Services Agreement (as amended by the Former Supplemental Aviation Security Services Agreement);
- (ii) the reasonable dynamic adjustment of labour costs and the expected adjustment to the scope of safety and security guard services to satisfy the security requirements;
- (iii) the uncertainty of the COVID-19 epidemic prevention and control measures and the adjustment of business volume of Beijing Capital Airport in the next three years;
- (iv) the cost control and efficiency enhancement measures to be adopted by the Company and Aviation Security Company to strive to maintain a relatively stable level of overall costs for aviation safety and security guard services; and
- (v) an annual buffer of approximately 10% after taking into account items (ii), (iii) and (iv) above and the potential business needs of the Company and inflation.

Assessment

To assess the above determination basis of the Aviation Security Annual Caps, we reviewed the historical transaction amounts. As shown in the above table, the historical transaction amount for FY2020 and FY2021 under the Former Supply of Aviation Safety and

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Security Guard Services Agreement amounted to approximately RMB667.1 million and RMB856.2 million respectively, representing almost a full utilisation of approximately 94.8% and 92.6% of the Former Aviation Security Annual caps for FY2020 and FY2021. As stated in the Letter from the Board, the transaction amount for FY2022 is estimated to be approximately RMB856.2 million, representing a very high utilisation of approximately 92.6% of the Former Aviation Security Annual Cap for FY2022.

It is noted that the Former Aviation Security Annual Caps were almost fully utilised. It is also noted that the Aviation Security Annual Caps for FY2023, FY2024 and FY2025 remain the same as the Former Aviation Security Annual Caps for FY2021 and FY2022 despite the very high utilisation of the Former Aviation Security Annual Caps as illustrated above. Given that: (i) the historical transaction amount for increased from less than RMB700.0 million in FY2020 to more than RMB850.0 million in FY2021; (ii) the estimated transaction amount for FY2022 (based on the information currently available to the Company as at the Latest Practicable Date) to be approximately RMB856.2 million; and (iii) a buffer of less than 10% is observed. After our discussion with the Management, we understand that a buffer is reserved to provide the Group with flexibility to cater for the potential business needs of the Company and the potential increase in inflation in the PRC which we considered such buffer is appropriate. As such, we consider that the Aviation Security Annual Cap for FY2023 of RMB924.5 million is fair and reasonable.

As mentioned under sub-section headed “4.1. Operation and Maintenance Services Framework Agreement” under section headed “4. Historical transaction amounts and the Annual Caps” above, the continuous impact of the COVID-19 outbreak on the cumulative aircraft movements, the cumulative passenger throughput and the cumulative cargo and mail throughput during the period under the Supply of Aviation Safety and Security Guard Services Agreement remains uncertain.

It is noted that the Aviation Security Annual Caps for FY2024 and FY2025 remain unchanged of RMB924.5 million which is in line with the determination basis that the cost control and efficiency enhancement measures to be adopted by the Company and Aviation Security Company to strive to maintain a relatively stable level of overall costs for aviation safety and security guard services.

Based on the above, we consider that the Aviation Security Annual Caps are fair and reasonable.

5. Reasons for and benefits of entering into the Framework Agreements

5.1. Operation and Maintenance Services Framework Agreement

As stated in the Letter from the Board, Beijing Bowei has been cooperating with the Company for 23 years since the Company was established in 1999 and is very familiar with the operation of relevant equipment and facilities of Beijing Capital Airport with ample experience in the development, installation, operation, repair and maintenance services of terminal, station and airport equipment. Since the operation of Beijing Capital Airport is highly dependent on the steady

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and continuous operation of various types of equipment and facilities around the clock, which requires high stability of operation, safety of management and extremely quick emergency responses to repair and maintenance services in respect of equipment and facilities, as such, the relevant operation, repair and maintenance services provided by Beijing Bowei are conducive to ensuring the stability of the daily operation and service quality of Beijing Capital Airport, which helps to maintain the continuity of operation, repair and maintenance business while ensuring the rapid responsiveness and the specialty and high efficiency required for the operation of the isolated area of Beijing Capital Airport.

