
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, or as to the action to be taken, you should consult our 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 the transferee 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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美兰机场
MEILAN AIRPORT

海南美蘭國際機場股份有限公司

Hainan Meilan International Airport Company Limited*

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

(Stock Code: 357)

NON-EXEMPT CONTINUING CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION (FINANCIAL SERVICES AGREEMENT)

RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT SHAREHOLDERS



第一上海
FIRST SHANGHAI GROUP

FIRST SHANGHAI CAPITAL LIMITED

A letter from the Independent Board Committee is set out on page 4 of this Circular.

A letter from First Shanghai Capital Ltd., the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 53 of this Circular.

A notice convening the extraordinary general meeting of Hainan Meilan International Airport Company Limited (the "Company") to be held at 9:00 a.m. on 28 December 2007 in the meeting room of the Company on 3rd Floor, Meilan Airport Complex at No. 6 Haikou City, Hainan Province, the People's Republic of China (the "PRC") is set out on pages 61 to 65 of this Circular. Whether or not you are able to attend the 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 meeting. Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting or any adjourned meeting should you so desire.

12 November 2007

* For identification purpose only

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DEFINITION

For the purposes of this circular, capitalized terms appearing herein shall, unless the context otherwise admits, have the meanings set out below:

“Agreements”	the agreements referred to in part 3 of the letter from the Board in this Circular
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“CAAC”	中國民用航空總局 (General Administration of Civil Aviation of China), also known as Civil Aviation Administration of China
“Cargo Center”	the cargo center at the Meilan Airport
“CBRC”	中國銀行業監督管理委員會 (China Banking Regulatory Commission)
“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 company incorporated in the PRC with limited liability on 28 December, 2000
“connected person”	shall have the meaning as defined in the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to approve the Non-exempt Continuing Connected Transactions and the New Annual Caps that set out in part 3 of the letter from the Board in this Circular
“Financial Services Agreement”	the financial services agreement entered into between HNA Group Finance and the Company on October 8, 2007

DEFINITION

“First Shanghai Capital”	第一上海融資有限公司(First Shanghai Capital Ltd), the independent financial adviser retained in respect of the Non-exempt Continuing Connected Transactions that are subject to independent shareholders’ approval
“Group”	the Company and its subsidiaries
“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 Food”	海南航空食品有限公司(Hainan Airlines Food Company Limited), a company established in the PRC and 51% owned by Hainan Airlines
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HNA Group”	海航集團有限公司(HNA Group Company Limited), a company established in the PRC and one of the promoters of the Company, which was previously named 海航控股(集團)有限公司(HNA Holdings (Group) Company Limited) or 海南海航控股有限公司(Hainan HNA Holdings Company Limited)
“HNA Group Finance”	HNA Group Finance Co., Ltd. (海航集團財務有限公司), a company incorporated under the name of Zhongxin Group Finance Co., Ltd. (中新集團財務公司) on 10 January 1994 in the PRC with limited liability and in the year 2003, HNA Group, Parent Company, China Xinhua Airlines Co., Ltd. and HNA Hotel (Group) Co., Ltd. acquired part of the equity interests of Zhongxin Group Finance Co., Ltd. and change its name into HNA Group Finance Co., Ltd. (海航集團財務有限公司).
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board for the purpose of reviewing the Non-exempt Continuing Connected Transactions, which comprises Mr. Xu Bailing, Mr. Xie Zhuang, George F Meng and Mr. Fung Ching Simon, all of whom are independent non-executive Directors

DEFINITION

“Independent Shareholders”	Shareholders other than Parent Company, HNA Group and Hainan Airlines
“Latest Practicable Date”	the Date of 9 November 2007, the latest practicable date before the printing of the Circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Meilan Airport”	the civil airport known as 海口美蘭國機場 (Haikou Meilan International Airport) located in Haikou City, Hainan Province, PRC
“New Annual Caps”	the proposed annual caps in respect of the Non-exempt Continuing Connected Transactions for the three years ending 31 December, 2010 and set out in part 3 of the letter from the Board in this Circular
“Non-exempt Continuing Connected Transactions”	the non-exempt continuing connected transactions which are entered into between the Company and the relevant connected parties that set out in part 3 of the letter from the Board in this Circular
“Parent Company”	海口美蘭機場有限責任公司 (Haikou Meilan Airport Co., Ltd.), a limited liability company established in the PRC which is the controlling shareholder of the Company
“PBOC”	中國人民銀行 (People’s Bank of China)
“PRC”	People’s Republic of China
“Promoters”	the parties to a promoters’ agreement dated 20 December, 2000 in relation to the promotion and incorporation of the Company including, inter alia, Parent Company, the Hainan Airlines, China Southern Airlines and the HNA Group
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	The supplement agreement entered on 6 November 2007 in relation to the Financial Services Agreement

