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

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

**If you have sold or transferred** all your shares in **Hainan Meilan International Airport Company Limited**, you should at once hand this circular together with the enclosed form of proxy to the purchaser or other transferees or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**海南美蘭國際空港股份有限公司**  
**Hainan Meilan International Airport Company Limited\***  
*(A joint stock company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 357)**

**MAJOR AND CONNECTED TRANSACTIONS  
IN RELATION TO THE LEASE AGREEMENT AND  
NOTICE OF THE EXTRAORDINARY GENERAL MEETING**

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



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A letter from the Board is set out on pages 7 to 22 of this circular. A letter from the Independent Board Committee is set out on page 23 of this circular. A letter from Sorrento Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 41 of this circular.

The notice for convening the Extraordinary General Meeting to be held at 10:00 a.m. on Wednesday, 4 January 2023 at the meeting room of the Company on the 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC are set out on pages 67 to 68 of this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying forms of proxy in accordance with the instructions printed thereon, and in both cases in any event not later than 24 hours before the time appointed for holding the meetings. Completion and return of the forms of proxy shall not preclude you from attending and voting at the meetings or any adjourned meetings should you so desire.

\* For identification purposes only

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## CONTENTS

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	<i>Pages</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	7
<b>Letter from the Independent Board Committee</b> .....	23
<b>Letter from the Independent Financial Adviser</b> .....	24
<b>Appendix I – Financial Information of the Group</b> .....	42
<b>Appendix II – Valuation Report</b> .....	50
<b>Appendix III – General Information</b> .....	60
<b>Notice of the Extraordinary General Meeting</b> .....	67

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## DEFINITIONS

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*Unless the context requires otherwise, the following expressions shall have the following meanings in this circular:*

“2020 Parent Company Domestic Shares Subscription Agreement”	the subscription agreement dated 24 July 2020 entered into between the Company and the Parent Company in relation to the Parent Company Subscription, details of which were set out in the announcement of the Company dated 24 July 2020 and the circular of the Company dated 20 August 2020
“2021 Supplemental Parent Company Domestic Shares Subscription Agreement”	the supplemental agreement dated 21 August 2021 entered into between the Company and Parent Company for the amendments of certain terms and conditions of the 2020 Parent Company Domestic Shares Subscription Agreement, details of which were set out in the announcement of the Company dated 21 August 2021 and the circular of the Company dated 21 September 2021
“Agreement on Runway”	the agreement on runway entered into between the Company and Parent Company on 25 October, 2002 in relation to, among others, the operation and maintenance of the runway, details of which were set out in the prospectus of the Company dated 6 November 2002
“Airport Composite Services Agreement”	the airport composite services agreement dated 18 August 2019 entered into between the Company and the Parent Company, pursuant to which the Parent Company agreed to provide the Company with certain services for a term of three years commencing on 1 January 2020 and ending on 31 December 2022, details of which were set out in the announcement of the Company dated 18 August 2019, or any renewals thereof upon execution of the Lease Agreement (if applicable)
“Apron Lease Agreement”	the apron lease agreement dated 30 November 2020 entered into between the Company and the Parent Company, pursuant to which the Parent Company agreed to lease, among others, the land use right and the structures of the west boarding apron of Meilan Airport and the equipment to the Company for use in providing ground services to flights and passengers or other services within the business scope of the Company for a term of three years commencing on 1 December 2020 and ending on 30 November 2023 (both days inclusive), details of which were set out in the announcement of the Company dated 30 November 2020
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors

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## DEFINITIONS

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“Business Day(s)”	refers to any day except Saturdays, Sundays and PRC statutory holidays, excluding Mondays to Fridays announced by the PRC government as temporary rest days, but including Saturdays and Sundays announced by the PRC government as temporary working days
“CAS”	China Accounting Standards for Business Enterprises
“Commencement Date”	the commencement date of the Lease Agreement, i.e. 1 January 2023
“Company”	海南美蘭國際空港股份有限公司 (Hainan Meilan International Airport Company Limited*), a joint stock company incorporated in the PRC with limited liability
“Condition(s)”	the condition(s) precedent to the Lease Agreement, details of which are set out in the section headed “The Lease Agreement – Material Terms of the Lease Agreement – Conditions precedent” in this circular
“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
“Current Operation Model”	the current operation model of Meilan Airport, whereby the revenue arisen from operation of certain assets of Meilan Airport operated by the Parent Company (such as the runways) is shared by the Company and the Parent Company with reference to a 75% (Company) and 25% (Parent Company) basis and the revenue arisen from operation of the other assets of Meilan Airport is attributable to the Company, details of which were set out in the announcement of the Company dated 21 August 2015 and the circular of the Company dated 7 October 2015
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	the domestic ordinary share(s) with a nominal value of RMB1.00 each in the registered share capital of the Company, which is/are subscribed for in RMB
“Domestic Shares Subscription Assets”	the target assets (including land use rights, buildings, structures and relevant equipment) of Meilan Airport Phase I, which are the consideration from the Parent Company for the Subscription Shares under the Parent Company Domestic Shares Subscription Agreements
“Domestic Shareholder(s)”	holders of Domestic Shares
“equipment”	facilities and equipment for the daily operation of Meilan Airport

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## DEFINITIONS

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“Extraordinary General Meeting”	the extraordinary general meeting to be convened by the Company on Wednesday, 4 January 2023 for the purposes of considering and, if thought fit, approving the Lease Agreement and the transactions contemplated thereunder, including any adjournment in respect thereof
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares of RMB1.00 each in the share capital of the Company which are listed on the Stock Exchange and traded in Hong Kong dollars
“H Shareholder(s)”	holder(s) of H Shares
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors to advise the Independent Shareholders on the Lease Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Sorrento Capital”	Sorrento Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Lease Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders who do not have any material interests in the Lease Agreement and the transactions contemplated thereunder and are not required to abstain from voting at the Extraordinary General Meeting pursuant to the Listing Rules
“Investment and Construction Agreement”	the investment and construction agreement dated 21 August 2015 (as supplemented by the Supplemental Investment and Construction Agreement) entered into between the Company and the Parent Company in relation to the construction of the Phase II Expansion Project, details of which were set out in the announcement of the Company dated 21 August 2015 and the circular of the Company dated 7 October 2015
“Latest Practicable Date”	9 December 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information referred to in this circular
“Lease Agreement”	the lease agreement dated 9 November 2022 and entered into between the Company (as lessee) and the Parent Company (as lessor) in relation to the leasing of the Leased Assets

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## DEFINITIONS

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“Leased Asset(s)”	the assets to be leased by the Parent Company to the Company under the Lease Agreement, details of which are set out in the section headed “The Lease Agreement – Material Terms of the Lease Agreement – Leased Assets” in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Meilan Airport”	the civil airport known as 海口美蘭國際機場 (Haikou Meilan International Airport*) located in Haikou City, Hainan Province, the PRC, comprising Meilan Airport Phase I and Meilan Airport Phase II
“Meilan Airport Phase I”	Meilan Airport (excluding Meilan Airport Phase II)
“Meilan Airport Phase II”	the Phase II Expansion Project as approved pursuant to the approval of the feasibility study report in relation to the construction of the Phase II Expansion Project (《關於海口美蘭國際機場二期擴建工程可行性研究報告的批復》) (NDRC Infrastructure [2015] No. 1215) dated 2 June 2015 issued by the NDRC. For the purpose of this circular, the airport project under the Phase II Expansion Project that was jointly invested and constructed by the Parties pursuant to the Investment and Construction Agreement
“Meilan Freight”	海南美蘭國際機場貨運有限責任公司 (Hainan Meilan International Airport Freight Co., Ltd.*), a limited liability company established in the PRC on 24 February 2010, a non-wholly owned subsidiary of the Company, of which 51% equity interests were held by the Company and 49% equity interests were held by 神行速運有限公司 (VeloX Express Co., Ltd.) as at the Latest Practicable Date
“New Cargo Terminal Lease Agreement”	the renewed lease agreement dated 11 March 2021 entered into between Meilan Freight and the Parent Company, pursuant to which the Parent Company agreed to lease, among others, the property of the new cargo terminal of Meilan Airport, to Meilan Freight for use of providing ground services to flights and passengers or other services within the business scope of Meilan Freight for a term commencing on 12 March 2021 and ending on 11 March 2023 (both days inclusive), details of which were set out in the announcement of the Company dated 11 March 2021
“NDRC”	National Development and Reform Commission of the People’s Republic of China (中華人民共和國國家發展和改革委員會)
“Parent Company”	海口美蘭國際機場有限責任公司 (Haikou Meilan International Airport Co., Ltd.*), a limited liability company established in the PRC and the controlling Shareholder of the Company

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## DEFINITIONS

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“Parent Company Subscription”	the subscription of the Subscription Shares by the Parent Company under the Parent Company Domestic Shares Subscription Agreements
“Parent Company Domestic Shares Subscription Agreements”	the 2020 Parent Company Domestic Shares Subscription Agreement and the 2021 Supplemental Parent Company Domestic Shares Subscription Agreement
“Parties”	the parties to the Lease Agreement, namely the Company and the Parent Company
“Phase II Expansion Project”	the Phase II expansion project of Meilan Airport which comprised three parts, i.e. the airport project, an air traffic control project and a fuel supply project
“PRC”	the People’s Republic of China and for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan, China
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholder(s)”	the Domestic Shareholders and the H Shareholders
“Shares”	Domestic Shares and H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Shares”	a maximum of 140,741,000 new Domestic Shares proposed to be subscribed by the Parent Company pursuant to the Parent Company Domestic Shares Subscription Agreements
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“Supplemental Investment and Construction Agreement”	the supplemental investment and construction agreement dated 11 May 2020 entered into between the Company and the Parent Company to make certain amendments to the Investment and Construction Agreement in order to, among others, specify the allocation of investment amount between the Company and the Parent Company and arrange further financing the airport project under the Investment and Construction Agreement and the Supplemental Investment and Construction Agreement, details of which were set out in the announcement of the Company 11 May 2020 and the circular of the Company dated 20 August 2020

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## DEFINITIONS

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“Valuer”	Vigers Appraisal & Consulting Limited, an independent valuer
“VAT”	value added tax as at the Commencement Date, i.e. at the rate of 9% for lands, buildings and structures and at the rate of 13% for equipment, which are subject to adjustment from time to time according to the tax laws and regulations in the PRC
“%”	per cent

*Unless otherwise specified in this circular, the English names of the PRC entities are transliteration of their Chinese names, and are included herein for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.*

*For the purpose of this circular, the exchange rate of HK\$1.00 = RMB0.8548 has been used for currency translation, where applicable. Such exchange rate is for illustrative purpose only and does not constitute representations that any amount in HK\$ or RMB has been, could have been or may be converted at such a rate.*

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## LETTER FROM THE BOARD

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# 海南美蘭國際空港股份有限公司 Hainan Meilan International Airport Company Limited\*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 357)

*Executive Directors:*

Wang Hong (*Chairman and President, Authorized Representative*)

Wang Zhen

Ren Kai (*Chief Financial Officer*)

Xing Zhoujin (*Authorized Representative*)

*Non-executive Directors:*

Qiu Guoliang

Li Zhiguo

Wu Jian

*Registered Office:*

Office Building of Meilan Airport

Haikou City

Hainan Province the PRC

*Principal Place of Business in Hong Kong:*

Room 2204, 22/F

Fu Fai Commercial Centre

27 Hillier Street

Sheung Wan, Hong Kong

*Independent Non-executive Directors:*

Fung Ching, Simon

Deng Tianlin

George F Meng

Ye Zheng

*To the Shareholders,*

Dear Sir/Madam,

### MAJOR AND CONNECTED TRANSACTIONS IN RELATION TO THE LEASE AGREEMENT AND NOTICE OF THE EXTRAORDINARY GENERAL MEETING

#### I. INTRODUCTION

Reference is made to the announcement of the Company dated 9 November 2022 in relation to the Lease Agreement and the transactions contemplated thereunder.

On 9 November 2022, the Company (as lessee), and the Parent Company (as lessor) entered into the Lease Agreement in respect of the leasing of the Leased Assets for a term of three years commencing from 1 January 2023 to 31 December 2025.

The purpose of this circular is to provide you with, among other things, (i) further details of the Lease Agreement and the transactions contemplated thereunder; (ii) the valuation of the leasehold interests of the Leased Assets; and (iii) the view of the Independent Board Committee and the Independent Financial Adviser on the Lease Agreement and the transactions contemplated thereunder.

\* For identification purposes only

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## LETTER FROM THE BOARD

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### II. THE LEASE AGREEMENT

#### Material Terms of the Lease Agreement

The material terms of the Lease Agreement are as follows:

**Date:** 9 November 2022

**Parties:** (1) the Company (as lessee); and  
(2) the Parent Company (as lessor).

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, the Parent Company held 50.19% of the total issued Shares of the Company and was a controlling Shareholder of the Company, and therefore a connected person of the Company under the Listing Rules.

**Leased Assets:** The Leased Assets comprise:

- (1) Meilan Airport Phase I: lands, buildings, structures and equipment, which includes the Domestic Shares Subscription Assets; and
- (2) Meilan Airport Phase II: lands, buildings, structures and equipment,

such as the airport runways, security inspection assets, water and power supply assets, logistics and support assets (including lands, buildings, structures, and equipment).

Details of the Leased Assets are set out below:

## LETTER FROM THE BOARD

Leased Assets		Area (sq.m.)	Market rent per annum as appraised by the Valuer (RMB)	Domestic Shares Subscription Assets involved (Note 3)	Remaining assets other than the Domestic Shares Subscription Assets
Meilan Airport Phase I (Note 1 and 2)	Lands	4,009,756.70	153,974,659	Flight zone	Functional area, terminal area, base area
	Buildings	196,128.22	41,098,187	East lighting substation, west lighting substation, field equipment garage, rescue warehouse	Security inspection building, Nos. 3&4 dormitory buildings, freight area, overnight accommodation and supporting facilities, etc.
	Structures		22,692,880	Aircraft runway, aircraft taxiway, flight zone boundary alteration, flight zone boundary replacement, fence facilities (flight zone boundary alteration)	Parking lot, sewage treatment station, access road greening renovation project, staff sports centre, west boarding apron, etc.
	Equipment		21,736,087	Generator set, air compressor, transformer, high voltage switch cabinet, constant current dimmer, spray machine, grass cutter, aircraft jackcraft airbag, aircraft rescue lifting equipment, insecticidal lamp, aircraft towing harness, flat trailer, etc.	Machinery and equipment, mainly including X-ray machines, metal detecting equipment, computers, air conditioners, printers, walkie-talkies and other equipment
Sub-total			239,501,813	84,525,818	154,975,995
Meilan Airport Phase II	Lands	2,232,396.06	85,724,009	N/A	85,724,009
	Buildings	17,844.59	2,827,056	N/A	2,827,056
	Structures		209,935,703	N/A	209,935,703
	Equipment		19,063,494	N/A	19,063,494
Sub-total			317,550,262	0	317,550,262
<b>Total</b>			<b>557,052,075</b>	<b>84,525,818</b>	<b>472,526,257</b>

Note 1: The Domestic Shares Subscription Assets comprise part of the assets of Meilan Airport Phase I and the total market rent per annum for the Domestic Shares Subscription Assets is RMB84,525,818 while the total market rent per annum for Meilan Airport Phase I is RMB239,501,813 as appraised by the Valuer.

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## LETTER FROM THE BOARD

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*Note 2: The Current Operation Model only involves Meilan Airport Phase I. All the existing agreement(s) or contract(s) between the Company and/or its subsidiary(ies) and the Parent Company and/or its associate(s) (excluding the Company and its subsidiary(ies)) were entered into for the operation of Meilan Airport Phase I. For Meilan Airport Phase II, pursuant to the Lease Agreement, the Parties agreed that the revenue arisen from its operation prior to the Commencement Date shall be distributed between the Parties pursuant to the Current Operation Model and the Agreement on Runway and the Airport Composite Services Agreement applicable thereto.*

*Note 3: The Domestic Shares Subscription Assets are part of Meilan Airport Phase I only and do not form any part of the assets of Meilan Airport Phase II.*

For further details of the Leased Assets, please refer to Appendix II of this circular.

In light of the large scale of the Leased Assets under the Lease Agreement, and in order to ensure the continuous operation of Meilan Airport and enhance the commercial operability of the Parties, the Parties agreed that the scope and subject matter of the Leased Assets under the Lease Agreement may be reasonably adjusted pursuant to the then conditions and use of the Leased Assets (including but not limited to the use of necessary substitute assets and/or the renovated Leased Assets), provided that the variation of the aggregate rental fee under the Lease Agreement payable by the Company to the Parent Company during the term of the lease in accordance with the terms of the Lease Agreement is within the range of 5%.

During the term of the Lease Agreement, the Parent Company may enter into financing arrangement(s) (including but not limited to finance lease(s) and financing guarantee(s)) using all or part of the Leased Assets to meet its normal and commercial needs, provided that:

- (1) the Parent Company shall ensure that the Company is entitled to continuously use such assets without interruption during the term of the Lease Agreement;
- (2) the rental fee of such assets and all other relevant matters shall remain the same as agreed by the Parties under the Lease Agreement and shall not be adjusted or amended by reason of the financing arrangement(s) entered into by the Parent Company; and
- (3) the Parent Company shall consult the Company on the financing plans prior to entering into any financing arrangement(s) with such assets mentioned above, and submit copies of relevant financing agreement(s) or contract(s) (including any supplemental agreement(s) or contract(s) thereunder) with third party(ies) to the Company within ten (10) days upon execution.

Provided that the above conditions are fulfilled, the Company may voluntarily, after taking into account the transactions between the Parent Company and the third party(ies), cooperate and sign relevant agreement(s) as appropriate to facilitate the financing arrangement(s).