Assessment

As noted in the announcement of the Company dated 12 February 2018 in relation to the share transfer of Beijing Bowei, Beijing Bowei has entered into various continuing transactions with the Company which include, among others, the provision of Operation and Maintenance Services before 2018. As Beijing Bowei has been cooperating with the Company for a couple of years, it is familiar with the operation of relevant equipment and facilities of Beijing Capital Airport.

As stated in the Letter from the Board, the operation of Beijing Capital Airport is highly dependent on the steady and continuous operation of various types of equipment and facilities around the clock which requires high stability of operation, safety of management and extremely quick emergency responses to repair and maintenance services in respect of equipment and facilities. From the assessment results of the definitive agreements entered into with Beijing Bowei as discussed above, it is noted that the service quality for the services provided by Beijing Bowei met the aforementioned business need of the Group.

Based on the above, we are of the view that the Operation and Maintenance Services Framework Agreement was entered into in the ordinary course of business of the Company, on normal commercial terms that are fair and reasonable and is in the interest of the Shareholders as a whole.

5.2. Supply of Aviation Safety and Security Guard Services Agreement

As stated in the Letter from the Board, in view of the relevant requirements of the civil aviation administration authorities of the PRC, Aviation Security Company is the only company which is able to provide security inspection services on passengers in Beijing Capital Airport area. Furthermore, Aviation Security Company has the expertise and more than 15 years' experience in the provision of aviation safety and security guard services at Beijing Capital Airport. In previous years, the Company established satisfactory cooperation record with Aviation Security Company. The provision of aviation safety and security guard services by Aviation Security Company at Beijing Capital Airport is able to ensure the safety of the passengers, aircrafts and other personnel at Beijing Capital Airport. The work related to epidemic prevention and control in Beijing Capital Airport requires a high degree of responsibility and execution capabilities of the operating personnel of Aviation Security Company. In addition to setting up security screening lanes specifically for epidemic prevention, Aviation Security Company has also been commissioned to perform tasks such as temperature checks and inspection of "Health Kit*" (健康寶) etc. due to its long-standing

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cooperative relationship with the Company. Aviation Security Company has discharged its duties in security screening and epidemic prevention and protection while strictly adhering to the aviation security and safety standard, and has made significant contributions towards the objective of “Error-free Epidemic Prevention and Control for Passengers*” (旅客防控零失誤).

Assessment

As noted in the 2021 Annual Report and the 2022 Interim Report, Beijing Capital Airport has been acting as the offshore pandemic control frontline with the mission of containing the pandemic. The Company continued to improve the pandemic prevention and control system and implement policies to build the pandemic control front of the airport through the triple measures of “prevention of importation of COVID-19 cases externally”, “prevention of viral rebound internally”, and “prevention from spread by people and goods”.

Moreover, Beijing Capital Airport continuously optimised the security procedures and enhanced custom clearance efficiency, while at the same time strengthening its capabilities in risk management and emergency support. Further, the Company has been increasing the investment on aviation safety and security due to the requirements for pandemic prevention and control as well as safety and security control.

It is noted from the Letter from the Board that Aviation Security Company has been commissioned to perform tasks such as temperature checks and inspection of “Health Kit*” (健康寶) etc. due to its long-standing cooperative relationship with the Company in addition to setting up security screening lanes specifically for epidemic prevention. As such, the ability of providing the necessary services to support the pandemic prevention and control is considered as crucial.

Based on the above, we are of the view that the Supply of Aviation Safety and Security Guard Services Framework Agreement was entered into in the ordinary course of business of the Company, on normal commercial terms that are fair and reasonable and is in the interest of the Shareholders as a whole.