LETTER FROM THE BOARD



海南美蘭國際機場股份有限公司 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:

Zhang Cong
Dong Zhanbin
Dong Guiguo
Bai Yan

Registered Office:

Meilan Airport Complex
Haikou City
Hainan Province, PRC

Non-executive Director:

Zhang Han'an
Joseph Chan
Yan Xiang

Principal Place of Business

in Hong Kong:
Unit B, 7/F No. 2 Austin Avenue
Tsimshatsui, Kowloon, Hong Kong

Independent Non-executive Directors:

Xu Bailing
Fung Ching Simon
Xie Zhuang
George F Meng

12 November 2007

To the Shareholders

Dear Sir/Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION (FINANCIAL SERVICES AGREEMENT)

RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

Reference is made to the announcements of the continuing connected transactions (Financial Service Agreement) and renewal of continuing connected transactions of the Company dated 9 October 2007 and the announcement of the supplemental agreement dated 6 November 2007 which announce that the Company has entered into the Agreements.

* For identification purpose only

LETTER FROM THE BOARD

The Independent Board Committee has been formed to consider the terms of the Agreements and the New Annual Caps, and First Shanghai Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on, inter alia, the terms of the Non-exempt Continuing Connected Transactions that are subject to the Independent Shareholders' approval and the applicable New Annual Caps.

This circular gives you further information in relation to the Non-exempt Continuing Connected Transactions and contains the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions and gives the Shareholders the notice of the EGM and other information in accordance with the requirements of the Listing Rules.

2. GENERAL BACKGROUND INFORMATION

On October 8, 2007, the Company and HNA Group Finance entered into the Financial Services Agreement, pursuant to which HNA Group Finance has agreed to provide the Company with deposit services, loan services and other financial services subject to the terms and conditions provided therein.

The Company has been engaged in other certain transactions with connected persons and their respective associates during the Company's ordinary course of business, which constitute continuing connected transactions for the Company under the Listing Rules. Some of these non-exempt continuing connected transactions entered into by the Company in the year 2005 will expire on 31 December 2007.

The Board has conducted a review of the Non-exempt Continuing Connected Transactions as to the Agreements and New Annual Caps to be proposed for the Non-exempt Continuing Connected Transactions for a period from 1 January 2008 and ending on 31 December 2010.

LETTER FROM THE BOARD

3. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE INDEPENDENT SHAREHOLDERS' APPROVAL

Section I: new continuing connected transaction

The Financial Services Agreement (in relation with the deposit services only)

I. Principal Term

- (a) **Date:** October 8, 2007
- (b) **Parties:** The Company
HNA Group Finance
- (c) **Service:** Subject to the Company's request and provided that HNA Group Finance obtained the relevant approval from CBRC, HNA Group Finance shall provide to the Group financial services, including deposit services, settlement services, loans and finance leasing services, bill acceptance and discount services, entrusted loans and entrusted investment services, company debt bonds underwriting services, financial and financing consultation, credit certification and other relevant advice and agency services and provision of security and other financial services approved by CBRC.

As to the integrated credit facilities, HNA Group Finance will approve the scope, projects to be used, amount and securities together as a package.

As to the settlement of bill of exchange with recourse, interest based on the amount of the bill of exchange will be charged by HNA Group Finance.

LETTER FROM THE BOARD

- (d) **Service Principle:** HNA Group Finance has undertaken to adhere to the principles below in providing the aforementioned financial services to the Group: (1) the interest rate for the Group's deposits with HNA Group Finance shall be fixed as the deposit interest rate and shall not be lower than the benchmark deposit rate as announced by PBOC; (2) the interest rate for loans granted to the Group by HNA Group Finance shall be the base lending rate and shall not be higher than the benchmark lending rate as announced by PBOC; and (3) as to the settlement services, HNA Group Finance shall provide such services to the Group if requested, including but not limited to the business of central settlement management on a free of charge basis except those fees requested by PBOC.
- (e) **Company discretion:** The Group, with the benefit of the information of the market rate and in view of its own interests, has rights to determine whether to maintain the business relationship with HNA Group Finance or not. The Group may obtain financial services from other financial institutions in addition to those provided by HNA Group Finance pursuant to the Financial Services Agreement.
- (f) **Termination:** HNA Group Finance should safeguard its fund and if any loss happened to such fund, the Company shall have the right to unilaterally terminate the Financial Services Agreement.
- (g) **Term:** the term of the Financial Services Agreement shall be three years commencing from 8 October 2007 to 7 October 2010.