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## LETTER FROM THE BOARD

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Under any circumstances, in the event that the relevant assets are seized, detained, put to an auction or sale by any judicial or administrative authority due to the financing arrangement(s), resulting or likely to result in the Company being unable to continuously use such assets without interruption in accordance with the terms of the Lease Agreement, the Parent Company shall promptly apply for and complete the unblocking and release of such assets per the Company's request, and/or actively assist and cooperate with the Company to exercise the right of first refusal to acquire such assets in the auction or sale, or the Company may elect to terminate the Lease Agreement or the lease of such assets, and the Parent Company shall compensate the Company for all resulting losses and expenses.

**Usage:**

The Leased Assets shall be used in accordance with the planning, design, function, use and/or the approval of the relevant civil aviation governing authorities (if any) of such assets and for the management, operation and support of Meilan Airport. The Company shall not change the above-mentioned use of the Leased Assets in breach of the Lease Agreement without consent of the Parent Company.

**Term:**

three years commencing from 1 January 2023 to 31 December 2025.

In respect of the Domestic Shares Subscription Assets: the validity period of the Shareholders' resolution and authorisation granted to the Board in relation to the Parent Company Subscription expired on 17 September 2022 and was extended for a further twelve (12) months (i.e. from 18 September 2022 to 17 September 2023) in the extraordinary general meeting and class meetings of the Domestic Shareholders and the H Shareholders of the Company held on 8 November 2022. For details, please refer to the announcement of the Company dated 8 August 2022, the circular of the Company dated 30 September 2022 and the poll results announcement of the extraordinary general meeting and class meetings of the Company dated 8 November 2022. In the event that the Parent Company subscribes for the Subscription Shares with the Domestic Shares Subscription Assets as consideration during the term of the Lease Agreement, the lease of the relevant Domestic Shares Subscription Assets shall end on the date of completion of allotment of the Subscription Shares to the Parent Company (i.e. the date of registration of such Subscription Shares under the name of the Parent Company with China Securities Depository and Clearing Corporation Limited). Accordingly, the rental fee in respect of the relevant Domestic Shares Subscription Assets shall continue to accrue under the Lease Agreement only until the day immediately preceding the date on which

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## LETTER FROM THE BOARD

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the Company completes the issuance of such Domestic Shares to the Parent Company. The proposed transaction for the acquisition of the Domestic Shares Subscription Assets can be traced back to 30 December 2016. At that time, Meilan Airport Phase II was still in the early stage of construction. As the relevant agreement in relation to the Domestic Shares Subscription Assets is still valid as at the date of this circular, in the event that the Parent Company subscribes for the Subscription Shares with the Domestic Share Subscription Assets as consideration, the Company shall comply with such agreement. The total estimated investment amount for Meilan Airport Phase II is approximately RMB14,829,950,000. At the current stage, based on the financial resources available to the Company, it is not practicable for the Company to acquire the assets comprising Meilan Airport Phase II. After taking such background into consideration, the Directors are of the view that the proposed acquisition of the Domestic Shares Subscription Assets and the leasing of the remaining Leased Assets are in line with the business goals of the Company, including integrity of assets, operation efficiency and safety and therefore, in the interest of the Company and its Shareholders as a whole.

**Rental fee:**

The aggregate annual rental fee for the Leased Assets payable by the Company to the Parent Company under the Lease Agreement shall be approximately RMB557 million (equivalent to approximately HK\$652 million) (calculated on the basis of 365 days per year and excluding VAT), subject to potential adjustment within a range of 5% due to change in the scope and subject matter of the Leased Assets as set out in the sub-section headed “Leased Assets” above.

If there is any change to the scope of the Leased Assets within the term of the Lease Agreement (including but not limited to the acquisition of the ownership or state-owned land use rights of any part of the Leased Assets by the Company due to any other transaction arrangements, loss of any part of the Leased Assets for reasons other than the Company or the reasonable adjustment of the scope and subject matter of the Leased Assets by the Parties in accordance with the Lease Agreement), the Parties shall adjust the rental fee for the Leased Assets accordingly.

In the event of early termination of the Lease Agreement or expiry of the term of the lease of any part of the Leased Assets prior to the expiry of the Lease Agreement, the rental fee for the Leased Assets shall be calculated as follows:

The actual number of days during which the relevant part of the Leased Assets is leased by the Company \* Daily rental fee (*Note*)

*Note:* Daily rental fee = Annual rental fee/365

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## LETTER FROM THE BOARD

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The rental fee under the Lease Agreement has been determined based on fair and just principles, after arm's length negotiations between the Parties with reference to the aggregated market rental fee of approximately RMB557 million (equivalent to approximately HK\$652 million) as appraised by the Valuer, (a) in relation to the valuation of the leased value of the lands, adopting the market approach and (b) in relation to the valuation of the leased value of the buildings, structures and equipment, based on their market values, which is arrived at by adopting the depreciated replacement cost approach, and the discounted capitalisation rates.

In the event that the change in the scope and subject matter of the Leased Assets results in an adjustment over the 5% range, the Company will re-comply with requirements under the Listing Rules, including the reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules where necessary.

If the passenger throughput of Meilan Airport decreases during the term of the Lease Agreement due to force majeure such as pandemic, the Parties shall reduce or exempt the rental fee after negotiation based on the objective circumstances and principles of fairness and reasonableness.

**Payment terms:**

Unless otherwise agreed between the Parties, the rental fee together with VAT shall be settled and paid on a monthly basis. The Company shall pay, upon the end of each month, the rental fee for the Leased Assets together with any VAT on the rental fee based on the then applicable rate for the previous month to the bank account designated by the Parent Company within fifteen (15) Business Days after receipt of the invoices issued by the Parent Company (or any later date as then agreed by the Parties).

**Conditions precedent:**

The Lease Agreement shall become effective subject to the fulfilment of the following Conditions:

- (1) the Lease Agreement being signed by each Party's legal representative or authorized representative under the seals of each Party;
- (2) the Lease Agreement and the lease of the Leased Assets contemplated thereunder being approved at the shareholders' meeting of the Parent Company; and
- (3) the Lease Agreement and relevant transactions contemplated thereunder being approved by the Independent Shareholders at the Extraordinary General Meeting.

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## LETTER FROM THE BOARD

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**Renewal:**

In the event that the Company intends to renew the Lease Agreement upon its expiry, it shall express such intention to the Parent Company no later than ninety (90) days before the term expires. Subject to consent of the Parent Company and completion of the relevant processes and approvals by the Company in compliance with the relevant Listing Rules, the Lease Agreement may be renewed by the Parties upon negotiation and by entering into a renewal lease agreement.

The Parent Company shall ensure that the Company shall have the priority to renew the lease of the Leased Assets under any circumstances and conditions.

**Operation of the  
Leased Assets:**

The Company shall, from the Commencement Date, be entitled to all income and benefits arising from the operation and management of the Leased Assets and shall bear all costs and expenses (including, among others, insurance costs as well as repairs and maintenance expenses for daily operation) incurred in the course of operating and managing the Leased Assets, unless otherwise provided in the Lease Agreement or agreed by the Parties.

**Sub-lease:**

During the term of the Lease Agreement, the Company shall be entitled to sub-lease or otherwise entrust the whole or any part of the Leased Assets to any subsidiary(ies) or associate(s) of the Company for management and operation in the manner as it determines. The Company and/or its subsidiary(ies) and/or its associate(s) shall be entitled to enter into any business contract or agreement in relation to the Leased Assets (including but not limited to franchise, lease and/or cooperation contract or agreement) with any third party according to its business needs in the course of managing and operating Meilan Airport.

From the Commencement Date, the Parent Company and/or its associate(s) shall cancel and/or terminate all existing contracts and/or agreements entered into with any third party(ies) relevant to the operation and management of the Leased Assets, and the Company and/or its subsidiary(ies) will enter into relevant contracts and/or agreements with eligible third parties according to the actual situation of the operation of the Leased Assets; or with the consent of the Company, the Company and/or its subsidiary(ies) may succeed the rights and obligations of the Parent Company and/or its associate(s) under the above-mentioned relevant contracts and/or agreements from the Commencement Date, provided that the Parent Company and/or its associate(s) shall bear all their debts, obligations and liabilities under such relevant contracts and/or agreements as at the day immediately preceding the Commencement Date.

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## LETTER FROM THE BOARD

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**Right of first refusal:** In the event that the Parent Company proposes to dispose of the Leased Assets, the Company shall have the right of first refusal under the same conditions.

**Termination:** The Lease Agreement may be terminated:

- (1) by written consent between the Parties;
- (2) upon occurrence of a force majeure event, by agreement between the Parties;
- (3) in the event that any defaulting Party commits a material breach of the terms of the Lease Agreement, and fails to remedy or ratify such breach within thirty (30) days after receiving a written notice issued by the other non-defaulting Party requesting the defaulting Party to immediately take remedial or ratifying action in respect of such breach, the non-defaulting Party shall be entitled to terminate the Lease Agreement unilaterally by written notice;
- (4) in the event that either Party fails to perform or fails to perform promptly or properly any of its obligations under the Lease Agreement, resulting in failure to achieve any purpose of the Lease Agreement, the other Party shall be entitled to terminate the Lease Agreement unilaterally by written notice; or
- (5) any other circumstances and manners in which agreements may be terminated as provided by applicable laws.

### **Other Material Terms**

The Parent Company agreed to apply the rental fees received under the Lease Agreement in priority for repayment of the liabilities incurred to fund the Phase II Expansion Project under the Supplemental Investment and Construction Agreement and related loans and bonds and/or the due liabilities under any financing arrangement(s) using the Leased Assets (including but not limited to finance lease(s) and financing guarantee(s)) (if any), or other due liabilities under the Leased Assets (if any), where the failure to discharge such due liabilities may lead to the seizure, detention, prohibition or restriction on use or auction or sale of relevant Leased Assets, which might affect the use of such Leased Assets by the Company. In the event that the Parent Company fails to repay the amount under above-mentioned due liability, the Company is entitled to repay/pay such amount directly on behalf of the Parent Company to the relevant creditors after issuing written notice to the Parent Company and directly deduct the same amount from the rental fees payable to the Parent Company.

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## LETTER FROM THE BOARD

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The Parties agreed that the revenue arisen from Meilan Airport (including Meilan Airport Phase I and Meilan Airport Phase II) prior to the Commencement Date shall be distributed between the Parties pursuant to the Current Operation Model and the Agreement on Runway and the Airport Composite Services Agreement applicable thereto. All relevant distribution and payment shall be made by the Parties in full within 180 days after the Commencement Date (or any later date as then agreed by the Parties). Pursuant to the Current Operation Model, Meilan Airport is operated by the Company and the Parent Company jointly. The Company is engaged in both aeronautical and non-aeronautical businesses. Its aeronautical business consists of the provision of airfield services, terminal facilities, ground handling services, and passenger and cargo handling services. Its non-aeronautical business includes leasing of commercial and retail spaces at Meilan Airport, airport-related business franchising, advertising, car parking, tourism services and sales of consumable goods. The Parent Company is engaged in the maintenance of runways, provision of airfield area related services and logistical support services, which is in line with the disclosure made by the Company in its prospectus upon its listing. In respect of the aeronautical business, the Company shares the aircraft movement fees, the passenger charges and the basic ground handling services fees with the Parent Company on the basis of 75% to the Company and 25% to the Parent Company. The Parent Company also charges the Company for provision of security guard services, cleaning and environment maintenance, sewage and refuse processing, power and energy supply and equipment maintenance, passengers and luggage security inspection, and other services required by the Company. After the entering into of the Lease Agreement, the Company will cease to pay the above-mentioned fees to the Parent Company, and will only pay the rental fees under the Lease Agreement. The Current Operation Model only involves Meilan Airport Phase I. After the Commencement Date, the Company will terminate all the existing agreements with the Parent Company in relation to the assets of Meilan Airport Phase I, and the Current Operation Model will be terminated accordingly too. Under the Lease Agreement, the Company will pay rental fees to the Parent Company for assets of both Meilan Airport Phase I and Meilan Airport Phase II.

References are made to the announcements of the Company dated 18 August 2019, 30 November 2020 and 11 March 2021 in relation to the Airport Composite Services Agreement and Apron Lease Agreement entered into between the Company and the Parent Company, and the New Cargo Terminal Lease Agreement entered into between Meilan Freight, a subsidiary of the Company, and the Parent Company, respectively. Pursuant to the Lease Agreement, the Parties agreed that any existing agreement(s) or contract(s) between the Company and/or its subsidiary(ies) and the Parent Company and/or its associate(s) (excluding the Company and its subsidiary(ies)) in relation to the operation of Meilan Airport shall be terminated from the Commencement Date, including but not limited to the Airport Composite Services Agreement, the Apron Lease Agreement and the New Cargo Terminal Lease Agreement, and all outstanding amounts and charges (if any) due under such contracts/ agreements shall be settled by the Parties within ninety (90) Business Days from the Commencement Date (or such other later date as may then be mutually agreed upon by the Parties). The Company and/or its subsidiary(ies) and the Parent Company and/or its associates will not be required to pay any default fee, penalty or any other fees or payments in relation to such early terminations of the above-mentioned agreements, except for amounts payable but not yet been paid (if any) under the relevant agreements. The Company confirms that no other existing operating models will remain valid after the Commencement Date.

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## LETTER FROM THE BOARD

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### III. FINANCIAL IMPACTS OF ENTERING INTO THE LEASE AGREEMENT

Pursuant to CAS21-Lease, the Group will recognise the right-of-use asset and lease liability amounting to approximately RMB1,575 million (equivalent to approximately HK\$1,843 million) in its consolidated statement of financial position at the Commencement Date, among which the present value of the rental fees payable due in one year of RMB545 million would be recognised as current liabilities. The lease liability is recognised at the present value of the aggregated lease payments made during the lease term, discounted using an incremental borrowing rate of approximately 3.9%, which is estimated based on the interest rate that the Group has to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Lease liabilities will be subsequently measured using the effective interest rate method, and will decrease upon the settlement of lease payments to the lessor accordingly. The right-of-use asset is initially measured at cost, which consists of the initial lease liability, taking into account lease payments made at or before the Commencement Date, initial direct costs, and lease incentives received (if any). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. There would be no change in net assets on the consolidated statement of financial position of the Group immediately after the entering into of the Lease Agreement.

Regarding the impact on the consolidated income statement, the Group will incur a monthly depreciation expense of the right-of-use asset over the term of the Lease Agreement on a straight line basis amounting to approximately RMB 44 million (equivalent to approximately HK\$51 million), and recognise annual finance costs of approximately RMB54 million based on the incremental borrowing interest rate. Accordingly, the income related to the Leased Assets will be attributed to the Group, and the related operating costs will also be borne by the Group.

The unaudited value of the remaining right-of-use asset recorded by the Company under the Apron Lease Agreement and the New Cargo Terminal Lease Agreement amounted to approximately RMB22.7 million (equivalent to approximately HK\$26.6 million) on an aggregated basis. It is expected that the Company will recognise a gain from early termination of the Apron Lease Agreement and the New Cargo Terminal Lease Agreement of approximately RMB1.1 million (equivalent to approximately HK\$1.3 million).

### IV. INFORMATION ON THE PARTIES

The Company is principally engaged in aeronautical and non-aeronautical businesses at Meilan Airport, in Hainan Province, the PRC.

The Parent Company is principally engaged in ancillary airport service business in the PRC. As at the Latest Practicable Date, the Parent Company was owned by Hainan Airport Industrial Investment Co., Ltd.\* (海南機場實業投資有限公司, a company controlled by the State-owned Assets Supervision and Administration Commission of Hainan Province) as to approximately 46.81%, CDB Development Fund Co., Ltd.\* (國開發展基金有限公司, a subsidiary of China Development Bank which is the financial policy institution directly under the State Council of China) as to approximately 14.18%, China Southern Group Capital Holding Co., Ltd.\* (中國南航集團資本控股有限公司) and China National Aviation Fuel Supply Co., Ltd.\* (中國航空油料有限責任公司) (each a company controlled by the State-owned Assets

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## LETTER FROM THE BOARD

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Supervision and Administration Commission) as to approximately 2.42% and 1.56%, respectively. CITIC Limited indirectly holds approximately 35.03% of equity interest of the Parent Company. The State-owned Assets Supervision and Administration Commission of Hainan Province is a special institution directly under the government of Hainan Province and responsible for the supervision and administration of state-owned assets of Hainan Province. CDB Development Fund Co., Ltd.\* (國開發基金有限公司) is a policy-oriented investment company focusing on investment in national key projects. China Southern Group Capital Holding Co., Ltd.\* (中國南航集團資本控股有限公司) is principally engaged in equity investment, investment management services and investment consulting services. China National Aviation Fuel Supply Co., Ltd.\* (中國航空油料有限責任公司) is principally engaged in the wholesale of gasoline, kerosene and diesel oil in the civil aviation system of the PRC. CITIC Limited is a company listed on the Stock Exchange (stock code:00267), mainly engaging in businesses in comprehensive financial services, advanced intelligent manufacturing, advanced materials, new consumption and new-type urbanisation.

### V. REASONS FOR AND BENEFITS OF ENTERING INTO THE LEASE AGREEMENT

Meilan Airport Phase II, which was jointly invested and constructed by the Parties pursuant to the Investment and Construction Agreement, was completed and put into operation on 2 December 2021, and the Agreement on Runway in relation to Meilan Airport Phase I has already expired. Against this background, the Company and the Parent Company commenced arm's length negotiations, and the Parties mutually agreed to operate those assets of Meilan Airport of the Parent Company by way of leasing. Pursuant to the Current Operation Model, Meilan Airport is operated by the Company and the Parent Company jointly. As mentioned above, the Company's aeronautical business consists of the provision of airfield services, terminal facilities, ground handling services, and passenger and cargo handling services while the Parent Company is engaged in the maintenance of runways, provision of airfield area related services and logistical support services. The Directors are of the view that, with the expansion of the scale of operation of Meilan Airport, the Current Operation Model may affect its operational efficiency and security.

