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**海南美蘭國際機場股份有限公司**  
**Hainan Meilan International Airport Company Limited \***

*(A joint stock company established in the People's Republic of China with limited liability)*  
**(Stock Code: 357)**

**ANNOUNCEMENT ON NON-EXEMPTED CONTINUING  
CONNECTED TRANSACTIONS**

**INDEPENDENT FINANCIAL ADVISER**

 **Guangdong Securities Limited**

The Board announces that the Company has entered into certain continuing connected transactions with Hainan Information System, Hainan Airlines and China Southern Airlines respectively.

On 17 May 2006, the Company entered into the Information System Management Agreement with Hainan Information System in relation to the management of the computer information system of the Company for a term of three years commencing on 1 January 2006. The Company had received computer information system services from Hainan Information System under the Old Information System Management Agreement, which expired on 31 December 2005.

The applicable percentage ratios computed pursuant to R14.04(9) of Listing Rules for the Information System Management Agreement are less than 2.5% and the transaction contemplated thereunder is therefore a continuing connected transaction exempt from the independent shareholders' approval requirement pursuant to R14A.34 of the Listing Rules.

\* *for identification purpose only*

On 17 May 2006, the Company entered into the Hainan Airlines Terminal Lease with Hainan Airlines whereby the Company agreed to lease an area of approximately 2,394 sq. m. at Meilan Airport to Hainan Airlines for a term of three years commencing 1 January 2006. The Hainan Airlines Terminal Lease was entered into by the parties to amend and restate the terms of the Old Hainan Airlines Terminal Lease, which were approved by the independent shareholders of the Company on 4 November 2005.

On 17 May 2006, the Company entered into the Southern Airlines Terminal Lease with China Southern Airlines whereby the Company agreed to lease an area of approximately 1,355.6 sq. m. at the Meilan Airport to China Southern Airlines for a term of three years commencing 1 April 2006. The Company had been leasing certain premises at the Meilan Airport to China Southern Airlines under the Old Southern Airlines Terminal Lease, which expired at the end of 2004. For the period from 1 January 2005 to 31 March 2006, the Company had tentatively been leasing such premises to China Southern Airlines on terms substantially similar to those of the expired lease, subject to the Company reaching final agreement with China Southern Airlines on the terms of the new lease and the ratification of such terms by the independent shareholders of the Company.

In relation to the Hainan Airlines Terminal Lease, the applicable percentage ratios computed pursuant to R14.04(9) of Listing Rules are more than 2.5% but less than HK\$10,000,000. However, such transaction, when aggregated with the relevant connected transactions with Hainan Airlines in the preceding twelve months, constitutes a Non-Exempt Continuing Connected Transaction and is therefore subject to the reporting, announcement and independent shareholders approval under Chapter 14A of the Listing Rules.

In relation to the Southern Airlines Terminal Lease, the applicable percentage ratios computed pursuant to R14.04(9) of Listing Rules for such transaction are less than 2.5%. However, such transaction, when aggregated with the airport ground services provided to China Southern Airlines and its associates Xiamen Airlines in the preceding twelve months, constitutes a Non-Exempt Continuing Connected Transaction and is subject to the reporting, announcement and independent shareholders approval under Chapter 14A of the Listing Rules.

A composite circular containing details of the Non-Exempt Continuing Connected Transactions, a letter from the independent board committee and a letter from the Independent Financial Adviser in relation to the Non-Exempt Continuing Connected Transactions, will be despatched to the shareholders of the Company within 21 days of the Announcement.

## **I. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL**

### **The Information System Management Agreement**

**Date of Agreement:** 17 May 2006

- Parties:** The Company, as the client  
Hainan Information System, as the service provider
- Purpose:** Hainan Information System is a company engaged in information system management and development service. Pursuant to the Information System Management Agreement, Hainan Information System will provide services in relation to the computer information system of the Company, including the planning, design, development, implementation and management of the Company's computer information system.
- Price:** Pursuant to the Information System Management Agreement, the Company will pay Hainan Information System a monthly service fee, which varies from month to month depending on the type of services rendered by Hainan Information System. The monthly service fee comprises various charges, which are calculated by reference to a fixed monthly fee, hourly rate or premium of the total monthly service fee payable by the Company. The rates are the same as those provided in the Old Information System Management Agreement.
- Based on the needs currently contemplated by the Company, the Company estimates that the total service fees payable to Hainan Information System will be in the range of RMB2.7 million to RMB2.9 million per year over the term of the Information System Management Agreement.
- Term:** a term of three years commencing from 1 January 2006 and ending on 31 December 2008
- Conditions:** the Information System Management Agreement will come into effect as soon as practicable after the Company receives the approval from its independent shareholders and will thereby be able to comply with all applicable requirements under the Listing Rules.