On 6 November 2007, The Company entered into a supplemental agreement pursuant to which the Company, after negotiation with HNA Group Finance has adjusted the maximum daily deposit balance (excluding the interest accrued therefrom) with HNA Group Finance for a period commencing from 8 October 2007 to 7 October 2010. Under the supplemental agreement, the maximum daily deposit balance (excluding the interest accrued therefrom) will not exceed RMB0.45 billion (equivalent to approximately HK\$0.45 billion).

LETTER FROM THE BOARD

II. Reasons for the continuing connected transaction

- (a) One of purposes for the establishment of HNA Group Finance is to facilitate the provision of financial services to the inter-group members in respect of production, sales, operation and management and HNA Group Finance is expected to render more expedient and efficient services than other PRC commercial banks to the Group.
- (b) Inter-group fund settlement and transaction cost can be reduced if it can use HNA Group Finance's system for the settlement of transactions between the Company and other companies in the HNA Group.
- (c) The rates on loans and deposits offered by HNA Group Finance to the Group will be equal to or more favourable than those offered by commercial banks in the PRC.
- (d) The Group is expected to benefit from HNA Group Finance acting as a financing platform which facilitates the use of outside fund.

The Directors (including the independent non-executive directors) are satisfied that (i) the terms and conditions of the Financial Services Agreement contemplated in this part 3 Section I 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; (iii) the annual caps for the years 2008, 2009 and 2010 are reasonable and (iv) the terms of the same transaction are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

III. Risks relating to the transaction and risk control measures

There are some uncertainties as to whether the Company can effectively use HNA Group Finance as a financial platform and the profit of the HNA Group Finance is also exposed to uncertainties. The following risk control measures have been taken or are to be taken to ensure the safety of the funds deposited by the Company with HNA Group Finance:

- a. HNA Group Finance shall ensure the strict compliance of relevant regulations and requirements issued by PBOC and CBRC and the scientific management of its business. HNA Group Finance shall establish and improve its business accounting system.
- b. HNA Group Finance shall implement periodic evaluation metric and establish internal control system and risk monitoring system indicators to ensure the safe and stable operation of fund management.

IV. Annual caps of the continuing connected transaction

The Company currently expects to deposit all its cash balance to HNA Group Finance. The Company estimates its maximum daily deposit balance (excluding the interest accrued therefrom) with HNA Group Finance for the four years 2007, 2008, 2009 and 2010 will not exceed RMB0.45 billion (equivalent to approximately HK\$0.45 billion). Such proposed annual cap has been determined based on the following three factors: (1) the Group had a total amount of time deposit and cash and cash equivalents of RMB506,229,000 (equivalent to approximately HK\$506,229,000) as at 30 June 2007; (2) there is about RMB44,445,000 (equivalent to approximately HK\$44,445,000) airport fee receivable by the Company as at 30 June 2007 as disclosed in the Company's interim report dated 11 September 2007 and (3) the future plan of the Company. The Company confirms that there is no historical cap, and no maximum outstanding balance for the deposit services. The deposit services are subject to the annual review requirement under the Listing Rules. The Company confirms that the provisions of financial services under the Financial Services Agreement will be deemed as a whole and the Financial Services Agreement would only come into effect in its entirety upon the obtaining of the Independent Shareholders' approval.

Loan Services: as the loan services to be provided by HNA Group Finance to the Group are on normal commercial terms similar to or even more favourable than those offered by independent third parties for the provision of comparable services in the PRC and are for the benefit of the Group, and the Company has confirmed that no security over the assets of the Group has been granted in respect of the loan, such continuing connected transaction is exempt from the reporting, announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Other Services: other services mainly include the consulting services provided by HNA Group Finance to the Group. The Company estimates that the total financial consulting fees (including all the financial services fee payable by the Group to HNA Finance Group for other financial services rendered by HNA Finance Group under the Financial Services Agreement) payable by the Group to HNA Group Finance shall not be higher than RMB2,000,000 (equivalent to approximately HK\$2,000,000) annually. As one of the percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) is above 0.1% but lower than 2.5% and the total consideration for such consulting services is lower than HK\$10,000,000, therefore the provision of other financial services by HNA Group Finance to the Group needs to comply with the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement of the Listing Rules.

V. Compliance with the listing rules

The Parent Company, being the controlling shareholder of the Company, holds approximately 31.25% of the equity interest in HNA Group Finance. Therefore, HNA Group Finance is an associate of the Parent Company and is a connected person of the Company. The transaction contemplated under the Financial Services Agreement constitutes continuing connected transaction of the Company under the Listing Rules.