The Company believes that the leasing model is the customary model for domestic airport operation in the PRC (under the circumstances where the assets of an airport are owned by different entities), and can ensure the stability of the Company's business operation and promote the long-term development of the Company. Since all the Leased Assets will be operated by the Company under the leasing model, this will enable the Company to better run its operational assets in line with the "High Standard, Strict Compliance" (高標準、嚴要求) standards prevalent in the civil aviation industry. Specifically, the leasing model ensures the integrity and completeness of the Company's daily operations and the relevant assets required for the management of Meilan Airport. Under the leasing model, the Company will be responsible for the management and operation of the Leased Assets and thus can adopt consistent and uniform high standards during daily operation of Meilan Airport. Further, the leasing model improves the efficiency and safety of the overall operation of Meilan Airport. As airports are important infrastructure and a part of public transportation, the operation of the airports in the PRC needs to comply with specific legal and industrial requirements issued by relevant governmental authorities in the PRC, including the Civil Aviation Administration of China (the "CAAC"), and make adjustments in accordance with the latest developments of the relevant legal and industrial requirements in a timely manner. The leasing model helps to ensure that the Leased Assets are operated with high efficiency and safety standards using consistent and uniform management methods, and enhances the coordination of the

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## LETTER FROM THE BOARD

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operation of various Leased Assets. Moreover, the leasing model has a fairer pricing basis, with the rental fees determined with reference to the valuation report of a professional third-party. Without third-party valuation, it is difficult for the Company and Parent Company to fix a fair revenue sharing percentage between them under the Current Operation Model after the operation of Meilan Airport Phase II. Meilan Airport Phase II involves large amount of investments and comprises the terminal building project, parking building project, cargo handling service area project, ground handling service area, airport fire-fighting and rescue project, airport emergency response and rescue project, vehicles and equipment project, and other projects, which involve more complex operation of the airport. Under the leasing model, the Company and the Parent Company could determine the rental fees with reference to the valuation report of a professional third-party. Based on the above-mentioned reasons, the Parent Company agrees to lease and the Company agrees to rent the Leased Assets pursuant to the terms and conditions of the Lease Agreement.

The Directors (including the independent non-executive Directors) consider that the Lease Agreement is entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the Lease Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### VI. LISTING RULES IMPLICATIONS

Pursuant to CAS21- Lease, the entering into of the Lease Agreement by the Company will require the Group to recognise the Leased Assets as right-of-use assets on its consolidated statement of financial position. Therefore, the entering into of the Lease Agreement will be regarded as an acquisition of asset by the Group under the definition of transaction set out in Rule 14.04(1)(a) of the Listing Rules. The unaudited value of right-of-use asset recognised by the Company under the Lease Agreement amounted to approximately RMB1,575 million (equivalent to approximately HK\$1,843 million).

As the highest applicable percentage ratio(s) as defined under the Listing Rules in respect of the acquisition of right-of-use assets recognised by the Group pursuant to CAS21- Lease based on the upper limit of the rental fees under the Lease Agreement is more than 25% but less than 100%, the entering into of the Lease Agreement constitutes a major transaction for the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, the Parent Company held 50.19% of the total issued Shares of the Company and was a controlling Shareholder of the Company, and therefore a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Lease Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio(s) as defined under the Listing Rules in respect of the acquisition of right-of-use assets recognised by the Group pursuant to CAS21- Lease based on the upper limit of the rental fees under the Lease Agreement is more than 25%, the entering into of the Lease Agreement constitutes a connected transaction for the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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As the early termination of the Apron Lease Agreement and the New Cargo Terminal Lease Agreement will result in a decrease in the amount of right-of-use asset recognised by the Company, it will be regarded as a disposal of asset by the Group under the definition of transaction in Rule 14.04(1) (a) of the Listing Rules. The unaudited value of the remaining right-of-use asset recorded by the Company under the Apron Lease Agreement and the New Cargo Terminal Lease Agreement amounted to approximately RMB22.7 million (equivalent to approximately HK\$26.6 million) on an aggregated basis.

As the highest applicable percentage ratio(s) as defined under the Listing Rules in respect of the disposal of right-of-use assets by the Company based on the remaining right-of-use assets under the Apron Lease Agreement and the New Cargo Terminal Lease Agreement on an aggregated basis is more than 0.1% but less than 5%, and the Parent Company is a controlling Shareholder of the Company and therefore a connected person of the Company under the Listing Rules, the termination of the Apron Lease Agreement and the New Cargo Terminal Lease Agreement constitutes a connected transaction for the Company and is subject to the reporting and announcement requirements, but exempt from circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### VII. EXTRAORDINARY GENERAL MEETING

The Extraordinary General Meeting will be convened to consider and, if thought fit, approve the Lease Agreement and the transactions contemplated thereunder, including any adjournment in respect thereof. The Parent Company, which held 50.19% of the total issued Shares of the Company as at the Latest Practicable Date, will abstain from voting on the resolution(s) to be proposed at the Extraordinary General Meeting for approving the Lease Agreement and the transactions contemplated thereunder.

Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquires, no Shareholder has a material interest in the Lease Agreement and the transactions contemplated thereunder, and no Shareholder is required to abstain from voting to approve the relevant resolution(s) at the Extraordinary General Meeting.

The Independent Board Committee comprising four independent non-executive Directors, namely Mr. Fung Ching, Simon, Mr. Deng Tianlin, Mr. George F Meng and Mr. Ye Zheng, none of whom has any direct or indirect interest in the Lease Agreement and the transactions contemplated thereunder, has been established to advise the Independent Shareholders and Sorrento 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 Lease Agreement and the transactions contemplated thereunder are fair and reasonable; (ii) whether the transactions contemplated under the Lease Agreement are entered into in the ordinary and usual course of business, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole; and (iii) how to vote on the Lease Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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The Extraordinary General Meeting will be held at 10:00 a.m. on Wednesday, 4 January 2023 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC. Set out on pages 67 to 68 of this circular is the notice for convening the Extraordinary General Meeting.

Pursuant to Rule 13.39(4) of the Listing Rules, voting at the Extraordinary General Meeting will be conducted by poll. The poll results will be published on the websites of the Company and of the Stock Exchange following the Extraordinary General Meeting.

The form of proxy for use at the Extraordinary General Meeting is accompanied with this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon, and in both cases in any event not later than 24 hours before the time appointed for holding the Extraordinary General Meeting.

Shareholders are reminded that completion and delivery of the form of proxy will not preclude the Shareholders from attending and voting in person at the Extraordinary General Meeting or at any adjourned meeting(s) should they so wish.

### VIII. BOOK CLOSURE

The Company's register of members will be closed from Friday, 16 December 2022 to Wednesday, 4 January 2023 (both days inclusive), during which no transfer of Shares will be registered. In order to qualify for attending and voting at the Extraordinary General Meeting, Shareholders must deliver their transfer documents, accompanied by the relevant share certificates and forms of transfer, to the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Thursday, 15 December 2022.

### IX. RECOMMENDATIONS

The Board, including the Independent Board Committee, is of the opinion that the terms of the Lease Agreement and the transactions contemplated thereunder are (i) fair and reasonable so far as the Shareholders (including the independent Shareholders) are concerned; (ii) entered into in the ordinary and usual course of business of the Group; (iii) on normal commercial terms; and (iv) in the interests of the Group and the Shareholders as a whole. Accordingly, the Board, including the Independent Board Committee, recommends that the Independent Shareholders vote in favour of the resolution set out in the notice of the Extraordinary General Meeting for approval of the Lease Agreement and the transactions contemplated thereunder.

The Lease Agreement and the transactions contemplated thereunder (including the termination of the Apron Lease Agreement and the New Cargo Terminal Lease Agreement) were approved by the Board.

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## LETTER FROM THE BOARD

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Each of Mr. Wang Hong, Mr. Ren Kai, Mr. Xing Zhoujin, Mr. Qiu Guoliang, Mr. Li Zhiguo and Mr. Wu Jian is interested in the Lease Agreement and the transactions contemplated thereunder as they hold directorship or senior management position or other positions in the Parent Company, and therefore had abstained from voting on the relevant resolutions at the Board meeting approving the same. Mr. Wang Hong, an executive Director, the chairman of the Board and president of the Company, has served as chairman of the board of directors and the legal representative of the Parent Company, Mr. Ren Kai, an executive Director and chief financial officer of the Company, has served as the chief financial officer of the Parent Company; and Mr. Qiu Guoliang, a non-executive Director, has served as the general manager of the Parent Company since June 2022, respectively. Mr. Li Zhiguo, a non-executive Director, has served as the deputy general manager of the Parent Company, Mr. Xing Zhoujin, an executive Director and joint company secretary of the Company, has served as the secretary to the board of directors of the Parent Company, and Mr. Wu Jian, a non-executive Director, has served as the assistant to the president of the Parent Company, respectively.

### X. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee which contains its recommendation to the Independent Shareholders as to the voting at the Extraordinary General Meeting regarding the Lease Agreement and the transactions contemplated thereunder, and the letter from Sorrento Capital containing, among other things, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Lease Agreement and the transactions contemplated thereunder, details of which are set out on pages 24 to 41 of this circular. None of the members of the Independent Board Committee has any material interest relating to the Lease Agreement and the transactions contemplated thereunder.

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

Yours faithfully,

By order of the Board

**Hainan Meilan International Airport Company Limited\***

**Wang Hong**

*Chairman and President*

Hainan, the PRC  
14 December 2022

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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海南美蘭國際空港股份有限公司  
**Hainan Meilan International Airport Company Limited\***  
*(A joint stock company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 357)**

14 December 2022

*To the Shareholders*

Dear Sir/Madam,

**MAJOR AND CONNECTED TRANSACTIONS  
IN RELATION TO THE LEASE AGREEMENT**

We refer to the circular dated 14 December 2022 (the “**Circular**”) to the Shareholders of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders in respect of the Lease Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the Circular. The Independent Financial Adviser has been appointed to advise the Independent Shareholders and us in this regard.

Details of the advice of the Independent Financial Adviser and the principal factors and reasons that the Independent Financial Adviser has taken into consideration in giving such advice are set out in the “Letter from the Independent Financial Adviser” in the Circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendices thereto.

Having taken in to account the (i) terms of the Lease Agreement and the transactions contemplated thereunder; and (ii) views of the Independent Financial Adviser in the “Letter from the Independent Financial Adviser” in the Circular and the main factors and reasons in arriving at such views, we are of the opinion that the terms of the Lease Agreement and the transactions contemplated thereunder are (i) fair and reasonable so far as the Shareholders (including the independent Shareholders) are concerned; (ii) entered into in the ordinary and usual course of business of the Group; (iii) on normal commercial terms; and (iv) in the interests of the Group and the Shareholders as a whole. We therefore recommend you to vote in favour of the Lease Agreement and the transactions contemplated thereunder.

Yours faithfully,

*Independent Board Committee*

<b>Fung Ching, Simon</b>	<b>Deng Tianlin</b>	<b>George F Meng</b>	<b>Ye Zheng</b>
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>

\* For identification purposes only

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice from Sorrento Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in relation to the transactions contemplated under the Lease Agreement for the purpose of inclusion in the Circular.*



11/F,  
The Wellington,  
198 Wellington Street, Central,  
Hong Kong

14 December 2022

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **MAJOR AND CONNECTED TRANSACTIONS IN RELATION TO THE LEASE AGREEMENT**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the lease of the Leased Assets by the Group from the Parent Company (the “**Lease**”) pursuant to the Lease Agreement between the Company (as lessee) and 海口美蘭國際機場有限責任公司 (transliterated as Haikou Meilan International Airport Co., Ltd. for identification purpose, the “**Parent Company**”) (as lessor) for a term of three years from 1 January 2023 to 31 December 2025, subject to fulfillment of all Conditions, particulars 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 14 December 2022 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As stated in the Letter from the Board, the Agreement on Runway dated 25 October 2002 between the Company and the Parent Company has already expired. Pursuant to the Agreement on Runway, the Parent Company has agreed, among other things, to operate and maintain the runway in good working condition and continually hold the airport permit and maintain the validity thereof and the Company has agreed to manage and operate the Meilan Airport in accordance with the regulatory requirements and share the relevant fees with the Parent Company. In order to ensure the integrity and completeness of the Company’s daily operations and the relevant assets required for management of the Meilan Airport as well as to improve the efficiency and safety of the overall operation of the Meilan Airport, the Company and the Parent Company entered into the Lease Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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According to the Letter from the Board, the Parent Company was owned (i) as to approximately 46.81% by 海南機場實業投資有限公司 (transliterated as Hainan Airport Industrial Investment Co., Ltd. for identification purpose), a company controlled by the State-owned Assets Supervision and Administration Commission of Hainan Province; (ii) as to approximately 14.18% by CDB Development Fund Co., Ltd. (國開發基金有限公司), a subsidiary of China Development Bank which is the financial policy institution directly under the State Council of China; (iii) as to approximately 2.42% by 中國南航集團資本控股有限公司 (transliterated as China Southern Group Capital Holding Co., Ltd. for identification purpose); and (iv) as to approximately 1.56% by China National Aviation Fuel Supply Co., Ltd. (中國航空油料有限責任公司) (each of (iii) and (iv) is a company controlled by the State-owned Assets Supervision and Administration Commission). CITIC Limited indirectly holds approximately 35.03% of equity interest of the Parent Company. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, the Parent Company holds 50.19% of the total issued Shares of the Company and was a controlling Shareholder of the Company, and therefore a connected person of the Company under the Listing Rules. Accordingly, the entering into of the Lease Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio(s) as defined under the Listing Rules in respect of the acquisition of right-of-use assets recognised by the Group pursuant to CAS21-Lease based on the upper limit of the rental fees under the Lease Agreement is more than 25% but less than 100%, the entering into of the Lease Agreement constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and connected transaction for the Company and is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising four independent non-executive Directors, namely Mr. Fung Ching, Simon, Mr. Deng Tianlin, Mr. George F Meng and Mr. Ye Zheng, has been established by the Board to consider the terms of the Lease Agreement and to make recommendation to the Independent Shareholders as regards voting. We, Sorrento Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Lease Agreement and the transactions contemplated thereunder are normal commercial or better and fair and reasonable so far as the Company and the Independent Shareholders are concerned, whether the Lease Agreement is entered into in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and how the Independent Shareholders should vote in respect of the relevant resolution to approve the Lease Agreement and the transaction contemplated thereunder.

We are independent from and not connected with the Group, the Parent Company, their respective substantial shareholders, directors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules. During the last two years, we have not been engaged as any financial adviser to the Company. Accordingly we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the transactions contemplated under the Lease Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations expressed to us by the Directors and management of the Company. We have assumed that (i) all such statements, information, opinions and representations expressed to us by the Directors and management of the Company, for which they are solely responsible, are true, accurate and complete in all material aspects at the time they were made and up to the date of the Circular; and (ii) all the opinions and representations have been reasonably made by the Directors and the management of the Company after due and careful enquiry. We have also assumed that the information referred to in the Circular will continue to be true, accurate and complete as at the date of the Circular and if there is any material change of information in the Circular up to the date of the Extraordinary General Meeting, we will inform the Shareholders as soon as practicable. We have also sought and obtained confirmation from the Directors and/or management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries, nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONCERNED

In considering whether the terms of the Lease Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

#### 1. Background of and reasons for entering into the Lease Agreement

According to the annual report of the Company for the financial year ended 31 December 2021 (the “2021 AR”) and the interim report of the Company for the six months ended 30 June 2022 (the “2022 IR”), the Group is principally engaged in both aeronautical and non-aeronautical businesses. Its aeronautical business at the Meilan Airport mainly consists of provision of terminal facilities, ground handling services and passenger services, and its non-aeronautical business mainly includes leasing of the commercial and retail outlets at the Meilan Airport, franchising of the airport-related business, leasing of the advertising spaces and parking lots, provision of cargo handling services and sales of consumable goods. According to the 2021 AR and the 2022 IR, the revenue from aeronautical business together with freight and packaging income from non-aeronautical business amounted to approximately RMB556.0 million, approximately RMB606.3 million and approximately RMB248.4 million for the year ended 31 December 2020, the year ended 31 December 2021 and the six months ended 30 June 2022 respectively, both representing over one-third of the total revenue of the Group for the corresponding financial year/interim period. For the year ended 31 December 2021, passenger throughput increased by approximately 6.2% and flight takeoff and landing increased by approximately 7.1% respectively as compared with the year ended 31 December 2020. According to the 2022 IR, passenger traffic at the Meilan Airport declined in the first half of 2022 as compared with that of the corresponding period of 2021 due to the impact of the resurgence of the pandemic outbreak in several areas of the PRC and the local pandemic in Hainan.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As a result, the turnover of the Company decreased by approximately 30.4% during the six months ended 30 June 2022 as compared with the same period in 2021. Nevertheless, the Company expects that on the basis of the prevention and control of pandemic, the Hainan government will further facilitate the consumption recovery by continuously launching the “attracting customers to the Island” campaign, and accelerating the construction of the Hainan Free Trade Port and the establishment of the lockdown operation projects which will be positive to the businesses of the Group.

According to the Letter from the Board, the Meilan Airport Phase II was jointly invested and constructed by the Parties pursuant to the Investment and Construction Agreement and completed and put into operation on 2 December 2021 and the Agreement on Runway in relation to the Meilan Airport Phase I has already expired. Against this background, the Company and the Parent Company commenced arm’s length negotiations, and the Parties mutually agreed to operate those assets of the Meilan Airport of the Parent Company by way of leasing. Pursuant to the Current Operation Model, the Meilan Airport is operated by the Company and the Parent Company jointly and the Company’s aeronautical business consists of the provision of airfield services, terminal facilities, ground handling services, and passenger and cargo handling services while the Parent Company is engaged in the maintenance of runways, provision of airfield area related services and logistical support services. The Directors are of the view that, with the expansion of the scale of operation of the Meilan Airport, the Current Operation Model may affect its operational efficiency and security of Meilan Airport. The leasing model will enable the Company to (i) better run its operational assets in line with the “High Standard, Strict Compliance” standards prevalent in the civil aviation industry; (ii) improve the efficiency and safety of the overall operation of the Meilan Airport, being an important infrastructure and a part of public transportation; and (iii) make adjustments in accordance with the latest developments of the relevant legal and industrial requirements in a timely manner in order to comply with specific legal and industrial requirements issued by relevant governmental authorities in the PRC, including the Civil Aviation Administration of China.