RECOMMENDATION

We have considered the above principal factors and reasons and, in particular, having taken into account the following in arriving at our opinion:

- (i) the transactions contemplated under the Supply of Aviation Safety and Security Guard Services Agreement are in the ordinary and usual course of business of the Company;
- (ii) the transactions contemplated under the Operation and Maintenance Services Framework Agreement are in the ordinary and usual course of business of the Company;
- (iii) the terms of the Supply of Aviation Safety and Security Guard Services Agreement and the transactions contemplated thereunder, including the Aviation Security Annual caps are fair and reasonable and in the interests of the Company and Shareholders as a whole; and

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- (iv) the terms of the Operation and Maintenance Services Framework Agreement and the transactions contemplated thereunder, including the Operation and Maintenance Annual caps are fair and reasonable and in the interests of the Company and Shareholders as a whole.

Having considered the above, we are of the view that; (i) the terms of the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps are fair and reasonable; (ii) the transactions contemplated under the Operation and Maintenance Services Framework Agreement and the Supply of Aviation Safety and Security Guard Services Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Company, and are in the interest of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions to approve the on the Operation and Maintenance Services Framework Agreement, the Supply of Aviation Safety and Security Guard Services Agreement and the respective transactions contemplated thereunder, including the annual caps to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Opus Capital Limited
Li Lan
Executive Director

Mr. Li Lan is an Executive Director of Opus Capital Limited and is a person licensed under the SFO as a responsible officer to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Li Lan has over 16 years of experience in the corporate finance industry.

* *English name for identification purposes only.*

1. RESPONSIBILITY STATEMENT

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 Company. 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 herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of Directors, supervisors and chief executives in the Shares, underlying Shares or debentures of the Company and its associated corporations

To the best knowledge of the Directors, supervisors and chief executives of the Company, as at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had interests and short positions in the Shares, underlying Shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning 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 any such Directors, supervisors or chief executives is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

(b) Interests and short positions of substantial shareholders in the Shares, underlying Shares or debentures of the Company and its associated corporations

To the best knowledge of the Directors, supervisors and chief executives of the Company, as at the Latest Practicable Date, the interest and short positions of the substantial shareholders in the issued share capital of the Company which were required, pursuant to section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which were required to be notified to the Company were as follows:

Name of Shareholder	Notes	Class of Shares	Capacity	Number of Shares	Approximate percentage of the relevant class of Shares (%)	Approximate percentage of the total issued Shares (%)
Capital Airports Holdings Limited	1	Domestic	Beneficial owner	(L) 2,699,814,977	100	58.96
Causeway Capital Management LLC	2	H	Investment manager	(L) 188,316,000	10.02	4.11

APPENDIX

GENERAL INFORMATION

Name of Shareholder	Notes	Class of Shares	Capacity	Number of Shares	Approximate percentage of the relevant class of Shares (%)	Approximate percentage of the total issued Shares (%)
T. Rowe Price Associates, Inc. and its Affiliates		H	Beneficial owner	(L) 167,324,000	8.90	3.65
Citigroup Inc.		H	Interest of corporation	(L) 162,212,163	8.63	3.54
			controlled by	(S) 1,708,856	0.09	0.04
			substantial shareholder	(P) 160,593,977	8.24	3.51
BlackRock, Inc.		H	Interest of corporation	(L) 140,947,350	7.50	3.08
			controlled by substantial shareholder	(S) 17,428,000	0.93	0.38
The Bank of New York Mellon Corporation		H	Interest of corporation	(L) 131,523,735	6.99	2.87
			controlled by substantial shareholder	(P) 129,778,990	6.91	2.83
Aberdeen Asset Management PLC and its associates	2	H	Investment manager	(L) 114,868,000	6.11	2.51
JPMorgan Chase & Co.	3	H	Interest of corporation	(L) 112,675,426	5.99	2.46
			controlled by substantial shareholder			
			Person having a security interest in shares	(S) 22,712,681	1.20	0.50
			Approved lending agent	(P) 79,595,330	4.23	1.74
Mr. Jiang Jinzhi (蔣錦志)	4	H	Interest of corporation controlled by substantial shareholder	(L) 105,602,000	5.62	2.31
Hermes Investment Funds PLC		H	Beneficial owner	(L) 94,613,662	5.03	2.07
Brown Brothers Harriman & Co.		H	Agent	(L) 94,261,445	5.02	2.06
				(P) 94,261,445	5.02	2.06
GIC Private Limited		H	Investment manager	(L) 94,266,528	5.02	2.06
Employee Provident Fund Board		H	Beneficial owner	(L) 94,470,000	5.02	2.06