### **Relationship between Hainan Information System and the Company**

Hainan Information System is a non-wholly owned subsidiary of HNA Group and is therefore an associate of HNA Group. HNA Group, being one of the promoters of the Company, is therefore a connected person of the Company within the meaning of R14A.11 of the Listing Rules. As an associate of HNA Group, Hainan Information System is therefore a connected person of the Company within the meaning of R14A.11 of the Listing Rules.

## Historical Figures

For the three financial years ended 31 December 2005, the total annual payment made by the Company to Hainan Information System for providing information system management services under the Old Information System Management Agreement are approximately RMB710,000, RMB960,000 and RMB1,555,000 respectively. The above figures are audited figures of the Company for the three financial years ended 31 December 2005.

In relation to such services, the applicable percentage ratios computed pursuant to R14.04 (9) of the Listing Rules are less than 2.5% and the annual consideration is less than HK\$1,000,000 for each of the two financial years ended 31 December 2004. Accordingly, the transaction is exempt from the reporting, announcement and independent shareholders' approval requirements under R14A.33 of the Listing Rules for those two years.

The Board noted that in year 2005, the amount payable by the Company for the above transaction increased significantly as a result of the second phase expansion of the Meilan Airport. Such development caused an increase in the need of the services of Hainan Information System. Further, Hainan Information System began assisting the Company with the development and maintenance of the Company's website during the year, which also led to an increase in the transaction amount. As a result, for the financial year ended 31 December 2005, the applicable percentage ratio computed pursuant to R14.04 (9) of the Listing Rules is less than 2.5%. Accordingly, the transaction should have been subject to the reporting and announcement requirement under R14A.34 of the Listing Rules for that year.

## New Annual Caps

The Board has considered and resolved that the following new caps be set for the annual volume of the Hainan Information System Management Agreement:

	<b>Year 2006</b>	<b>Year 2007</b>	<b>Year 2008</b>
		<i>(RMB)</i>	
Information System Management Agreement	2,800,000	3,300,000	3,900,000

## Basis of the New Annual Caps

The new annual caps set for the Information System Management Agreement are determined with reference to the historical figures, the existing scale of the Company's computer information system and the anticipated needs for further development, maintenance and operation of its computer information system over the next three years.

## **Reasons for entering into the Information System Management Agreement**

Hainan Information System had been providing information system management services to the Company under the Old Information System Management Agreement, which was exempt from the reporting, announcement and independent, shareholders' approval requirement under Chapter 14A of the Listing Rules. To ensure that the Company will be able to receive information management services of a quality and standard consistent as previously received, the Company has decided to continue with the arrangement under the Information System Management Agreement.

## **Compliance with the Listing Rules**

In respect of the Information System Management Agreement, the Company noted that the applicable percentage ratios computed pursuant to R14.04(9) of the Listing Rules are less than 2.5% and is therefore a continuing connected transaction exempt from the independent shareholders' approval requirement pursuant to R14A.34 of the Listing Rules.

The Directors (including the independent non-executive Directors) are satisfied that (i) the terms and conditions of the transaction contemplated under the Information System Management Agreement have been negotiated on arms length basis and are on normal commercial terms; (ii) such transaction will be conducted in the ordinary and usual course of business of the Company; and (iii) the terms of the Transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board noted that the amount paid to Hainan Information System in 2005 for its services has exceeded the threshold of a continuing connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under R14A.33 of the Listing Rules and that the transaction should have been reported and announced as required under R14A.34 of the Listing Rules. The Board noted such non-compliance but, having considered the actual and projected demands on the Company's information system, it (including the independent non-executive Directors) is satisfied and has confirmed that (i) the services provided by Hainan Information System to the Company in 2005 was conducted in the ordinary and usual course of business of the Company (ii) the terms under which Hainan Information System provided such services in 2005 were on arms length basis and are on normal commercial terms, fair and reasonable and in the interests of the shareholders of the Company as a whole. Details in relation to the services provided by Hainan Information System to the Company in 2005 are disclosed in this announcement and will be reported in the next published annual report and accounts in accordance with R14A.34 of the Listing Rules .