Having considered the importance of the Meilan Airport, particularly aeronautical business and logistic related support services (e.g. freight and packaging) to the Group, we concur with the Company that it is necessary to centralise the management of the Meilan Airport by entering into the Lease Agreement to (i) ensure the integrity and completeness of the Company’s daily operations and the relevant assets required for the management of the Meilan Airport; and (ii) consolidate the relevant resources such as machinery and equipment at the Meilan Airport and improve efficiency and safety of the overall operation of the Meilan Airport. Furthermore, we were advised by the Company that upon commencement of the Lease, the Company will be entitled to income in connection with the operation of the Leased Assets such as security fee, utility fee, comprehensive service fee, passenger service and aircraft take-off and landing related fee and charge etc. which are currently solely charged by the Parent Company or shared by the Company and the Parent Company. The Company also expects that the operation performance of the Meilan Airport, such as passenger throughput, flight takeoff and landing for transportation and cargo and mail volume, will resume and improve when the pandemic passes in future and the Meilan Airport will also be benefited from the PRC government policies as mentioned above. Therefore, we concur with the Company that there is commercial rationale for the Group to enter into the Lease Agreement in order to improve the operation and management efficiency and broaden its income sources and the entering into of which are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Principal terms of the Lease Agreement

According to the Letter from the Board, the principal terms of the Lease Agreement are as follow:

**Date:** 9 November 2022

**Parties:** (1) the Company (as lessee); and  
(2) the Parent Company (as lessor)

**Leased Assets:** The Leased Assets comprise:

- 1) Meilan Airport Phase I: lands, buildings, structures and equipment, which includes the Domestic Shares Subscription Assets; and
- 2) Meilan Airport Phase II: lands, buildings, structures and equipment,

such as the airport runways, security inspection assets, water and power supply assets, logistics and support assets (including lands, buildings, structures, equipment and etc.). Details of the Leased Assets are set out below:-

Leased Assets		Area (sq.m.)	Market rent per annum as appraised by the Valuer (RMB)	Domestic Shares Subscription Assets involved (Note 3)	Remaining assets other than the Domestic Shares Subscription Assets
Meilan Airport Phase I (Notes 1 and 2)	Lands	4,009,756.70	153,974,659	Flight zone	Functional area, terminal area, base area
	Buildings	196,128.22	41,098,187	East lighting substation, west lighting substation, field equipment garage, rescue warehouse	Security inspection building, Nos. 3&4 dormitory buildings, freight area, overnight accommodation and supporting facilities, etc.
	Structures		22,692,880	Aircraft runway, aircraft taxiway, flight zone boundary alteration, flight zone boundary replacement, fence facilities (flight zone boundary alteration)	Parking lot, sewage treatment station, access road greening renovation project, staff sports centre, west boarding apron, etc.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Leased Assets	Area (sq.m.)	Market rent per annum as appraised by the Valuer (RMB)	Domestic Shares Subscription Assets involved (Note 3)	Remaining assets other than the Domestic Shares Subscription Assets	
Equipment		21,736,087	Generator set, air compressor, transformer, high voltage switch cabinet, constant current dimmer, spray machine, grass cutter, aircraft jackcraft airbag, aircraft rescue lifting equipment, insecticidal lamp, aircraft towing harness, flat trailer, etc.	Machinery and equip-ment, mainly including X-ray machines, metal detecting equipment, computers, air conditioners, printers, walkie-talkies and other equipment	
Sub-total		239,501,813	84,525,818	154,975,995	
Meilan Airport Phase II	Lands Buildings Structures Equipment	2,232,396.06 17,844.59	85,724,009 2,827,056 209,935,703 19,063,494	N/A N/A N/A N/A	85,724,009 2,827,056 209,935,703 19,063,494
Sub-total		317,550,262	0	317,550,262	
<b>Total</b>		<b>557,052,075</b>	<b>84,525,818</b>	<b>472,526,257</b>	

*Notes:*

1. The Domestic Shares Subscription Assets comprise part of the assets of Meilan Airport Phase I and the total market rent per annum for the Domestic Shares Subscription Assets is RMB84,525,818 while the total market rent per annum for Meilan Airport Phase I is RMB239,501,813 as appraised by the Valuer.
2. The Current Operation Model only involves the Meilan Airport Phase I. All the existing agreement(s) or contract(s) between the Company and/or its subsidiary(ies) and the Parent Company and/or its associate(s) (excluding the Company and its subsidiary(ies)) were entered into for the operation of the Meilan Airport Phase I. For the Meilan Airport Phase II, pursuant to the Lease Agreement, the Parties agreed that the revenue arisen from its operation prior to the Commencement Date shall be distributed between the Parties pursuant to the Current Operation Model and the Agreement on Runway and the Airport Composite Services Agreement applicable thereto.
3. The Domestic Shares Subscription Assets are part of the Meilan Airport Phase I only and do not form any part of the assets of Meilan Airport Phase II.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In light of the large scale of the Leased Assets under the Lease Agreement, and in order to ensure the continuous operation of the Meilan Airport and enhance the commercial operability of the Parties, the Parties agreed that the scope and subject matter of the Leased Assets under the Lease Agreement may be reasonably adjusted pursuant to the then conditions and use of the Leased Assets (including but not limited to the use of necessary substitute assets and/or the renovated Leased Assets), provided that the variation of the aggregate rental fee under the Lease Agreement payable by the Company to the Parent Company during the term of the lease in accordance with the terms of the Lease Agreement is within the range of 5%.

During the term of the Lease Agreement, the Parent Company may enter into financing arrangement(s) (including but not limited to finance lease(s) and financing guarantee(s)) using all or part of the Leased Assets to meet its normal and commercial needs, provided that:

- 1) the Parent Company shall ensure that the Company is entitled to continuously use such assets without interruption during the term of the Lease Agreement;
- 2) the rental fee of such assets and all other relevant matters shall remain the same as agreed by the Parties under the Lease Agreement and shall not be adjusted or amended by reason of the financing arrangement(s) entered into by the Parent Company; and
- 3) the Parent Company shall consult the Company on the financing plans prior to entering into any financing arrangement(s) with such assets, and submit relevant financing agreement(s) or contract(s) (including any supplemental agreement(s) or contract(s) thereunder) with third party(ies) to the Company within ten (10) days upon execution.

Provided that the above conditions are fulfilled, the Company may voluntarily, after taking into account the transactions between the Parent Company and the third party(ies), cooperate and sign relevant agreement(s) as appropriate to facilitate the financing arrangement(s).

Under any circumstances, in the event that the relevant assets are seized, detained, put to an auction or sale by any judicial or administrative authority due to the financing arrangement(s), resulting or likely to result in the Company being unable to continuously use such assets without interruption in accordance with the term of the Lease Agreement, the Parent Company shall promptly apply for and complete the unblocking and release of such assets per the Company's request, and/or actively assist and cooperate with the Company to exercise the right of first refusal to acquire such assets in the auction or sale, or the Company may elect to terminate the Lease Agreement or the lease of such assets, and the Parent Company shall compensate the Company for all resulting losses and expenses.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**Usage:** The Leased Assets shall be used in accordance with the planning, design, function, use and/or the approval of the relevant civil aviation governing authorities (if any) of such assets and for the management, operation and support of the Meilan Airport. The Company shall not change the use of the Leased Assets in breach of the Lease Agreement without consent of the Parent Company.

**Term:** Three years commencing from 1 January 2023 to 31 December 2025, subject to fulfillment of all Conditions.

In respect of the Domestic Shares Subscription Assets: The validity period of the Shareholder's resolution and authorisation granted to the Board in relation to the Parent Company Subscription expired on 17 September 2022 and was extended for a further twelve (12) months (i.e. from 18 September 2022 to 17 September 2023) in the extraordinary general meeting and class meetings of the Domestic Shareholders and the H Shareholders of the Company held on 8 November 2022. For details, please refer to the announcement of the Company dated 8 August 2022, the circular of the Company dated 30 September 2022 and poll results announcement of the extraordinary general meeting and class meetings of the Company dated 8 November 2022. In the event that the Parent Company subscribes for the Subscription Shares with the Domestic Shares Subscription Assets as consideration during the term of the Lease Agreement, the lease of the relevant Domestic Shares Subscription Assets shall end on the date of completion of allotment of the Subscription Shares to the Parent Company (i.e. the date of registration of such Subscription Shares under the name of the Parent Company with China Securities Depository and Clearing Corporation Limited). Accordingly, the rental fee in respect of the relevant Domestic Shares Subscription Assets shall continue to accrue under the Lease Agreement only until the day immediately preceding the date on which the Company completes the issuance of such Domestic Shares to the Parent Company. The proposed transaction for the acquisition of the Domestic Shares Subscription Assets can be traced back to 30 December 2016. At that time, the Meilan Airport Phase II was still in the early stage of construction. As the relevant agreement in relation to the Domestic Shares Subscription Assets is still valid as at the date of the Circular, in the event the Parent Company subscribes for the Subscription Shares with the Domestic Share Subscription Assets as consideration, the Company shall comply with such agreement. The total estimated investment amount for the Meilan Airport Phase II is approximately RMB14,829,950,000. At the current stage, based on the financial resources available to the Company, it is not practicable for the Company to acquire the assets comprising the Meilan Airport Phase II. After taking such background into consideration, the Directors are of the view that the proposed acquisition of the Domestic Shares Subscription Assets and the leasing of the remaining Leased Assets are in line with the business goals of the Company, including integrity of assets, operation efficiency and safety and therefore, in the interest of the Company and its Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**Rental fee:** The aggregate annual rental fee for the Leased Assets payable by the Company to the Parent Company under the Lease Agreement shall be approximately RMB557 million (calculated on the basis of 365 days per year and excluding VAT), subject to potential adjustment with a range of 5% due to change in the scope and subject matter of the Leased Assets as mentioned above.

If there is any change to the scope of the Leased Assets within the term of the Lease Agreement (including but not limited to the acquisition of the ownership or state-owned land use rights of any part of the Leased Assets by the Company due to any other transaction arrangements, loss of any part of the Leased Assets for reasons other than the Company or the reasonable adjustment of the scope and subject matter of the Leased Assets by the Parties in accordance with the Lease Agreement), the Parties shall adjust the rental fee for the Leased Assets accordingly.

In the event of early termination of the Lease Agreement or expiry of the term of the lease of any part of the Leased Assets prior to the expiry of the Lease Agreement, the rental fee for the Leased Assets shall be calculated as follows:

The actual number of days of which the relevant part of the Leased Assets is leased by the Company x Daily rental fee (*Note*)

*Note:* Daily rental fee = Annual rental fee/365

The rental fee under the Lease Agreement has been determined based on fair and just principles, after arm's length negotiations between the Parties with reference to the aggregated market rental fee of approximately RMB557 million as appraised by the Valuer, (a) in relation to the valuation of the leased value of the lands, adopting the market approach and (b) in relation to the valuation of the leased value of the buildings, structures and equipment, based on their market values, which is arrived at adopting the depreciated replacement cost approach, and the discounted capitalisation rates.

In the event that the change in the scope and subject matter of the Leased Assets results in an adjustment over the 5% range, the Company will re-comply with requirements under the Listing Rules, including the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules where necessary.

If the passenger throughput of the Meilan Airport decreases during the term of the Lease Agreement due to force majeure such as pandemic, the Parties shall reduce or exempt the rental fee after negotiation based on the objective circumstances and principles of fairness and reasonableness.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- Payment terms:** Unless otherwise agreed between the Parties, the rental fee together with VAT shall be settled and paid on a monthly basis. The Company shall pay, upon the end of each month, the rental fee for the Leased Assets together with any VAT on the rental fee based on the then applicable rate for the previous month to the bank account designated by the Parent Company within fifteen (15) Business Days after receipt of the invoices issued by the Parent Company (or any later date as then agreed by the Parties).
- Right of first refusal:** In the event that the Parent Company proposes to dispose of the Leased Assets, the Company shall have the right of first refusal under the same conditions.
- Other effects:** Pursuant to the Lease Agreement, the Parties agreed that any existing agreement(s) or contract(s) between the Company and/or its subsidiary(ies) and the Parent Company and/or its associate(s) (excluding the Company and its subsidiary(ies)) in relation to the operation of the Meilan Airport including but not limited to the Airport Composite Services Agreement, the Apron Lease Agreement and the New Cargo Terminal Lease Agreement shall be terminated from the Commencement Date. According to the Letter from the Board, the Company confirms that no other existing operating models will remain valid after the Commencement Date.

For other principal terms of the Lease Agreement, please refer to the Letter from the Board.

We have analysed the key terms of the Lease Agreement in the ensuing sections, in relation to the aspects of the value of the transaction and the measures to safeguard interests of Independent Shareholders, and formed our view in the paragraph headed “RECOMMENDATION”.

### 3. The values of the transactions under the Lease Agreement and basis of determination

The annual rental fees (the “**Annual Rent**”) under the Lease Agreement are expected to be approximately RMB557.05 million during the term of the Lease Agreement subject to potential adjustment within a range of 5% due to change in scope and subject matter of the Leased Assets and the Parent Company’s potential subscription under the Domestic Shares Subscription Agreement. The Annual Rent has been determined upon arm’s length negotiations between the Company and the Parent Company with reference to the rental fee appraised by an independent valuer, Vigers Appraisal & Consulting Limited (the “**Valuer**”). As set out in the Letter from the Board, pursuant to the CAS21-Lease, the Group will recognise a right-of-use asset amounting to approximately RMB1.575 billion (subject to the abovementioned potential adjustment to the rental fee) in its consolidated statement of financial position upon commencement of lease, among which the present value of the rental fees payable due in one year of approximately RMB545 million would be recognised as current liabilities. Set out below is a breakdown of the annual rental fee under the Lease Agreement based on our review on information provided by the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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	<b>Annual Rent of the Leased Assets</b> <i>approx. RMB' million</i>
Land	239.69
Structures	232.63
Buildings	43.93
Facilities & equipment	40.80
	<hr/>
Total	557.05
	<hr/> <hr/>

In order to assess the fairness and reasonableness of the Annual Rent, we have obtained and reviewed the appendix to the Lease Agreement, being a list of the Leased Assets comprising (i) land; (ii) structures; (iii) buildings; and (iv) facilities and equipment which, as mentioned in the Lease Agreement, are wholly-owned/legally used by the Parent Company.

As part of our due diligence, we have also reviewed the valuation report prepared by the Valuer in relation to the assessment of the Annual Rent, being Appendix II to the Circular together with the Valuer's assessment of the market values of the Leased Assets. Furthermore, we have performed the following steps regarding the opinion expressed by the Valuer pursuant to note 1(d) to Rule 13.80 of the Listing Rules:

- i. we have reviewed the brochure and track record of the Valuer and were satisfied with their experience and expertise;
- ii. we have also reviewed the terms of engagement of the Valuer and the scope of work set out therein and considered that the scope of work of the Valuer is appropriate and we were also confirmed by the Valuer that they have been provided with all the information necessary to their analysis and formation of advice; and
- iii. we have enquired the Valuer as to any prior relationship with the Company and the Parent Company and was confirmed that they are independent valuer.

We understand that the Valuer has considered three generally accepted valuation approaches, namely market approach, income approach and cost approach.

- i. the market approach measures the value of an asset through an analysis of recent sales or offerings of comparable property. Sales and offering prices are adjusted for differences in location, time of sale, utility, development status and tenure of land use rights between the asset being appraised and the comparable assets;
- ii. the income approach measures the value of an asset with reference to the present value of its future economic benefits such as project income after netting off expenses; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- iii. the cost approach measures the value of an asset by the cost to reproduce or replace it with comparable ones and adjusted based on site conditions, functionality, term, physical deterioration and depreciation.

According to the Valuer, income approach is generally applied in valuation of entity comprising various assets like buildings, facilities, intangible assets and operation expenses. Given the nature of the Leased Assets, being land for airport uses, airport runways, security inspection assets, water and power supply assets, logistics and support assets, it is practically difficult to allocate income and expenses to each of the Leased Assets and thus income approach is not applicable to valuation of the Leased Assets and Annual Rent. Market approach is the most appropriate if there are sales of offerings of comparable or same assets in the market and adjustments would be made in accordance with the physical conditions and status of use of the assets subject to valuation. The Valuer examined all relevant documents and have relied, to a considerable extent, on the information given by the Company, particularly planning approval(s) or statutory notice(s), easement(s), land use rights' term(s), site and floor area, development costs expended and to be expended, occupancy status and information identifying the Leased Assets. The Valuer have no reason to doubt that the truth and accuracy of information provided to the Valuer by the Company, and have been advised that no material facts have been omitted from the information provided.

Having considered the rationale of the Valuer in choosing valuation approaches as mentioned above, in particular, (i) the availability of market transactions and offerings of airport and comparable lands in the PRC; and (ii) the parameters under income approach are difficult to be accurately estimated as the land of the Leased Assets (the "**Leased Land**") form only part of the Meilan Airport, we consider the adoption of market approach, being a generally accepted valuation approach which takes into account the recent market conditions and similarity of land use of the Leased Land, to assess the Annual Rent of the Leased Land by the Valuer is fair and reasonable.

However, we were confirmed by the Valuer that market information on the rent of other Leased Assets is unavailable. On the other hand, these Leased Assets (i.e. except the Leased Land) form only part of the Meilan Airport and certain of which are of supporting use rather than directly generating income. In view of the specific use of these Leased Assets in the Meilan Airport and the lack of market comparables, we concur with the Valuer that both market approach and income approach are not applicable to assess the Annual Rent of these Leased Assets.

As advised by the Valuer, due to the impracticability of market approach and income approach, another common valuation approach, cost approach is considered as the replacement costs of these Leased Assets (i.e. except the Leased Land) can be assessed.