(L): Long Position

(S): Short Position

(P): Lending Pool

Notes:

1. Capital Airports Holdings Limited (formerly known as Capital Airports Holding Company) was incorporated in the PRC and is the controlling shareholder of the Company. Mr. Wang Changyi, the chairman of the Board and an executive Director, is a director, the chairman of the board and a member and the secretary of the Party Committee of Capital Airports Holdings Limited. Mr. Han Zhiliang, an executive Director and the general manager of the Company, is the deputy general manager of Capital Airports Holdings Limited. Mr. Jia Jianqing, a non-executive Director, is the deputy general manager of Capital Airports Holdings Limited. Mr. Song Kun, a non-executive Director, is the deputy general manager of Capital Airports Holdings Limited.

2. These Shares are held in the capacity of investment manager.

3. Based on the disclosure form dated 1 September 2022 of JPMorgan Chase & Co. (being the latest disclosure form filed up to the Latest Practicable Date), as at 29 August 2022, JPMorgan Chase & Co. held 100% interests in each of JPMorgan Chase Bank, National Association and JPMorgan Chase Holdings LLC:

(i) JPMorgan Chase Bank, National Association held 100% interests in:

(a) J.P. Morgan International Finance Limited, which in turn held 100% interests in:

(A). J.P. MORGAN CAPITAL HOLDINGS LIMITED, which in turn held 100% interests in J.P. MORGAN SECURITIES PLC. J.P. MORGAN SECURITIES PLC held 31,367,746 H shares of the Company in long position and 21,354,681 H shares of the Company in short position; and

(B). J.P. Morgan SE, which held 152,350 H shares of the Company in long position,

(b) JPMORGAN CHASE BANK, N.A. – LONDON BRANCH, which held 79,595,330 H shares of the Company in long position,

therefore, JPMorgan Chase Bank, National Association was deemed to be interested in 111,115,426 H shares of the Company in long position held by J.P. MORGAN SECURITIES PLC, J.P. Morgan SE and JPMORGAN CHASE BANK, N.A. – LONDON BRANCH and 21,354,681 H shares of the Company in short position held by J.P. MORGAN SECURITIES PLC, respectively;

(ii) JPMorgan Chase Holdings LLC, which in turn held 100% interests in J.P. Morgan Broker-Dealer Holdings Inc.. J.P. Morgan Broker-Dealer Holdings Inc. held 100% interests in J.P. Morgan Securities LLC, which held 1,560,000 H shares of the Company in long position and 1,358,000 H shares of the Company in short position, respectively,

therefore, JPMorgan Chase Holdings LLC was deemed to be interested in 1,560,000 H shares of the Company in long position and 1,358,000 H shares of the Company in short position held by J.P. Morgan Securities LLC, respectively.

Therefore, JPMorgan Chase & Co was deemed to be interested in 112,675,426 H shares of the Company in long position and 22,712,681 H shares of the Company in short position held by JPMorgan Chase Bank, National Association and JPMorgan Chase Holdings LLC, respectively.

4. Based on the disclosure form dated 26 February 2021 of Mr. Jiang Jinzhi (being the latest disclosure form filed up to the Latest Practicable Date), as at 24 February 2021, among his interests in the Shares of the Company, (i) 90,476,000 Shares in total were held by Greenwoods China Alpha Master Fund and Golden China Master Fund; and (ii) 15,126,000 Shares were held by Shanghai Greenwoods Asset Management Company Limited. Each of Greenwoods China Alpha Master Fund and Golden China Master Fund was indirectly wholly-owned by Invest Partner Group Limited through Greenwoods Asset Management Hong Kong Limited. Invest Partner Group Limited was directly held as to 84.5% by Mr. Jiang Jinzhi. Shanghai Greenwoods Asset Management Company Limited was wholly-owned by Xizang Jingning Corporate Management Company Limited, which was directly held as to 84.5% by Mr. Jiang Jinzhi.
5. The information in the above table is based on information publicly available to the Company as at the Latest Practicable Date.
6. The numbers in the above table have been subject to rounding adjustments. Any discrepancies in the numbers are due to roundings.