## II. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

### (A) The Hainan Airlines Terminal Lease

**Date of Agreement:** 17 May 2006

**Parties:** The Company, as lessor  
Hainan Airlines, as lessee

**Purpose:** Hainan Airlines is a company engaged in passenger airline business. Pursuant to the agreement, the Company will lease office and commercial areas and premises of the airport terminal to Hainan Airlines for the airline's business operation at the Meilan Airport. The areas leased by Hainan Airlines have a total area of approximately 2,394 sq. m. and will include check-in points, office, cargo warehouse, service workshop and other premises at the airport terminal

**Payment terms:** (i) during the first year, the monthly rental payable by Hainan Airlines under the Hainan Airlines Terminal Lease (exclusive of utilities charges and management fees) is RMB706,740, which is equivalent to RMB8,480,880 per year

(ii) for each subsequent year, the Parties may review the monthly rental, provided that the amount of monthly rental will not increase by more than 5% compared to the monthly rental payable in the previous year

The monthly rental under this Transaction is determined by the floor area and nature of the facilities and premises leased by Hainan Airlines. The rates of monthly rental are determined with reference to the prevailing local market rates for different types of facilities and premises, and are applicable to all other customers of the Company, including Southern Airlines and independent third parties

**Term:** a term of three years commencing from 1 January 2006 and ending on 31 December 2008

**Conditions:** the Hainan Airlines Terminal Lease will come into effect after the Company can confirm that it will be able to comply with all applicable requirements under the Listing Rules including the obtaining of the relevant independent shareholders approval.

## **Relationship between Hainan Airlines and the Company**

Hainan Airlines is one of the promoters of the Company and is therefore a connected person of the Company within the meaning of R14A.11 of the Listing Rules.

## **Background and reasons for entering into the Hainan Airlines Terminal Lease**

The Company had been leasing certain commercial premises at the Meilan Airport to Hainan Airlines under the Old Hainan Airlines Terminal Lease dated 26 August 2005, the terms of which were approved by the independent shareholders of the Company on 4 November 2005. Under the Old Hainan Airlines Terminal Lease, Hainan Airlines leased a total area of 2,161 sq. m. at the Meilan Airport from the Company for a monthly rent of RMB558,300. The term of Old Hainan Airlines Terminal Lease is for a period of 3 years, commencing from 1 January 2005 and ending on 31 December 2007. The approved annual cap for the Old Hainan Airlines Terminal Lease was RMB6,699,600.

Due to Hainan Airlines' need for additional floor area for its operations at the Meilan Airport, the Company and Hainan Airlines have agreed to increase the floor area leased and the rent. The Hainan Airlines Terminal Lease was entered into by the parties to amend and restate the terms of the Old Hainan Airlines Terminal Lease.

### **(B) Southern Airlines Terminal Lease**

**Date of Agreement:** 17 May 2006

**Parties:** The Company, as lessor  
China Southern Airlines, as lessee

**Purpose:** China Southern Airlines is a company engaged in passenger airline business. Pursuant to the agreement, the Company will lease office and commercial areas and premises of the airport terminal to China Southern Airlines for the airline's business operation at the Meilan Airport. The areas leased by China Southern Airlines have a total area of approximately 1,355.6 sq. m. and will include check-in points, office, cargo warehouse, service workshop and other premises at the airport terminal

**Payment terms:** (i) during the first year, the monthly rental payable by China Southern Airlines under the Southern Airlines Terminal Lease (exclusive of utilities charges and management fees) is RMB585,419, which is equivalent to RMB7,025,028 per year

(ii) for each subsequent year, the Parties may review the monthly rental, provided that the amount of monthly rental will not increase by more than 5% compared to the monthly rental payable in the previous year

The monthly rental under this Transaction is determined by the floor area and nature of the facilities and premises leased by China Southern Airlines. The rates of monthly rental are determined with reference to the prevailing local market rates for different types of facilities and premises, and are applicable to all other customers of the Company, including Hainan Airlines and independent third parties

**Term:** a term of three years commencing from 1 April 2006 and ending on 31 March 2009

**Conditions:** the Southern Airlines Terminal Lease will come into effect after the Company receiving the approval from its independent shareholders and thereby be able to confirm all applicable requirements under the Listing Rules are complied with.

### **Relationship between China Southern Airlines and the Company**

China Southern Airlines is one of the promoters of the Company and is therefore a connected person of the Company within the meaning of R14A.11 of the Listing Rules.