As such, we have obtained from the Valuer and reviewed lists of the Leased Assets except the Leased Land (the "**Asset Lists**") including (i) buildings of the Leased Assets (the "**Leased Buildings**") comprising mainly logistic centre, staff quarters, guesthouse, office, duty-free warehouse and electricity stations etc.; (ii) structures of the Leased Assets (the "**Leased Structures**") comprising mainly runways, pathways, aprons and sewage stations etc.; and (iii) facilities & equipment of the Leased Assets (the "**Leased F&E**") comprising mainly lighting system, power supply units, airplane parking system, communication system, security information system, panoramic video surveillance system, X-ray machines etc., which are specific to the operation needs of the Meilan Airport. Given both market approach and income approach are not applicable and the details of the assets contained in the Asset

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Lists, such as construction dates, dates of use, initial costs and net book values, are known, we consider the only practicable method among the three generally accepted valuation approaches to assess the Annual Rent of these assets is to make reference to their carrying values/depreciated replacement costs which is not uncommon in lease of assets. Therefore, we concur with the Valuer that it is fair and reasonable to adopt cost approach in assessing the Annual Rent of the Leased Buildings, the Leased Structures and the Leased F&E by using replacement costs of comparable assets with similar conditions and respective rental yields taking into account the market condition and/or remaining term/useful life of assets.

Apart from our abovementioned work done on assessing the appropriateness of valuation methodologies by the Valuer in assessing the Annual Rent, in order to assess the fairness and reasonableness of any assumptions and calculation made in arriving the Annual Rent, we have also (i) enquired the Valuer the selection criteria of market comparables for the Leased Land; (ii) obtained from the Valuer and reviewed a list of transactions and offerings of land; (iii) enquired the Valuer bases and adjustments made when determining the market rent of the Leased Land; (iv) obtained from the Valuer and reviewed the Asset Lists setting out the details of the Leased Assets (other than the Leased Land), particularly their initial costs and remaining term/useful life, and calculation of appraised market values (i.e. replacement costs); (v) compared the market values of the Leased Assets (other than the Leased Land) appraised by the Valuer with the net book values of such assets; and (vi) reviewed the calculation of the Annual Rent of the Leased Assets (other than the Leased Land) using the discounted capitalisation rates.

As regards the valuation of the Annual Rent of the Leased Land under the market approach, we have obtained from the Valuer and reviewed a list of recent transactions and offerings of land comparable to the Leased Land (e.g. between 2019 and 2022) based on, among others, their land use, geographic proximity, terms and conditions of the transactions which we concur with the Valuer that they are fair and representative for comparison to the Leased Land. We have also reviewed the adjustments to rents of market comparables made by the Valuer when assessing the Annual Rent of the Leased Land taking into account the difference in tenure of land use rights, availability of utility, accessibility etc. which we consider reasonable and in line with common practice. Upon our comparison between the rental fee of the Leased Land per month per sq.m. to the recent leases of airport and comparable lands in the PRC identified by the Valuer, we noted that the unit Annual Rent of the Leased Land of RMB3.20 per month per sq.m. is within the range of such recent leases from RMB2.13 to RMB7.60 considered by the Valuer. As part of our work done, we have also searched the terms of lease of airport lands in the PRC being effective from 2021 as announced by various listed companies on the Stock Exchange, Shenzhen Stock Exchange and Shanghai Stock Exchange and noted that their unit rents ranged from approximately RMB3.20 to approximately RMB5.64 per month per sq.m. and the unit Annual Rent of the Leased Land per month per sq.m. of RMB3.20 is within this range. Hence, we consider the Annual Rent of the Leased Land is fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As regards the valuation of the Annual Rent of the Leased Buildings under the cost approach, we have obtained from the Valuer and reviewed the Asset Lists with details of assets, building dates, initial costs and net book values and also the computation of the depreciated replacement costs of the Leased Buildings by the Valuer with consideration of (i) current construction costs of similar type and scale of assets based on construction cost index of relevant/adjacent cities; and (ii) depreciation rates. We understand that the Valuer has categorized the Leased Buildings according to their use such as office, warehouse, sewage treatment station, logistic centre, staff quarters, guesthouse etc. and applied different unit construction costs. As part of our due diligence, we have reviewed the composition of such construction costs and noted that they comprise building and installation costs, renovation costs, mechanical, electrical and water installation costs etc. which are common and major costs in building and construction. We noted that the Valuer has made reference to the relevant benchmark/reference unit construction costs cited in the PRC government and related publications and quotation of similar construction projects in the market after their on-site inspection of the Leased Buildings. Hence, we considered that the Valuer has taken into account the use of the Leased Buildings, the scale of the Leased Buildings and the relevant major construction and related costs when assessing the market values of the Leased Buildings and their valuation fair and reasonable.

Since it is not uncommon to lease assets with rents determined based on depreciation of assets, we have also compared the total market value of the Leased Buildings (i.e. depreciated replacement costs) as appraised by the Valuer to total net book value of the Leased Buildings, and was not aware of significant difference. When assessing the fairness and reasonableness of the Annual Rent of the Leased Buildings, we have reviewed the calculation of which and noted that it is basically the sum of products of market values of each of the Leased Buildings (i.e. depreciated replacement costs) and the respective discounted capitalisation rates. We were given to understand that discounted capitalisation rates were calculated by the Valuer based on a rental yield of comparable properties in Haikou city of 5.0% per annum (being within the range of 4.7% per annum and 5.5% per annum as identified by the Valuer) as adjusted in accordance with a standard formula with consideration of the remaining terms/useful lives of assets. As part of our due diligence, we have searched the unit asking rents per monthly and asking selling prices of commercial and industrial properties in Hainan Province, particularly those areas around Haikou city and computed the hypothetical market yield which is around 5.0% per annum. Given the Leased Buildings comprise various assets with different building dates and useful lives, we consider the adoption of the discounted capitalisation rates would reflect the status of each of the Leased Buildings in the Annual Rent and thus is fair and reasonable.

As regards the valuation of the Annual Rent of structures of the Leased Structures under the cost approach, we have obtained from the Valuer and reviewed the Asset Lists with details of assets, construction dates, initial costs and net book values and also the computation of the depreciated replacement costs of the Leased Structures by the Valuer with consideration of (i) historical construction costs of the Leased Structures; (ii) respective accumulated change of construction price based on the historical fixed asset construction price index published by the National Bureau of Statistics of the PRC; and (iii) depreciation rates. We understand from the Valuer that given the nature of the Leased Structures is different from buildings, it is impractical to assess the market values of the Leased Structures in the same way of the Leased Buildings. Instead, the Valuer has assessed the market values as the Leased Structures based on their historical costs as adjusted with accumulated change of construction price level since their respective years of construction. Furthermore, the Valuer has made reference to the useful lives of the Leased Structures in accordance with the major raw materials and natures and in line with their common valuation practice and duration since construction/use when computing the depreciation rate. Hence, we considered the valuation fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Since it is not uncommon to lease assets with rents determined based on depreciation of assets, we have also compared the total market value of the Leased Structures (i.e. depreciated replacement costs) as appraised by the Valuer to total net book value of the Leased Structures, and was not aware of significant difference. Given the specialty of the Leased Structure and lack of market comparables, we consider the valuation method conducted by the Valuer is acceptable. When assessing the fairness and reasonableness of the Annual Rent of the Leased Structures, we have reviewed the calculation of which and noted that it is basically the sum of products of market values of each of the Leased Structures (i.e. depreciated replacement costs) and the respective discounted capitalisation rates. We were given to understand that discounted capitalisation rates were calculated by the Valuer based on a rental yield of 3.9% per annum as adjusted in accordance with a standard formula with consideration of the remaining terms/useful lives of assets. As advised by the Valuer, the aforesaid 3.9% represents the cost of debt capital for construction of the Meilan Airport Phase II by the Parent Company and thus a minimum required return rate of the Parent Company in relation to the lease to cover its relevant financing costs. We have also obtained and reviewed the Syndicated Loan Agreement entered into by the Company and the Parent Company specifically for financing the construction of the Phase II Expansion Project and noted that the interest rate is 3.9% per annum. Given the Leased Structures comprise various assets with different construction dates and useful lives, we consider the adoption of the discounted capitalisation rates would reflect the status of each of the Leased Structures in the Annual Rent and thus is fair and reasonable.

As regards the valuation of the Annual Rent of the Leased F&E under the cost approach, we have obtained from the Valuer and reviewed the Asset Lists with details of assets, dates of use, initial costs and net book values and also the computation of the depreciated replacement costs of the Leased F&E by the Valuer with consideration of (i) historical construction/purchase costs of the Leased F&E; (ii) respective accumulated change of production price of industrial products; and (iii) depreciation rates. The Valuer has first computed the replacement costs of the Leased F&E by multiplying the historical construction/purchase costs of the Leased F&E and accumulated change of the Producer Price Index for Industrial Products over the period since construction/purchase as published by the National Bureau of Statistics of the PRC (except those Leased F&E purchased in 2022 which the Valuer has simply adopted their carrying values and certain assets such as vehicles, information technology and electronic products which the Valuer has adopted significant discounts due to the technological change over time in line with their common valuation practice). Then the Valuer has applied depreciation rates based on the date of use and useful lives of the Leased F&E with reference to similar machinery and equipment set out in a valuation manual published China Machine Press (organised under State-owned Assets Supervision and Administration Commission of the State Council) and their on-site inspection to compute the depreciated replacement costs of the Leased F&E which we consider fair and reasonable.

Since it is not uncommon to lease assets with rents determined based on depreciation of assets, we have also compared the total market value of the Leased F&E (i.e. depreciated replacement costs) as appraised by the Valuer to total net book value of the Leased F&E, and was not aware of significant difference. Given the specialty and age of the Leased F&E and lack of market comparables, we consider the valuation method conducted by the Valuer is acceptable. When assessing the fairness and reasonableness of the Annual Rent of the Leased F&E, we have reviewed the calculation of which and noted that it is basically the sum of products of market values of each of the Leased F&E (i.e. depreciated replacement costs) and the respective discounted capitalisation rates. We were given to understand that discounted capitalisation rates were calculated by the Valuer based on a rental yield of 3.9% per annum as adjusted in accordance with a standard formula with consideration of the remaining terms/useful lives

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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of assets. We have also obtained and reviewed the Syndicated Loan Agreement entered into by the Company and the Parent Company specifically for financing the construction of the Phase II Expansion Project and noted that the interest rate is 3.9% per annum. As advised by the Valuer, the aforesaid 3.9% represents the cost of debt capital for construction of the Meilan Airport Phase II by the Parent Company and thus a minimum required return rate of the Parent Company in relation to the lease to cover its relevant financing costs. Given the Leased F&E comprise various assets with different building/purchase dates and useful lives, we consider the adoption of the discounted capitalisation rates would reflect the status of each of the Leased F&E in the Annual Rent and thus is fair and reasonable.

According to the Lease Agreement, In the event the Parent Company subscribes for the Subscription Shares with the Domestic Shares Subscription Assets as consideration during the term of the Lease Agreement, the lease of the relevant Domestic Shares Subscription Assets shall end on the date of completion of allotment of the Subscription Shares to the Parent Company (i.e. the date of registration of such Subscription Shares with China Securities Depository and Clearing Corporation Limited). Annual Rent in relation to the Domestic Shares Subscription Assets of approximately RMB84.53 million as valued by the Valuer will no longer be accrued after such registration. In that case, the Annual Rent will become approximately RMB472.52 million (subject to potential adjustment with a range of 5% due to change in the scope and subject matter of the Leased Assets) and we consider such deduction is fair and reasonable.

Given the Valuer has (i) considered the specific nature of Leased Assets when determining which valuation approaches to be applied; (ii) calculated the market values of the Leased Assets to reflect the status of the Leased Assets; and (iii) assessed the market rent of the Leased Assets either with reference to market, if available, or minimum required return rate of the Parent Company to cover its relevant debt financing costs in relation to construction of the Phase II Expansion Project, we concur with the Valuer that the valuation approaches and methodologies are fair and reasonable. Hence, we are of the view that the Annual Rent is fair and reasonable and the Lease is to be conducted on normal commercial terms and in the ordinary and usual course of business and in the interests of the Shareholders and the Company as a whole.

#### **4. Financial Impacts of the entering into of the Lease Agreement**

Other than the recognition of right-of-use asset and lease liability of approximately RMB1.575 billion (subject to the potential adjustment to the rental fee pursuant to the Lease Agreement and the Parent Company's potential subscription under the Domestic Shares Subscription Agreement), according to the Letter from the Board, it is expected the Group will incur a monthly depreciation expense of the right-of-use asset over the term of the Lease Agreement on a straight line basis amounting to approximately RMB44 million, and recognise annual finance costs of approximately RMB54 million based on the incremental borrowing interest rate (subject to the potential adjustment to the rental fee pursuant to the Lease Agreement and the Parent Company's potential subscription under the Domestic Shares Subscription Agreement). Accordingly, the income related to the Leased Assets will be attributed to the Group, and the related operating costs will also be borne by the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As disclosed in the Appendix I to the Circular, the Group is subject to certain events or circumstances which indicate the existence of a material uncertainty which may cast significant doubt over the sufficiency of the Group's working capital. The Group is trying to take certain measures to improve its financial position and cash flow status and the sufficiency of working capital for the Group's present requirements for at least the next 12 months from the date of the Circular which is subject to, among others, (i) the obtainment of the loan syndicate's waiver in respect of the events of default and then the Company is not required to early repay the balance of the drawn down Syndicate Loan; (ii) the obtainment and continuation to utilise the undrawn facility of local government to settle the construction payments of the Phase II Expansion Project; and (iii) the operation of the Meilan Airport and the obtainment of the Parent Company's agreement to reduce or exempt the rental fees when the Meilan Airport's passenger throughput is seriously affected by the COVID-19. Therefore, the actual financial impacts of the Lease Agreement depend on the PRC macro-economic environment, the control of COVID-19, the operating performance of the Leased Assets and lease payments after reduction or exemption (if any).

### 5. Internal control measures within the Group

As advised by the Company, the Company would regularly monitor the amounts of the transactions under the Lease Agreement such that the 5% upper limit of the consideration under the Lease Agreement would not be exceeded and would be in compliance with the Listing Rules. As set out in the Letter from the Board, in the event that the change in the scope and subject matter of the Leased Assets results in an adjustment over the 5% range, the Company will re-comply with requirements under the Listing Rules, including the reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules where necessary. Hence, we are of the view that the Company has established appropriate and effective internal control procedures to ensure the Lease Agreement will be conducted on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### RECOMMENDATION

Since (i) the business operation of the Meilan Airport represents the substantial income source of the Group; (ii) the leasing model under the Lease Agreement would enable the Company to improve the safety, completeness and efficiency of the overall operation of the Meilan Airport and determine rental fees with reference to the valuation by a professional third-party; (iii) the PRC government has recently relaxed certain COVID-19 control measures for Haikou and Sanya, Hainan Province which is expected to have positive impact on the passenger throughput of the Meilan Airport; and (iv) the Company and the Parent Company have agreed pursuant to the Lease Agreement that if the passenger throughput of the Meilan Airport decreases due to force majeure factors such as COVID-19 during the lease term, the Company could negotiate with the Parent Company to reduce or exempt the rental fees appropriately, we consider that the entering into of the Lease Agreement may enable the Company to capture any business opportunity in recovery or growth of the PRC aeronautical industry and thus is in the interests of the Company and the Shareholders as a whole. Nevertheless, the development of COVID-19 and the corresponding control measures to be required by the PRC government are uncertain, together with the availability of working capital to the Group as mentioned above and detailed in the Appendix I to the Circular, which may affect the business operation and results of the Meilan Airport, the Independent Shareholders are reminded to take into account their individual risk preference and tolerance level before making any voting decision at the Extraordinary General Meeting.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking into consideration of the above principal factors and reasons, we are of the opinion that the terms of the Lease Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders (including the Independent Shareholders) are concerned, and the Lease Agreement is entered into in the ordinary and usual course of business of the Group.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the resolution(s) proposed at the Extraordinary General Meeting thereby approving the Lease Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Sorrento Capital Limited**

**Aaron Wong**                      **Wesker Poon**  
*Managing Director*                      *Managing Director*

*Note:* Mr. Aaron Wong is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than nine years of experience in corporate finance and investment banking. Mr. Wesker Poon is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than ten years of experience in corporate finance and investment banking. Both Mr. Aaron Wong and Mr. Wesker Poon have participated in and completed various advisory transactions (including connected transactions of listed companies in Hong Kong).

## 1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2019, 2020 and 2021 and six months ended 30 June 2022 is disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.mlairport.com>) respectively:

- annual report of the Company for the year ended 31 December 2019 published on 22 April 2020 (pages 172 to 284) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0422/2020042200577.pdf>);
- annual report of the Company for the year ended 31 December 2020 published on 20 May 2021 (pages 199 to 316) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0520/2021052000527.pdf>);
- annual report of the Company for the year ended 31 December 2021 published on 20 April 2022 (pages 182 to 296) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0420/2022042000771.pdf>); and
- interim report of the Company for the six months ended 30 June 2022 published on 20 September 2022 (pages 42 to 96) (<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0920/2022092000512.pdf>).

## 2. INDEBTEDNESS

As at the close of business on 31 October 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular, the Group had total indebtedness as follows:

	<b>31 October 2022</b>
	<i>RMB '000</i>
Bank borrowings	
Short-term borrowings – unguaranteed and unsecured (a)	20,000
Syndicated loan – guaranteed and secured (b)	1,944,000
	<u>1,964,000</u>
Other liabilities:	
Interest on bank loans payable	6,377
Lease liabilities (c)	86,884
Payables to related parties – unguaranteed and unsecured (d)	793,862
	<u>887,124</u>
Other current liabilities – provision for joint repayment commitment (b)	2,586
<b>Total liabilities</b>	<b><u><u>2,853,709</u></u></b>

- (a) The Company secured a loan facility of RMB300 million in May 2022, and as at 31 October 2022, the drawn loan amount was RMB20 million, with the annual interest rate of 3.55%.
- (b) As at 31 October 2022, the Company has withdrawn RMB1.94 billion of the borrowings under the syndicated loan arrangement, which has been presented as non-current liabilities due within one year. The borrowings bear an annual interest rate of 3.9%.