As at the Latest Practicable Date, save as disclosed above and to the best knowledge of the Directors, supervisors and chief executives of the Company, (i) no person had any interests or short positions in the Shares or underlying Shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which would be required to be notified to the Company; and (ii) none of the Directors, supervisors and chief executives of the Company was also a director or employee of a company which has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract with the Company, which does not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. MATERIAL ADVERSE CHANGES

References are made to the profit warning announcement of the Company dated 27 July 2022, the interim results announcement and the interim report of the Company for the six months ended 30 June 2022 published on 30 August 2022 and 16 September 2022, respectively. The Company recorded a net loss after tax of RMB1,404,644,000, representing an increase of approximately 67.0% as compared with the net loss after tax of RMB840,935,000 for the same period of the previous year. The net loss for the six months ended 30 June 2022 was mainly attributable to the relatively substantial decrease in the passenger throughput, aircraft movements, and cargo and mail throughput of the Beijing Capital Airport for the six months ended 30 June 2022 as compared with the same period last year due to the continuous impact of the COVID-19 pandemic, as a result of which the operating results of the Company continued to be under pressure.

Save as disclosed above, as at the Latest Practicable Date, there was no other material adverse change in the financial or trading position of the Company since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up.

5. INTEREST IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Director or supervisors of the Company had any interest, direct or indirect, in any asset which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement subsisting as at the date of this circular, which was significant in relation to the business of the Company.

6. COMPETING INTEREST

As disclosed in section 2(b) of this appendix, as at the Latest Practicable Date, four of the Directors held the position of director, the chairman of the board, secretary of the Party Committee, or deputy general manager concurrently in the Parent Company, the controlling shareholder of the Company. As such, they are likely to be deemed to have interests in the Parent Company pursuant to Rule 8.10 of the Listing Rules.

The Parent Company is currently engaged in the aeronautical and non-aeronautical businesses of Beijing Daxing International Airport as a result of the approval in writing on 28 June 2018 by the Company which has retained the option to purchase the assets of Beijing Daxing International Airport in accordance with the requirements set out in the deed of non-competition dated 26 October 1999 entered into between the Company and the Parent Company. Therefore, the Parent Company is competing with the Company which is engaged in the operation of the aeronautical and non-aeronautical businesses of Beijing Capital Airport. For further details, please refer to the inside information announcement of the Company dated 28 June 2018 and pages 36 to 37 of the annual report of the Company for the year ended 31 December 2021 published on 28 April 2022.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective close associates had any competing interest (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company for the purpose of the Listing Rules).

7. EXPERT AND CONSENT

The following sets out the qualification of the expert which has given its opinion or advice as contained in this circular:

Name	Qualification
Opus Capital Limited	a corporation licensed by the SFC to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, opinion, logo and qualification, in the form and context in which they are included.

As at the Latest Practicable Date, the above expert:

- (a) did not have any shareholding, direct or indirect, in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company; and
- (b) did not have any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to the Company, or which were proposed to be acquired or disposed of by or leased to the Company, since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up.

8. DOCUMENTS ON DISPLAY

Copies of the following documents are available for inspection on the Stock Exchange's website and the Company's website for 14 days from the date of this circular:

- (a) the Operation and Maintenance Services Framework Agreement;
- (b) the Supply of Aviation Safety and Security Guard Services Agreement;
- (c) the letter of advice from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders;
- (d) the consent letter from the Independent Financial Adviser referred to in the paragraph headed "Expert and Consent" in this appendix; and
- (e) this circular.