### **Background and reasons for entering into the Southern Airlines Terminal Lease**

The Company had been leasing, in its ordinary course of business, certain commercial premises at the Meilan Airport to China Southern Airlines under the Old Southern Airlines Terminal Lease. Such lease constitutes a continuing connected transaction for the Company under the Listing Rules. At the initial public offering of the Company in 2002, the Company sought and obtained from the Stock Exchange waiver in relation to, among others, such lease with China Southern Airlines, which expired on 31 December 2004. The approved cap under the waiver was RMB7,000,000 per year.

Immediately before the expiry of the Old Southern Airlines Terminal Lease, the Company had begun successive and extensive negotiations with China Southern Airlines on the terms of renewal of the lease. For reasons that are not within the control of the Company, little progress was made during the negotiations. Due to the nature of the transaction, it was not commercially viable to terminate the lease arrangement pending the outcome of the negotiations. As a result, for the period from 1 January 2005 to 31 March 2006, the Company had been leasing such premises to China Southern Airlines tentatively on terms that were substantially similar to those of the expired lease, subject to the Company reaching final agreement with China Southern Airlines and the ratification of such terms by the independent shareholders of the Company. During that period, the Company has been leasing a total floor area of approximately 1171 sq.m. at a monthly rent of RMB495,500 to China Southern Airlines.



Such tentative arrangement with China Southern Airlines constitutes a non-exempt connected transaction and should have complied with the relevant reporting, disclosure and approval requirements of the Listing Rules as necessary for the transaction under R14A.35 of the Listing Rules. The Board has noted such non-compliance with the Listing Rules. However, it is satisfied that (i) the lease to China Southern Airlines in the said period was conducted in the ordinary and usual course of business of the Company, (ii) the terms of such arrangement were on arms length basis and were on normal commercial terms, and (iii) having considered the circumstances and the commercial interests of the Company, the arrangement was fair and reasonable and in the interests of the shareholders of the Company as a whole. Details of the tentative arrangement have been reported in the annual report of the Company for the year ended 31 December 2005 and are disclosed in this announcement. The Board will seek the ratification of such arrangement by the independent shareholders of the Company, in order to fulfill the requirement under R14A.35 of the Listing Rules.

### Historical Figures

Hainan Airlines and China Southern Airlines paid to the Company the following sums for the three years ending 31 December 2005 for leases of certain commercial premises at the Meilan Airport:

	<b>Years ended 31 December</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
		<i>(RMB)</i>	
Hainan Airlines Terminal Lease	5,831,000	5,839,000	6,699,600
Southern Airlines Terminal Lease	5,906,000	6,294,000	5,946,000

The above historical figures are audited and contained in the relevant annual and interim reports of the Company.

### New Annual Caps

The Board proposes that the following caps be set for the annual volume of each of the Transactions for the term of Non-Exempt Continuing Connected Transactions:

	<b>Year 2006</b>	<b>Year 2007</b>	<b>Year 2008</b>
		<i>(RMB)</i>	
Hainan Airlines Terminal Lease	8,481,000	8,905,000	9,350,000
Southern Airlines Terminal Lease	7,025,000	7,376,000	7,745,000

### Basis of the New Annual Caps

The new annual caps proposed for each of (A) the Hainan Airlines Terminal Lease and (B) the Southern Airlines Terminal Lease are determined having agreed to the historical figures set out above, the amount of rent and 5% ceiling for annual rental adjustment provided in each of the agreements.

### **III. REASONS AND BENEFITS OF ENTERING INTO THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

The Directors are satisfied that (i) the terms and conditions of each of the Non-Exempt Continuing Connected Transactions above have been negotiated on arms length basis and are on normal commercial terms; (ii) each of them will be conducted in the ordinary and usual course of business of the Company; and (iii) the terms of such transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole. The views of the independent non-executive directors of the Company on the non-exempt continuing connected transactions will be set out in full in the shareholders circular which will be despatched shortly.

### **IV. INDEPENDENT SHAREHOLDERS' APPROVAL AND COMPLIANCE WITH LISTING RULES**

In relation to the Hainan Airlines Terminal Lease, the applicable percentage ratios computed pursuant to R14.04(9) of Listing Rules for such transaction are more than 2.5% but the annual consideration is less than HK\$10,000,000. However, when such transaction is aggregated with the other transactions with Hainan Airlines in the preceding twelve months, the above transaction constitutes a Non-Exempt Continuing Connected Transaction and is subject to the reporting, announcement and independent shareholders approval under Chapter 14A of the Listing Rules.