In the meantime, the Parent Company has withdrawn RMB3.24 billion of the borrowings under the syndicated loan arrangement, and the Company was jointly responsible for the repayment of the borrowings withdrawn by the Parent Company. The Company has recognised “other current liabilities – provision for joint repayment commitment” of approximately RMB3 million.

For detailed arrangement of the syndicated loans, please refer to the relevant disclosure in the “Working Capital” below.

- (c) Lease liabilities are the balance of the minimum lease payments of fixed assets leased by the Group under financing lease after deducting unrecognised finance charge and the balance of the minimum lease payments of fixed assets leased by the Group under operating lease. As at 31 October 2022, the balance of lease liabilities was RMB86,884,000, of which RMB78,094,000 will be due within one year.

As at 31 October 2022, the balance of unrecognised finance charge was RMB766,000.

- (d) It represents mainly the amounts due to the Parent Company, which are interest-free, unsecured and presented as current liabilities.

### Contingent Matters

As disclosed in the announcement of the Company dated 5 January 2021, Aero Infrastructure Holding Company Limited and the Company entered into a subscription agreement in relation to the subscription of 200,000,000 New H Shares (the “**Past New H Shares Subscription Agreement**”) on 29 September 2019. Aero Infrastructure Holding Company Limited (the “**Claimant**”) filed an arbitration (the “**Arbitration**”) with the Hong Kong International Arbitration Centre against the Company asserting allegations in connection with the Past New H Shares Subscription Agreement. As at the Latest Practicable Date, the case was still under review. The management believes there is no breach by the Company as claimed in the notice of arbitration and believes that it is less likely that the claim of the arbitration by the Claimant will be supported by the arbitration tribunal after consultation with lawyers, and therefore no accrual of estimated liabilities is required.

In addition, the Company obtained a loan in the principal amount of US\$75,000,000 from Aero Infrastructure Investment Company Limited in August 2019, which was pledged against the Company’s 100% equity interest in Hainan Ruigang Logistics Co., Ltd. (海南瑞港物流有限公司) and 51% equity interest in Hainan Meilan International Airport Cargo Co., Ltd. (海南美蘭國際機場貨運有限責任公司), both being a subsidiary of the Company. The loan was repaid on 8 July 2020 and the Company needs further cooperation from the lender for the release of such pledge, which are still pending. As at 31 October 2022, the pledge of such equity interests had not been released.

At the close of business on 31 October 2022, save as disclosed in this circular, the Group had no contingent liabilities or guarantees.

Save as aforesaid, and apart from intra-group liabilities and normal trade payables in the normal course of business, as at the close of business on 31 October 2022, the Group did not have any debt securities, issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 October 2022.

### 3. WORKING CAPITAL

The Group's net loss for the six months ended 30 June 2022 was about RMB25 million. As at 30 June 2022, the Group recorded current liabilities of RMB6.09 billion, which exceeded its current assets by approximately RMB5.60 billion. The Group's current liabilities mainly comprised the syndicated loan of RMB1.94 billion, amounts due to related parties of RMB0.79 billion and construction fee payable of Meilan Airport Phase II Expansion Project (the "**Phase II Expansion Project**") of RMB1.20 billion.

The Company and the Parent Company jointly constructed the Phase II Expansion Project. The Parent Company (as the borrower) and the Company (as the co-borrower) have obtained a syndicated loan (the "**Syndicated Loan**") with a total facility of RMB7.8 billion and maturity of 20 years which is specifically for financing the construction of the Phase II Expansion Project (the "**Syndicated Loan Agreement**"). The Company and the Parent Company jointly undertake the repayment obligation for each loan drawn down under the Syndicated Loan Agreement and are jointly and severally liable for the repayment of the Loan (the "**Joint Repayment Commitment**"). As at 30 September 2022, the draw-down of the Syndicated Loan totalled approximately RMB5.18 billion, of which the Parent Company has drawn down approximately RMB3.24 billion and the Company has drawn down approximately RMB1.94 billion. In 2019, the Parent Company has triggered the event of default of the Syndicated Loan Agreement. Furthermore, as HNA Group and its certain related parties including the Parent Company were not able to settle their debts in due course and were insolvent as a whole, Hainan High People's Court (the "**Hainan High People's Court**") ruled on the acceptance of the substantial consolidated restructuring of HNA Group and its related companies inclusive of the Parent Company totalling 321 companies on 13 March 2021 (the "**HNA Group Substantial Consolidated Restructuring**") (the "**Parent Company's Defaults**"). Parent Company's Defaults resulted in the loan syndicate having the right to request, at any time, the Company as the co-borrower to undertake the Joint Repayment Commitment to repay the Syndicated Loan drawn down by the Parent Company amounting to RMB3.24 billion and the right to request the Company to early repay the balance of the Syndicated Loan drawn down by the Company amounting to RMB1.94 billion and suspend offering the remaining loan facility of RMB1.96 billion to the Company. On 24 April 2022, Hainan High People's Court ruled on the completion of the HNA Group Substantial Consolidated Restructuring and the Syndicated Loan Agreement to continue.

A short-term bank loan of the Company amounting to approximately RMB380 million was overdue since November 2020 (the "**Overdue Debt**"), which constituted an event of default of the bank loan. As of January 2022, the Company has fully repaid the principal and interest of the loan.

On 23 December 2020, the Company received an arbitration application requiring the Company to pay compensation for the damage with a maximum amount of HK\$6.962 billion in respect of the H shares subscription agreement entered into in prior year (the "**Arbitration Case**"). As at the date of this circular, taking into account the first hearing of the arbitration tribunal during the period from late October to early November 2022 and the opinion of the third party law firm, the management is of the view that the Company has no breach of the contract as claimed by the applicant and it is less likely that the damage claimed by the applicant will be supported by the arbitration tribunal. The Company has not made any provision for the Arbitration Case.

The abovementioned Arbitration Case, Parent Company's Defaults and Overdue Debt triggered events of default of the Syndicated Loan. As at the date of this circular, the Company and the Parent Company have not obtained the written waiver from the loan syndicate, notwithstanding the Company and the Parent Company have not received notice from the loan syndicate requiring the Company to repay the Syndicated Loan or undertake the Joint Repayment Commitment.

Since 2022, the domestic COVID-19 (the "COVID-19") has occurred frequently, which adversely affected passenger travel and flight traffic. In addition, as the Phase II Expansion Project has been put into operation since December 2021, the Group's operating expenses increased significantly. For the nine months ended 30 September 2022, Meilan Airport experienced a significant decline in passenger throughput as compared to the corresponding period in 2021. There was a substantial decrease in the operating revenue and net cash inflow from operating activities of the Group as compared to the corresponding period of 2021 and showed an operating loss. In addition, the Company plans to enter into the Lease Agreement with the Parent Company in respect of the leasing of the airport runways and other related assets of Meilan Airport Phase I and Phase II (the "Leased Assets") held by the Parent Company for a term of three years commencing from 1 January 2023. The aggregate annual rental fee for the Leased Assets payable by the Company to the Parent Company under the Lease Agreement shall be approximately RMB557 million, paid monthly (within 15 business days after receiving the invoice issued by the Parent Company or any later date agreed by the Parties at that time). Accordingly, the income related to the Leased Assets will be attributed to the Company, and the related operating costs will also be borne by the Company. If the future passenger travel volume continues to be affected by the COVID-19 and fails to recover significantly, it will increase the pressure on the Group's future working capital.

The above events or circumstances indicate the existence of a material uncertainty which may cast significant doubt over the sufficiency of the Group's working capital.

In view of the above, the directors of the Company have carefully considered the Group's future working capital, operating position and available sources of financing so as to assess whether the Group has sufficient working capital and sources of financing to ensure that it can settle its debts when they fall due in 12 months from the date of this circular. The Group is trying to take certain measures to improve its financial position and cash flow status, including but not limited to:

- 1) In respect of the Arbitration Case, as at the date of this circular, the Arbitration is still in progress and the Company is in the progress of preparing written submissions as required by the arbitration tribunal. The Company will continue to raise a strong defense through the Company's arbitration lawyers. The management is of the view that it is less likely that the matters claimed by the applicant will be supported by the arbitration tribunal and the Company will be required to pay compensation for the damage as requested by the applicant;
- 2) The Company, together with the Parent Company, has obtained the agreement of the loan syndicate to continue to perform in accordance with the repayment term and requirements as agreed in the Syndicated Loan Agreement. The Company and the Parent Company are negotiating with the loan syndicate about the waiver in respect of aforementioned events of default. Management believes that the loan syndicate will agree to waive the above defaults and will not require the Company to early repay the principal and interest of the Syndicate Loan drawn down by the Company of RMB1.94 billion or settle the principal and interest of the Syndicate Loan drawn down by the Parent Company of RMB3.24 billion;

- 3) In December 2021, Hainan Provincial Development and Reform Committee had approved a facility of RMB1.4 billion sourced from the 2022 local government specific bond for the Phase II Expansion Project, and by 31 October 2022, the unused facility was about RMB425 million. The Parent Company and the Company will continuously follow up with the Government of Hainan Province about the continuous sources of funding for the Phase II Expansion Project, and have applied to the Department of Finance of Hainan Province for 2023 local government special bonds of RMB700 million for the settlement of the Phase II Expansion Project in November 2022. Management is of the view that the Company can obtain continuous fundings to finance the construction of the Phase II Expansion Project.
- 4) The Group continued to timely take a number of measures to match transportation capacity with market demand, including but not limited to uniform allocation of the transport capacity of Meilan Airport Phase I and Phase II to improve the overall operation efficiency of Meilan Airport, reasonably controlling the airport operation cost, joining hands with airlines to develop the national and international air transportation market and accelerating the leasing and renovation of duty-free shops in Terminal 2. Additionally, according to the provisions of the Lease Agreement, if the passenger throughput of Meilan Airport decreases due to force majeure factors such as COVID-19 during the lease term, the Company could negotiate with the Parent Company to reduce or exempt the rental fees appropriately; and
- 5) The Company also continued to communicate with major banks and financial institutions to actively obtain new bank facilities. In November 2022, the Company has obtained an additional intentional financing facility of RMB200 million by a domestic commercial bank to supplement the Company's working capital.

The directors of the Company have reviewed the Group's cash flow forecast prepared by the management of the Company and the Directors are of the opinion that, after careful consideration of the resources available to the Group, including the internally generated funds and the available banking and other financing resources, and taking into account the above plans and measures, and in the absence of unforeseeable circumstances, the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

Notwithstanding, significant uncertainty exists as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the following:

- 1) Whether the Company will not be required to pay the compensation as claimed by the applicant of the Arbitration Case;
- 2) Whether the Company can obtain the loan syndicate's waiver in respect of the aforementioned events of default and then the Company is not required to early repay the balance of the Syndicate Loan drawn down by the Company of RMB1.94 billion or settle the balance of the Syndicate Loan drawn down by the Parent Company of RMB3.24 billion;

- 3) Whether the Company can obtain and continue to utilise the undrawn facility of local government to settle the construction payment of the Phase II Expansion Project;
- 4) Whether the Group's airport operation businesses will achieve the expected stable net operating cash inflow and whether the Company can obtain the Parent Company's agreement to reduce or exempt the rental fee when Meilan Airport's passenger throughput is seriously affected by the COVID-19; and
- 5) Whether the Group could obtain the new loans by signing the loan agreements with the bank for the new intentional financing facility.

If the above conditions are not met and the Group is unable to take other measures to defer payment of its debts as they become due over the next 12 months, the Group will not have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

#### **4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP**

For the year ended 31 December 2021, the Group recorded an audited revenue of approximately RMB1,605.71 million, and a net profit attributable to Shareholders of approximately RMB765.13 million. Earning per share was RMB1.62. For the first half year ended 30 June 2022, the Group recorded an unaudited revenue of approximately RMB622.63 million, and a net loss attributable to Shareholders of approximately RMB11.79 million. Loss per share was RMB0.02.

In the first half of 2022, the economy experienced a heightened downward pressure due to the impact of unexpected factors such as the Pandemic rebound and the war between Russia and Ukraine. In line with the clear requirement of “to stabilize the economy, to prevent the Pandemic and to secure development”, the domestic economy efficiently bolstered Pandemic prevention capabilities and facilitated economic and social development, accelerated the progress of implementing various policies to stabilize the economy, and achieved positive results. Hainan Province has launched a series of policies to stabilize the economy and assist enterprises to alleviate their difficulties, while the overall positive trend remains unchanged with remarkable economic development highlights, but there are still challenges such as the economy not recovering as expected. In order to implement the requirements of the provincial Party Committee and the government of Hainan Province on “efficiently bolstered Pandemic prevention capabilities and facilitated economic and social development”, Hainan Province Department of Tourism, Culture, Radio, Television and Sports further strengthened its analysis and assessment of the tourism market on and off of the Island, and promptly launched the “Unconventional Measures to Promote the Recovery and Revitalisation of the Tourism Industry”, with the focus on launching thematic activities in the tourism market inside and outside the province from June to August 2022 to boost the tourism market by implementing precise relief, precise marketing, and precise Pandemic prevention.

Currently, the risk of stagflation in the world economy is on the rise, the policies of major economies are tending to tighten, external instability and uncertainties have increased significantly, the impact of the domestic COVID-19 pandemic has not been completely eliminated, demand contraction is intertwined with supply shocks, structural contradictions and cyclical problems are superimposed, the operation of market players is still relatively difficult, and the foundation for sustained economic recovery is unstable.

In the second half of 2022, the mainland will seize the critical period of economic recovery by ensuring the effective implementation of a series of policies to stabilize the economy, and continue to proceed with the “Six Stabilizations” (i.e. “stabilization of employment”, “stabilization of finance”, “stabilization of foreign trade”, “stabilization of foreign investment”, “stabilization of investment” and “stabilization of expectations”) and accomplish the “Six Guarantees” (i.e. “guarantee of employment rate”, “guarantee of basic people’s livelihood”, “guarantee of market players”, “guarantee of food and energy security”, “guarantee of the stability of the industrial chain and supply chain” and “guarantee of grassroots operations”), in order to consolidate the foundation for a stable economic recovery and ensure the economy running within a reasonable range. On the basis of the prevention and control of the Pandemic, the Hainan government will further facilitate the consumption recovery by continuously launching the “attracting customers to the Island” campaign, and accelerating the construction of the Hainan Free Trade Port and the establishment of the first wave of lockdown operation projects. Meanwhile, the Hainan government will increase efforts to help enterprises to alleviate their difficulties and reduce their operating costs, with the launch of a three-year campaign to improve production safety.

2022 is the year for the phase of consolidation and enhancement, and the final year of the three-year action for special rectification of national production safety. In conjunction with the work plan of the CAAC for the civil aviation industry for the second half of 2022, the Group will strengthen the maintenance of various facilities and equipment to maintain the bottom line of aviation safety and prevent the occurrence of serious accidents. The Group will ensure the absolute safety of aviation operations and people’s lives, to uphold the concept of safe development, implement various safety measures, enhance the awareness of the red lines, strengthen the bottom-line mindset, continue to strengthen the management of the safety process, and strive for a better investigation and management of hidden dangers.

The Group will also strictly follow the deployment of governments at all levels for the second half of the year, and make every effort to improve operating results and make up for the decline in the first half of the year. The Group will relentlessly work on Pandemic prevention and control, guard the border against the importation of cases, effectively implement regularized anti-pandemic measures to establish a robust pandemic prevention command system and pandemic prevention protocols, improve the practical pandemic prevention and control abilities, and optimize the business mechanism of safeguarding international freight flights. The Group will cooperate with provincial and municipal governments, and coordinate airline, and other collaborators to promote the Hainan’s tourism market, while taking up social responsibility and assisting merchants in the area of Meilan Airport to relieve their pressure, strengthening the capacity of staff to improve corporate governance and service standards, and achieve steady, efficient and integrated development.

The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from **Vigers Appraisal and Consulting Limited**, an independent professional valuer, in connection with the valuation of the leased property as at 30th September 2022.

**Vigers Appraisal and Consulting Limited**

General Practice Sector

27/F Standard Chartered Tower,  
Millennium City 1, No. 388 Kwun Tong Road,  
Kowloon, Hong Kong



T: +852 6651-5330 E: GP@Vigers.com W: www.Vigers.com

14 December 2022

The Board of Directors

**Hainan Meilan International Airport Company Limited**

Office of the Board, Office Building of Meilan International Airport,,  
Meilan District, Haikou City, Hainan Province,  
The People's Republic of China

Dear Sirs,

In accordance with the instructions of **Hainan Meilan International Airport Company Limited** (referred to as the “**Company**”) for us to assess the market rent of the property held by 海口美蘭國際機場有限公司 (Haikou Meilan International Airport Co., Ltd.) (“**Haikou Meilan**”) in the People's Republic of China (“**PRC**”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market rent of such property as at 30 September 2022 (“**Date of Valuation**”).

**Basis of Value**

Our valuation is our opinion of market rent of the property which is defined as intended to mean “the estimated amount for which a property would be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”. Our valuations have been prepared in accordance with “HKIS Valuation Standards 2020” published by “The Hong Kong Institute of Surveyors” (“**HKIS**”), “RICS Valuation – Global Standards” published by the “Royal Institution of Chartered Surveyors” (“**RICS**”), relevant provisions in the Companies Ordinance and the “Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited” (Main Board) published by “The Stock Exchange of Hong Kong Limited”. The market rent of a property is also estimated without regard to costs of leasing, and without offset for any associated taxes.

**Approach to Value**

In the courses of our valuation, we have adopted the market approach of the land portion of the property; a combination of the discounted capitalisation rate and depreciated replacement cost approach in assessing the building portion, structure and equipment portion of the property. Based on the valuation results of the property, combined with the determination of the expected remaining land use right term of the property during the valuation of the property value, the lease term agreed by the lessor and the lessee, the payment terms of rent, the industry average income of the property and other factors are comprehensively determined.

The Leased Value of the Lands: Adopted the market approach to assess the market rent of the leased value of the land. Select a certain numbers of land lease transactions with similar character and carefully weighed against all respective advantages and disadvantages of the property(ies) in order to arrive at the fair comparison of value(s).

The Leased Value of the Buildings: Adopted the depreciated replacement cost of the market value of the buildings; and then found the rental yield of the lease assets which take reference to the market, and then using the formula of the discounted capitalisation rate to arrive the lease value of the building.

The Leased Value of Structures and Equipment: Adopted the depreciated replacement cost of the market value of the Structures and Equipment; considered a rental yield from the relevant borrowing rate of the Phase II expansion project of Meilan Airport; based on the structure and use of the structure and equipment to calculate the occupied period of the structure and equipment and then using the formula of the discounted capitalisation rate to arrive the leased value of the Structures and Equipment.

**Title Investigation**

The property is located in the PRC, and we have been given extracted copy(ies) of relevant title document(s) for the property(ies) but we have not checked the title(s) to the property nor scrutinized the original title document(s). We have relied on the advice given by the Company regarding title(s) to and ownership of the property. For the purpose of our valuation(s), we have taken the opinion prepared by the Company into account, in particular title(s), ownership, encumbrances and so on of the property. While we have exercised our professional judgement in arriving at our valuation(s), you are urged to consider our valuation assumptions with caution.

**Valuation Consideration**

Having examined all relevant documents, we have relied to a considerable extent on the information given by the Company, particularly planning approval(s) or statutory notice(s), easement(s), land-use rights' term(s), site and floor areas, development costs' expended and to be expended, occupancy status as well as in the identification of the property. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company, and we have been advised that no material fact has been omitted from the information provided. We have not carried out detailed on-site measurement to verify the correctness of the site and floor areas of the property but we have assumed that the site and floor areas shown on the document(s) handed to us are accurate and reliable. All dimension(s), measurement(s) and area(s) included in our valuation report are based on the information contained in the document(s) provided to us and are therefore approximations. We had carried out on-site inspection to the property and surrounding environment. But we must stress that we have not carried out any structural survey nor have we inspected the woodwork or other part(s) of the structure(s) of the property which were covered, unexposed or inaccessible to us. We are therefore unable to report whether such part(s) of the property is free from any structural or non-structural defect.

**Valuation Assumption**

In course of our valuation, unless otherwise stated or specified, we assumed that the property as a whole can be leased at the current market rent under the current conditions. Due to the uncertainty of the future conditions of the assets involved in the leasing, we assumed that:

- (1) The leased property can be used during the rental period;
- (2) The normal maintenance of the leased property during the rental period is borne by the lessee;
- (3) Rent is paid annually;
- (4) A fixed term of 3 years;
- (5) The market price of the leased related property does not change significantly during the rental period;
- (6) The rental income obtained by the lessor is the net rental income, such as the lessee bears the insurance premiums, normal maintenance costs and relevant taxes, etc; and
- (7) The determination of the rental price is stated on the relevant agreement between the lessor and the lessee.

We had carried out on-site inspection to the property and assumed that the property is in good repair and maintenance during the rental period and can be used properly.

No allowance has been made in our valuation for any charges, mortgage(s) or amount(s) owing on the property, nor for any expenses or taxation which may be incurred in effecting a letting. Unless otherwise stated, we have assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which may serve to affect the rental value of the property.

**Remarks**

As confirmed by the Company,

- (1) the use(s) of the property do(es) not constitute any breach of environmental regulation(s); and
- (2) there is no plan to change the use(s) of the property.

We hereby confirm that:

- (1) we have no present or prospective interest in the property; and are not a related corporation or nor having a relationship with the Company or other party/parties who the Company is contracting with;
- (2) we are authorised to practise as external valuer and have the necessary expertise and experience in valuing similar types of properties;
- (3) our valuation has been prepared on a fair and unbiased basis;
- (4) the valuer's compensation is not contingent upon reporting of a predetermined value or direction in value(s) that favours the cause of the vendor(s) or purchaser(s), the amount(s) of the value estimate, the attainment of a stipulated result, or occurrence of subsequent event(s); and
- (5) we are independent of the Company.

Unless otherwise stated, all monetary amounts stated herein are denoted in Renminbi ("RMB"), the lawful currency of the PRC.

We enclose herewith the core content of our valuation report.

Yours faithfully,

For and on behalf of

**VIGERS APPRAISAL AND CONSULTING LIMITED**

**Sr. David W. I. CHEUNG**

*MRICS MHKIS RPS(GP) CREA*

RICS Registered Valuer

Executive Director

Note: Mr. David W. I. Cheung is a Registered Professional Surveyor in General Practice Division with over 39 years' valuation experience on property in various regions including the PRC, Japan, the United Kingdom, Canada and the United States of America, who has been vetted on the list of property valuers for undertaking valuations for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers published by The Hong Kong Institute of Surveyors, and is suitably qualified for undertaking valuations relating to listing exercises. Mr. Cheung has over 15-year of experience with Vigers Appraisal and Consulting Limited.

## PROPERTY VALUATION REPORT

## Leased Property Held by Haikou Meilan for Owner-occupation Purpose

Leased Property	Description and Tenure	Occupancy Status	Market Rent per annum in Existing State as at the Date of Valuation
<p>The lands, buildings, structures and equipment located within Haikou Meilan International Airport, Lingshan Town, Meilan District, Haikou City, Hainan Province, the PRC</p>	<p>The property comprises 30 parcels of land with a total site area of 6,242,152.76 sq.m.; 49 blocks completed after 1994 such as water supply stations with a total gross floor area of 213,972.81 sq.m.; and various structures including runway, taxiway, carport, warehouse and fence erected thereon.</p> <p>The total site area of the property is 6,242,152.76 sq.m. of which 4,009,756.70 sq.m. had been obtained "Certificate of State-owned Land uses" (including a parcel of land with site area of 22,939.24 sq.m. is subject to allocated land-use rights); whilst 2,232,396.06 sq.m. had not been obtained "Certificate of State-owned Land uses".</p> <p>The total gross floor area of the property is 231,972.81 sq.m. of which 41,863.51 sq.m. had been obtained "Real Estate Ownership Certificates"; 159,969.19 sq.m. had not been obtained "Real Estate Ownership Certificates", but had been obtained "Construction Work Planning Permit"; whilst 12,140.11 sq.m. had not been obtained any title documents.</p>	<p>The property is occupied by Haikou Meilan for civil airport and ancillary facilities uses.</p>	<p>RMB557,050,000 (RENMINBI FIVE HUNDRED FIFTY SEVEN MILLION FIFTY THOUSAND ONLY)</p>

Leased Property	Description and Tenure	Occupancy Status	Market Rent per annum in Existing State as at the Date of Valuation
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The property is held under granted land-use rights to be expired on 25th May 2065, 26th March 2069, 31st December 2069, 25th April 2069 and 5th October 2069 for civil airport use.

The property comprises Haikou Meilan International Airport Phase I and Phase II 1#, 2# and 3#, Airfield Runway, Terminal, Ground Handling and Terminal Services related equipment.

## Notes

1. According to the title documents and property list provided by the Company, the property having the total site area of 6,242,152.76 sq.m. of which 4,009,756.70 sq.m. had been obtained "Certificate of State-owned Land Uses" for civil airport or airport land use is vested in the name of Haikou Meilan with the detail below:

No.	Certificate No.	Location	Land Use	Site area (sq.m.)	Land-use rights expired date
1	Haikou Shi Guoyong (2005) Di 001243 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	21,160.66	25th April 2069
2	Haikou Shi Guoyong (2005) Di 001244 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	42,000.09	25th April 2069
3	Haikou Shi Guoyong (2005) Di 001245 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	25,389.05	25th April 2069
4	Haikou Shi Guoyong (2005) Di 001246 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	3,974.00	25th April 2069
5	Haikou Shi Guoyong (2005) Di 001247 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	18,946.60	25th April 2069
6	Haikou Shi Guoyong (2005) Di 001248 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	49,098.93	25th April 2069
7	Haikou Shi Guoyong (2005) Di 001250 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	189,557.21	25th April 2069
8	Haikou Shi Guoyong (2005) Di 001251 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	24,171.31	25th April 2069
9	Haikou Shi Guoyong (2005) Di 001252 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	41,359.94	25th April 2069
10	Haikou Shi Guoyong (2005) Di 001253 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	108,737.53	25th April 2069

No.	Certificate No.	Location	Land Use	Site area (sq.m.)	Land-use rights expired date
11	Haikou Shi Guoyong (2005) Di 001254 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	15,663.75	25th April 2069
12	Haikou Shi Guoyong (2005) Di 001255 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	10,732.18	25th April 2069
13	Haikou Shi Guoyong (2005) Di 001257 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	182,433.26	25th April 2069
14	Haikou Shi Guoyong (2005) Di 001259 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	34,948.79	25th April 2069
15	Haikou Shi Guoyong (2005) Di 001260 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	8,958.64	25th April 2069
16	Haikou Shi Guoyong (2005) Di 001261 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	261,070.31	25th April 2069
17	Haikou Shi Guoyong (2009) Di 003860 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	22,939.24	Allocated land-use
18	Haikou Shi Guoyong (2009) Di 009766 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	20,692.49	26th March 2069
19	Haikou Shi Guoyong (2009) Di 009767 hao	Lingshan Town, Meilan District, Haikou City	Airport Land Use	141,208.95	26th March 2069
20	Haikou Shi Guoyong (2013) Di 010210 hao	Lingshan Town, Meilan District, Haikou City	Airport Land Use	54,452.17	25th April 2069
21	Qiong (2022) Haikou Shi Bu dong Chan Quan Di 0266316 hao	Lingshan Town, Meilan District, Haikou City	Airport Land Use	262,410.75	25th April 2069
22	Qiong (2017) Haikou Shi Bu dong Chan Quan Di 0043690 hao	Lingshan Town, Meilan District, Haikou City	Airport Land Use	161,315.80	25th April 2069
23	Qiong (2018) Haikou Shi Bu dong Chan Quan Di 0088305 hao	Lingshan Town, Meilan District, Haikou City			
24	Qiong (2018) Haikou Shi Bu dong Chan Quan Di 0088307 hao	Lingshan Town, Meilan District, Haikou City	Airport Land Use	5,534.75	25th April 2069
25	Qiong (2018) Haikou Shi Bu dong Chan Quan Di 0093820 hao	Lingshan Town, Meilan District, Haikou City	Airport Land Use	164,027.66	26th March 2069
26	Qiong (2018) Haikou Shi Bu dong Chan Quan Di 0088303 hao	Lingshan Town, Meilan District, Haikou City	Civil Airport	186,385.30	25th April 2069
27	Qiong (2019) Haikou Shi Bu dong Chan Quan Di 0170304 hao	Lingshan Town, Meilan District, Haikou City	Airport Land Use	1,891,452.00	25th May 2065
28	Qiong (2019) Haikou Shi Bu dong Chan Quan Di 0170302 hao	Lingshan Town, Meilan District, Haikou City			
29	Qiong (2020) Haikou Shi Bu dong Chan Quan Di 0018828 hao	Lingshan Town, Meilan District, Haikou City	Airport Land Use	8,820.69	26th March 2069
30	Qiong (2021) Haikou Shi Bu dong Chan Quan Di 0031664 hao	Lingshan Town, Meilan District, Haikou City	Airport Land Use	16,652.10	5th October 2069
31	Qiong (2021) Haikou Shi Bu dong Chan Quan Di 0031665 hao	Lingshan Town, Meilan District, Haikou City	Airport Land Use	35,662.55	5th October 2069
	<b>Total</b>			<b>4,009,756.70</b>	

2. Pursuant to an “Approval of the Construction Land Use of Phase II Expansion Project from Ministry of Land and Resources” (Document No. Guo To Zi Han (2017) 129 dated 21st March 2017), the local government permitted the site area of 576.6524 hectares for the construction land use of Phase II expansion project through allocation.
3. Pursuant to a “Certificate of the Permission of the Construction Land Use Planning” (Document No. Di Zi Di 460100201700054 hao dated 26th September 2017), the title owner is Haikou Meilan; the project name is Haikou Meilan International Airport Phase II expansion construction project; The nature of land use is airport land use; the site area is 5,721,056.68 sq.m. of which 2,232.396.06 sq.m. is included in our valuation assessment.
4. According to the title documents and property list provided by the Company, the property having the total gross floor area of 213,972.81 sq.m. of which 41,863.51 sq.m. had been obtained “Real Estate Ownership Certificate” for civil airport and facilities use is vested in the name of Haikou Meilan with the detail below:

No.	Location	Land Use	Gross Floor Area (sq.m.)	Certificate No.
1	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (Armed Police Function Room)	Office	2,115.66	Qiong (2018) Haikou Shi Bu dong Chan Quan Di 0088307 hao
2	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (10KV Switch Station)	Office	1,114.25	Qiong (2018) Haikou Shi Bu dong Chan Quan Di 0093820 hao
3	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (No. 1 Sewage Treatment Station)	Office	43.82	Qiong (2018) Haikou Shi Bu dong Chan Quan Di 0088303 hao
4	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (East Lighting Substation)	Office	439.61	Qiong (2019) Haikou Shi Bu dong Chan Quan Di 0170304 hao
5	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (West Lighting Substation)	Office	795.96	Qiong (2019) Haikou Shi Bu dong Chan Quan Di 0170302 hao
6	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (No. 2 Sewage Treatment Station)	Office	42.38	Haikou Shi Fang Quan Zheng Hai Fang Zi Di HK247953 hao
7	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (Function Zone No.2 Substation)	Office	127.25	Haikou Shi Fang Quan Zheng Hai Fang Zi Di HK247960 hao
8	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (Water Station)	Office	235.44	Haikou Shi Fang Quan Zheng Hai Fang Zi Di HK247962 hao
9	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (Public Security Checkpoint Building)	Office	2,980.54	Haikou Shi Fang Quan Zheng Hai Fang Zi Di HK247966 hao
10	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (Nos. 1-8 & 10 Pump Room)	Airfield Equipment	233.52	Haikou Shi Fang Quan Zheng Hai Fang Zi Di HK247985 hao
11	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (Sewage Treatment Substation)	Office	136.26	Haikou Shi Fang Quan Zheng Hai Fang Zi Di HK247975 hao
12	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (Environmental Station)	Office	755.79	Haikou Shi Fang Quan Zheng Hai Fang Zi Di HK247977 hao
13	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (Special Garage)	Office	3,476.81	Haikou Shi Fang Quan Zheng Hai Fang Zi Di HK247971 hao
14	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (Equipment Centre)	Office	1,329.13	Haikou Shi Fang Quan Zheng Hai Fang Zi Di HK247978 hao

No.	Location	Land Use	Gross Floor Area (sq.m.)	Certificate No.
15	Meilan Airport, No.259 Hai Yu Main Road, Lingshan Town, Haikou City (Single Dormitory)	Office	3,605.26	Haikou Shi Fang Quan Zheng Hai Fang Zi Di HK247968 hao
16	2# Single Dormitory, Haikou Meilan Airport Terminal Expansion Project, Lingshan Town, Meilan District, Haikou City	Civil Airport	4,951.58	Qiong (2017) Haikou Shi Bu dong Chan Quan Di 0043688 hao
17	No. 3 Building at No. 7 Meilan Airport 1 Street, Lingshan Town, Meilan District, Haikou City (No. 3 Dormitory)	Residential	14,763.16	Qiong (2018) Haikou Shi Bu dong Chan Quan Di 0064772 hao
18	No. 22 Building, HNA Haikou Base, Meilan Airport, Haikou City	Commercial/ Residential	4,717.09	Haikou Shi Fang Quan Zheng Hai Fang Zi Di HK243755 hao
	<b>Total</b>		<b>41,863.51</b>	

5. According to the title documents and property list provided by the Company, the property having the total gross floor area of 213,972.81 sq.m. of which 159,969.19 sq.m. had not been obtained “Real Estate Ownership Certificates”, but had been obtained “Construction Work Planning Permit” is vested in the name of Haikou Meilan for civil airport and facilities use with the detail below:

No.	Project	Gross Floor Area (sq.m.)	Certificate No.
1	Haikou Meilan International Airport Phase II Expansion Project – Field Service Room	1,589.16	Jian Zi Di 460100201800187 hao
2	Haikou Meilan International Airport Phase II Expansion Project – Sewage Treatment Station (Dehydration Room)	663.07	Jian Zi Di 460100201700072 hao
3	Haikou Meilan International Airport Phase II Expansion Project – Sewage Treatment Station (Dosing and Disinfection Room)	312.06	Jian Zi Di 460100201700072 hao
4	Haikou Meilan International Airport Phase II Expansion Project – Sewage Treatment Station (Blower Room)	165.50	Jian Zi Di 460100201700072 hao
5	Haikou Meilan International Airport Phase II Expansion Project – Sewage Treatment Station (Transformer Room)	173.44	Jian Zi Di 460100201700072 hao
6	Haikou Meilan International Airport Phase II Expansion Project – Sewage Treatment Station (Complex Building)	1,090.51	Jian Zi Di 460100201700072 hao
7	Haikou Meilan International Airport Phase II Expansion Project – Sewage Treatment Station (Gate and Fence)	25.84	Jian Zi Di 460100201700072 hao
8	Haikou Meilan International Airport Phase II Expansion Project – 10kv Switch Room (Zone B)	358.02	Jian Zi Di 460100201800087 hao
9	Haikou Meilan International Airport Phase II Expansion Project – 10kv Switch Room (Zone C)	358.02	Jian Zi Di 460100201800087 hao
10	Haikou Meilan International Airport Phase II Expansion Project – First Aid Storage, Ambulance Carport	484.08	Jian Zi Di 460100201800119 hao
11	Haikou Meilan International Airport Phase II Expansion Project – Terminal and Ancillary Project (Office Building)	2,617.90	Jian Zi Di 460100201600191 hao
12	Haikou Meilan International Airport Phase II Expansion Project – Terminal and Ancillary Project (Living Building)	1,442.77	Jian Zi Di 460100201600191 hao
13	Haikou Meilan International Airport Phase II Expansion Project – Water Station (Complex Building)	505.44	Jian Zi Di 460100201800088 hao
14	Haikou Meilan International Airport Phase II Expansion Project – Vehicle Equipment Repair Centre	1,564.56	Jian Zi Di 460100201700106 hao

No.	Project	Gross Floor Area (sq.m.)	Certificate No.
15	4#Dormitory Meilan Airport	41,329.74	Jian Zi Di 460100201700119 hao
16	Duty Free Warehouse	2,476.08	Jian Zi Di 460100201400120 hao
17	Meilan Airport Cargo Area	35,961.00	Jian Zi Di 460100201700011 hao
18	Meilan Airport Tourist Overnight Accommodation and its ancillary project (Phase I)	68,852.00	Jian Zi Di 465102202120114 hao
	<b>Total</b>	<b>159,969.19</b>	

Note:

- (1) “Construction Work Planning Permit” (Document No. Jian Zi Di 460100201600191 hao) including Haikou Meilan International Airport Phase II Expansion Project – Terminal and Ancillary Project (Office Building and Living Building), its gross floor area was provided by Haikou Meilan.
  - (2) “Construction Work Planning Permit” (Document No. Jian Zi Di 460100201700011 hao) including Meilan Airport Cargo Area, its gross floor area is pursuant to the Certificate of the construction work permission (Document No. 460100201711160101) which is 35,961 sq.m..
6. The Leased Value of the Lands - In our valuation, we have compared the asset with identical or comparable (that is similar) assets for which rent information is available. Comparable properties with similar character, use, location and so on are analysed and carefully weighed against all respective advantages and disadvantages of the Property in order to arrive at the fair comparison of value. The unit rates of comparable transactions are in the range of about RMB2.13 to RMB7.60 per sq.m. per month. Our valuation falls within these ranges.
- The Leased Value of the Buildings – we had taken reference of the yield of the comparable property with similar character, use. The yield of comparable property are in the range of about 4.7% to 5.5%. Our valuation falls within these ranges.
- The Leased Value of Structures and Equipment – we adopted 3.9% of the borrowing rate of the Phase II Expansion Project of Meilan Airport as the yield of structures and Equipment.
7. An internal inspection to the property and surrounding environment, but not in any form of a building survey, was carried out by Ms Kathy XU CREA on 16th June 2022.