In relation to the Southern Airlines Terminal Lease, the applicable percentage ratios computed pursuant to R14.04(9) of Listing Rules for such transaction are less than 2.5%. However, when such transaction is aggregated with the airport ground services provided to China Southern Airlines and its associates Xiamen Airlines in the preceding twelve months, the above transaction constitutes a Non-Exempt Continuing Connected Transaction and is subject to the reporting, announcement and independent shareholders approval under Chapter 14A of the Listing Rules.

The Company will seek independent shareholders' approval by way of poll of the Hainan Airlines Terminal Lease and the Southern Airlines Terminal Lease and the new annual caps relating to each of the above Non-Exempt Continuing Connected Transactions.

The following shareholders of the Company will be required to abstain from voting in relation to the resolution to approve the Hainan Airlines Terminal Lease: HNA Group, Hainan Airlines and Haikou Meilan. None of the shareholders will be required to abstain from voting in relation to the resolution to approve the Southern Airlines Terminal Lease.

An independent board committee of the Company will be appointed to advise the independent shareholders on whether or not the terms of the Non-Exempt Continuing Connected Transaction are in the interest of the Company and are fair and reasonable so far as the independent shareholders are concerned. Guangdong Securities Limited has been appointed as the independent financial adviser of the Company to advise the independent board committee of the Company and the independent shareholders regarding the terms and the new annual caps of such transactions.

## V. EXTRAORDINARY GENERAL MEETING

An extraordinary general meeting will be held for consideration and approval of the Non-Exempt Continuing Connected Transactions. A composite circular containing details of such transactions, a letter from the independent board committee and a letter from the Independent Financial Adviser in relation to such transactions, will be despatched to the shareholders of the Company within 21 days of the Announcement.

## VI. GENERAL INFORMATION

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

## VII. DEFINITION

“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“China Southern Airlines”	中國南方航空股份有限公司 (China Southern Airlines Company Limited), a joint stock limited company incorporated in the PRC and listed on the Stock Exchange
“Company”	海南美蘭國際機場股份有限公司 (Hainan Meilan International Airport Company Limited), a joint stock limited company incorporated in the PRC on 28 December 2000
“Directors”	the director(s) of the Company
“HNA Group”	海南集團有限公司 (HNA Group Company Limited), a company established in the PRC and one of the Promoters of the Company
“Haikou Meilan”	海口美蘭機場有限責任公司 Haikou Meilan International Airport Company Limited, a limited liability company established in the PRC, and is the controlling shareholder of the Company
“Hainan Airlines”	海南航空股份有限公司 (Hainan Airlines Company Limited), a joint stock limited company incorporated in the PRC and one of the Promoters of the Company
“Hainan Airlines Terminal Lease”	the agreement between Hainan Airlines and the Company in relation to the leasing of certain premises at the Meilan Airport dated 17 May 2006
“Hainan Information System”	Hainan HNA Information System Company Limited (南海航空信息系統有限公司), a limited liability company established in PRC and is owned as to 70% by HNA Group

“Information System Management Agreement”	the agreement between Hainan Information System and the Company in relation to computer information system management dated 17 May 2006
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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, PRC
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“Non-Exempt Continuing Connected Transactions”	the transactions contemplated under the Hainan Airlines Terminal Lease and the Southern Airline Terminal Lease
“Old Hainan Airlines Terminal Lease”	the agreement between Hainan Airlines and the Company in relation to the leasing of certain premises at the Meilan Airport dated 26 August 2005
“Old Southern Airlines Terminal Lease”	the agreement between China Southern Airlines and the Company in relation to the leasing of certain premises at the Meilan Airport, which has expired on 31 December 2004
“Old Information System Management Agreement”	the agreement between Hainan Information System and the Company in relation to computer information system management dated 1 August 2002, which has expired on 31 December 2005
“Southern Airlines Terminal Lease”	the agreement between China Southern Airlines and the Company in relation to the leasing of certain premises at the Meilan Airport dated 17 May 2006
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

*As at the date of this announcement, there are nine directors on the Board. They are: Zhang Cong, Wang Zhen, Huang Qiu and Gunnar Moller as executive directors; Zhang han'an and Kjeld Binger as non-executive director; and Xu Bailin, Xie Zhuang and Fung Ching Simon as independent non-executive directors.*

By Order of the Board  
**Hainan Meilan International Airport Company Limited**  
**Zhang Cong**  
*Chairman*

Haikou, People's Republic of China  
17 May, 2006

*Please also refer to the published version of this announcement in  
Wen Wei Po Post and China Daily.*