### Valuation Table

Leased Property Items		Area (sq.m.)	Market Rent per annum (RMB)
Meilan Airport Phase I	Lands	4,009,756.70	153,974,659
	Buildings	196,128.22	41,098,187
	Structures		22,692,880
	Equipment		21,736,087
Meilan Airport Phase II	Lands	2,232,396.06	85,724,009
	Buildings	17,844.59	2,827,056
	Structures		209,935,703
	Equipment		19,063,494
<b>Total</b>			<b>557,052,075</b>
<b>Say</b>			<b>557,050,000</b>
Including Domestic Shares Subscription Assets			84,525,818

## 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

### **Directors' Interest and Short Position**

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which would be 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 or short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules; or would be required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO.

As at the Latest Practicable Date, none of the Directors and their respective associates (as defined in Listing Rules) had any interest in a business, which competes or may compete with the businesses of the Company or any other conflict of interests which any such person has or may have with the Company.

As at the Latest Practicable Date, none of the Directors had any material interest, directly or indirectly, in any asset which, since 31 December 2021, being the date to which the latest audited consolidated financial statements of the Group have been made up, had been acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

No contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a Director had a material interest and which is significant to the Group's business, whether directly or indirectly, subsisted at the date of this circular.

Mr. Wang Hong, the chairman of the Board and president of the Company and an executive Director, also serves as a chairman of the board of directors and the legal representative of the Parent Company; Mr. Ren Kai, an executive Director and chief financial officer of the Company, also serves as the chief financial officer of the Parent Company; Mr. Xing Zhoujin, an executive Director and a joint company secretary of the Company, also serves as the secretary to the board of directors of the Parent Company; Mr. Qiu Guoliang, a non-executive Director, also serves as a general manager of the Parent Company; Mr. Li Zhiguo, a non-executive Director, also serves as the deputy general manager of the Parent Company; and Mr. Wu Jian, a non-executive Director, also serves as the assistant to the president of the Parent Company.

Save as disclosed above, as at the Latest Practicable Date, no other Director or proposed Director was a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### Substantial Shareholders' Interests in Shares

As at the Latest Practicable Date, so far as is known to the Directors, supervisors or chief executive of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

#### Domestic Shares

Name of Shareholders	Capacity	Number of Domestic Shares	Percentage to Domestic Shares issued	Percentage to total issued share capital
Haikou Meilan International Airport Company Limited* (海口美蘭國際機場有限責任公司) (Note 1)	Beneficial owner	237,500,000(L)	96.43%	50.19%
Hainan Airport Industrial Investment Co., Ltd.* (海南機場實業投資有限公司) (Note 1)	Interest of controlled corporations	237,500,000(L)	96.43%	50.19%
Hainan Development Holdings Co., Ltd.* (海南省發展控股有限公司) (Note 1)	Interest of controlled corporations	237,500,000(L)	96.43%	50.19%

*H Shares*

Name of shareholders	Capacity	Number of H Shares	Percentage to H Shares issued	Percentage to total issued share capital
ARC Capital Holdings Limited (Note 2)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
ARC Capital Partners Limited (Note 2)	Investment manager	32,788,500(L)	14.45%	6.93%
Pacific Alliance Asia Opportunity Fund L.P. (Note 2)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Pacific Alliance Equity Partners Limited (Note 2)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Pacific Alliance Group Asset Management Limited (Note 2)	Investment manager	32,788,500(L)	14.45%	6.93%
PAG Holdings Limited (Note 2)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Pacific Alliance Group Limited (Note 2)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Pacific Alliance Investment Management Limited (Note 2)	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Walden Ventures Limited (Note 2)	Beneficial owner	32,788,500(L)	14.45%	6.93%
UBS Group AG (Note 3)	Interest of controlled corporations	24,076,406(L) 1,767,570(S)	10.61% 0.78%	5.09% 0.37%
JPMorgan Chase & Co. (Note 4)	Interest of controlled corporations	5,295,970(L) 3,616,007(S)	2.33% 1.59%	1.12% 0.76%
	Person having a security interest in shares	4,385,000(L)	1.93%	0.93%
	Approved lending agent	3,875,930(P)	1.70%	0.82%
Matthews International Capital Management, LLC (Note 5)	Investment manager	11,884,000(L)	5.23%	2.51%
Aspex Management (HK) Limited (Note 6)	Investment manager	10,830,000(L)	4.77%	2.29%
CITIC Securities Company Limited (Note 7)	Interest of controlled corporations	8,623,000(L) 8,623,000(S)	3.80% 3.80%	1.82% 1.82%

*Notes:*

1. Haikou Meilan International Airport Company Limited (海口美蘭國際機場有限責任公司) is established in the PRC and is the controlling shareholder of the Company. According to the disclosure of interest filed on the website of the Stock Exchange, Hainan Development Holdings Co., Ltd. (海南省發展控股有限公司) held 56.00% interests in Hainan Airport Industrial Investment Co., Ltd.\* (海南機場實業投資有限公司), which in turn held 46.81% interests in the Parent Company. Therefore, each of Hainan Development Holdings Co., Ltd. and Hainan Airport Industrial Investment Co., Ltd. was deemed to be interested in 237,500,000 domestic shares of the Company in long position held by the Parent Company.
2. According to the disclosure of interest filed on the website of the Stock Exchange, PAG Holdings Limited held 99.17% interests in Pacific Alliance Group Limited, which in turn held 90% interests in Pacific Alliance Investment Management Limited. Pacific Alliance Investment Management Limited held 52.53% interests in Pacific Alliance Equity Partners Limited. Pacific Alliance Equity Partners Limited held 100% interests in ARC Capital Partners Limited. ARC Capital Partners Limited was deemed to be interested in 32,788,500 H shares of the Company in long position in its capacity as investment manager. ARC Capital Holdings Limited was a corporation controlled by ARC Capital Partners Limited. ARC Capital Holdings Limited held 46.67% interests in Walden Ventures Limited, which in turn held 32,788,500 H shares of the Company in long position. Pacific Alliance Investment Management Limited held 100% interests in Pacific Alliance Group Asset Management Limited. Pacific Alliance Group Asset Management Limited was deemed to be interested in 32,788,500 H shares of the Company in long position in its capacity as investment manager. Pacific Alliance Asia Opportunity Fund L.P. was a corporation controlled by Pacific Alliance Group Asset Management Limited. Pacific Alliance Asia Opportunity Fund L.P. held 36.67% interests in Walden Ventures Limited, which in turn held 32,788,500 H shares of the Company in long position.
3. According to the disclosure of interest filed on the website of the Stock Exchange, UBS Group AG held 100% interests in each of UBS AG, UBS Asset Management (Singapore) Ltd, UBS Fund Management (Luxembourg) S.A., UBS Asset Management (Deutschland) GmbH, UBS Fund Management (Switzerland) AG, UBS Switzerland AG, UBS Asset Management (Americas) Inc., UBS Asset Management (Hong Kong) Ltd and UBS Asset Management Switzerland AG. Therefore, UBS Group AG was deemed to be interested in 2,299,708, 541,300, 19,907,100, 68,000, 40,000, 426,298, 23,000, 732,000 and 39,000 H shares of the Company in long position held by the aforesaid companies, respectively and 1,767,570 H Shares of the Company in short position held by UBS AG.
4. According to the disclosure of interest filed on the website of the Stock Exchange, 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 8,974,970 H shares of the Company in long position and 3,572,007 H shares of the Company in short position; and
      - (B) J.P. Morgan SE, which held 4,000 H shares of the Company in long position,
    - (b) JPMORGAN CHASE BANK, N.A. – LONDON BRANCH, which held 3,875,930 H shares of the Company in long position,

therefore, JPMorgan Chase Bank, National Association was deemed to be interested in 12,854,900 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 3,572,007 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 702,000 H shares of the Company in long position and 44,000 H shares of the Company in short position, respectively,

therefore, JPMorgan Chase Holdings LLC was deemed to be interested in 702,000 H shares of the Company in long position and 44,000 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 13,556,900 H shares of the Company in long position (including in the capacity of interest of corporation controlled, person having a security interest in shares and approved lending agent) and 3,616,007 H shares of the Company in short position held by JPMorgan Chase Bank, National Association and JPMorgan Chase Holdings LLC, respectively.

5. According to the disclosure of interest filed on the website of the Stock Exchange, Matthews International Capital Management, LLC was deemed to be interested in 11,884,000 H shares of the Company in long position in its capacity as investment manager.
6. According to the disclosure of interest filed on the website of the Stock Exchange, Aspex Management (HK) Limited was deemed to be interested in 10,830,000 H shares of the Company in long position in its capacity as investment manager.
7. According to the disclosure of interest filed on the website of the Stock Exchange, CITIC Securities Company Limited held 100% interests in CITIC Securities International Company Limited, which in turn held 100% interests in CLSA B.V.. CLSA B.V. held 100% interests in CSI Global Markets Holdings Limited, which in turn held 100% interests in CSI Capital Management Limited. Therefore, CITIC Securities Company Limited was deemed to be interested in 8,623,000 H shares of the Company in long position and 8,623,000 H Shares of the Company in short position held by CSI Capital Management Limited.
8. (L), (S) and (P) represent long position, short position and lending pool respectively.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, supervisors or chief executive of the Company, no other person (not being a Director, supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

### 3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

### 4. MATERIAL ADVERSE CHANGES

In the first half of 2022, due to the ongoing impacts of the COVID-19 pandemic, Meilan Airport experienced a decline in flight take-offs and landing, passenger throughput as well as cargo and mail throughput, resulting in a decrease in the operating revenue of the Company as compared with the same period last year. In addition, as the Phase II Expansion Project has been put into operation, the depreciation and amortisation of the relevant assets and operating expenses increased significantly for the six months ended 30 June 2022, together with a significant increase in financial expenses resulting from the cessation of capitalisation of the interest of the relevant borrowings. For details, please refer to the profit warning announcement of the Company dated 29 July 2022 and the interim report of the Company for the six months ended 30 June 2022 published on 20 September 2022. Since 31 December 2021 (the date to which the latest audited financial statements of the Group were made up) and as at the Latest Practicable Date, save as disclosed above, the Directors were not aware of any material adverse change in the financial position or trading position of the Group.

## 5. LITIGATION

Other than the Arbitration, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

## 6. EXPERT AND CONSENT

The following are the qualifications of the experts who have given opinion or advice, which are contained in this circular:

Name	Qualifications
Sorrento Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
Vigers Appraisal & Consulting Limited ("Vigers")	Professional surveyor and valuer

Each of Sorrento Capital and Vigers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter/report and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of Sorrento Capital and Vigers was not beneficially interested in the share capital of any member of the Group nor did it have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

## 7. MISCELLANEOUS

- (a) The joint company secretaries of the Company are Mr. Xing Zhoujin and Mr. Chen Yingjie. Mr. Xing Zhoujin, aged 57, an economist, has engaged in corporate governance of listed companies for years and participated in relevant trainings provided by securities regulatory authorities in the PRC and abroad. Mr. Chen Yingjie, aged 35, an economist, has qualification certificates of secretary for directorate, a securities practitioner qualification certificate, and a fund practitioner qualification certificate issued by the relevant authorities in the PRC. He has been engaging in the listing affairs of the Company for years.
- (b) The registered address of the Company is at Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC.

- (c) The Hong Kong Branch Share Registrar and Transfer Office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (d) The English text of this circular and form of proxy shall prevail over the Chinese text.

## **8. MATERIAL CONTRACTS**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within two years immediately preceding the date of this circular and up to the Latest Practicable Date:

- (a) the 2020 Parent Company Domestic Shares Subscription Agreement; and
- (b) the 2021 Supplemental Parent Company Domestic Shares Subscription Agreement.

## **9. DOCUMENTS ON DISPLAY**

Copies of the following documents will be posted on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.mlairport.com>) for at least 14 days from the date of this circular:

- (a) the Lease Agreement;
- (b) the letter from the Board, the text of which is set out on pages 7 to 22 of this circular;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 23 of this circular;
- (d) the letter from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 24 to 41 of this circular;
- (e) the valuation report issued by the Valuer, the text of which is set out in Appendix II to this circular; and
- (f) the written consents referred to in the paragraph headed "Expert and Consent" in this Appendix.

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this notice.*

### 海南美蘭國際空港股份有限公司 Hainan Meilan International Airport Company Limited\*

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 357)**

## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (the “EGM”) of Hainan Meilan International Airport Company Limited (the “Company”) will be held at 10:00 a.m. on Wednesday, 4 January 2023 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the People's Republic of China (the “PRC”) for the purpose of considering and, if thought fit, passing the following resolutions. Unless the context otherwise requires, defined terms used in this notice shall have the same meaning set out in the circular of the Company dated 14 December 2022.

### BY WAY OF ORDINARY RESOLUTIONS

1. To consider and approve the Lease Agreement and the transactions contemplated thereunder; and
2. To consider and approve proposals (if any) put forward by any Shareholder(s) holding three (3) per cent or more of the Shares carrying the right to vote at such meeting.

By the order of the Board

**Hainan Meilan International Airport Company Limited\***

**Wang Hong**

*Chairman and President*

Hainan Province, the PRC

14 December 2022

*As at the date of this notice, the Board comprises (i) four executive Directors, namely Mr. Wang Hong, Mr. Wang Zhen, Mr. Ren Kai and Mr. Xing Zhoujin; (ii) three non-executive Directors, namely Mr. Qiu Guoliang, Mr. Li Zhiguo and Mr. Wu Jian; and (iii) four independent non-executive Directors, namely Mr. Fung Ching, Simon, Mr. Deng Tianlin, Mr. George F Meng and Mr. Ye Zheng.*

\* For identification purposes only

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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*Notes:*

- (A) The Company's register of members will be closed from Friday, 16 December 2022 to Wednesday, 4 January 2023 (both days inclusive), during which no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM, Shareholders must deliver their transfer documents, accompanied by the relevant share certificates and form of transfer, to the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Thursday, 15 December 2022.
- (B) Holders of the overseas listed foreign shares (in the form of H shares) of the Company whose names appear on the Company's register of members maintained by Computershare Hong Kong Investor Services Limited at the close of business on Thursday, 15 December 2022 are entitled to attend and vote at the EGM after complying with the necessary registration procedures.
- (C) Each holder of H Shares who has the right to attend and vote at the EGM (or any adjournment thereof) is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the EGM. A proxy of a Shareholder who has appointed more than one proxy may only vote on a poll.
- (D) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified. The instrument appointing a proxy of any holder of H Shares (being a body corporate) must be affixed with the corporate seal of such holder of H Shares or duly signed by the chairman of its board of directors or by its authorised attorney. To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.
- (E) Each holder of Domestic Shares is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the EGM. Notes (C) and (D) also apply to holders of Domestic Shares, except that the proxy form or other documents of authority must be delivered to the office of the secretary to the Board, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.
- Details of the office of the secretary to the Board are as follows:
- Office Building of Meilan Airport  
Haikou City  
Hainan Province  
PRC  
Tel: (86-898) 6996 6999  
Fax: (86-898) 6996 8999
- (F) If a proxy attends the EGM on behalf of a Shareholder, he should produce his ID card and the instrument signed by the proxy or his authorised representative, which specifies the date of its issuance. If the legal representative of the holder of legal person Share(s) attends the EGM, such legal representative should produce his ID card and valid documents evidencing his capacity as such legal representative. If a holder of legal person Share(s) appoints a representative of a company other than its legal representative to attend the EGM, such representative should produce his ID card and an authorisation instrument affixed with the seal of the holder of the legal person Share(s) and duly signed by its legal representative.
- (G) The EGM is expected to last not more than one day. Shareholders or proxies attending the EGM are responsible for their own transportation and accommodation expenses.
- (H) Pursuant to Rule 13.39 (4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by way of poll. Accordingly, the chairman of the EGM will demand a poll in relation to all the proposed resolutions at the EGM.