As certain percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) applicable to the provision of deposit services under the Financial Services Agreement are each more than 2.5%, the deposit services to be provided by HNA Group Finance to the Group are subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules. As connected persons, Parent Company, HNA Group and Hainan Airlines and their associates shall abstain from voting at the EGM. The provision of deposit service under the Financial Services Agreement constitutes the discloseable of financial assistance under Rule 14.04(1) (e) of the Listing Rules and hence a notifiable transaction under Chapter 14 of the Listing Rules. The Company will comply with the general disclosure obligation where the relevant advance to an entity exceeds 8% under the assets ratio as defined under rule 14.07(1) as provided in Rule 13.13 of the Listing Rules.

The loan services to be provided by HNA Group Finance to the Group under the Financial Services Agreement amount to the provision of financial assistance by a connected person for the benefit of the Group, on normal commercial terms or more favourable terms than those offered by independent third parties for comparable services in the PRC where no security over the assets of the Group is granted in respect of the financial assistance. Thus, the provision of such services is exempt under Rule 14A.65(4) of the Listing Rules from all reporting, announcement and independent shareholders' approval requirements since no security over the assets of the Group is granted in respect of the loan.

LETTER FROM THE BOARD

In respect of other financial consulting services to be provided by HNA Group Finance to the Group under the Financial Services Agreement, the Company estimates that the total financial consulting fees (including all the financial services fees payable by the Group to HNA Finance Group for other financial services rendered by HNA Finance Group under the Financial Services Agreement) payable by the Group to HNA Group Finance would not be higher than RMB2,000,000 (equivalent to approximately HK\$2,000,000) annually. This annual cap is determined with reference to the actual amount payable by the Group for similar financial services and also taking into account of the growth rate of the Company's business. As one of the percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) is above 0.1% but lower than 2.5% and the total consideration for the provision of such financial consulting services is lower than HK\$10,000,000, the provision of the same services by HNA Group Finance to the Group needs to comply with the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under the Listing Rules.

The Independent Board Committee has been established to consider the terms of the Financial Services Agreement (in relation to the provision of the deposit services only) and the related annual caps, and First Shanghai Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on, inter alia, the terms of the Financial Services Agreement (in relation to the provision of the deposit services only) and the related annual caps.

VI. Financial Effect of the Transaction

The transaction contemplated under the Financial Services Agreement in relation to the deposit service will not have a material impact on the earnings and assets and liabilities of the Group.

Section II: renewal of Non-exempt Continuing Connected Transactions

I. Principal Term

(a) Transactions with Hainan Airlines

- (1) airport ground services agreement with Hainan Airlines

Date of Agreement: October 8, 2007

Parties: The Company
Hainan Airlines

LETTER FROM THE BOARD

Subject: Pursuant to the agreement, the Company has agreed to provide customary airport ground services to Hainan Airlines, including basic agency services, container equipment management services, passenger and baggage services, cargo and mail processing, relevant transportation services, cleaning services, security safeguard services and other services related to Hainan Airlines and its subsidiaries.

Price: Various charge standards are primarily determined by or with reference to relevant regulations of the CAAC applicable to all the customers including independent third parties.

Term: A term of three years commencing from 1 January 2008 and ending on 31 December 2010.

(2) cargo mail and luggage services agreement

Date of Agreement: October 8, 2007

Parties: the Company
Hainan Airlines

Subject: the Company has agreed to provide flights of Hainan Airlines with cargo mail and luggage services, including container equipment management services, luggage services, cargo and mail services, uploading and loading services and land transportation services to the Hainan Airlines and its subsidiaries.

Price: Various charge standards are primarily determined by relevant applicable regulation of the CAAC and the standards agreed in this agreement.

Term: A term commencing from the effectiveness date of the agreement to 31 December 2009.

LETTER FROM THE BOARD

- (b) *airport ground services agreement with China Southern Airlines and its subsidiary Xiamen Airlines Company*

Agreement with China Southern Airlines

Date of Agreement: October 8, 2007

Parties: The Company
China Southern Airlines

Subject: Pursuant to the agreement, the Company has agreed to provide customary airport ground services to China Southern Airlines, including basic agency services, passenger and baggage services, cargo and mail processing, relevant transportation service, cleaning services, security safeguard services and other services related to China Southern Airlines.

Price: Various charge standards are primarily determined by the relevant regulations of CAAC applicable to all the customers including independent third parties and the standards agreed in this ground handling services agreement.

Term: A term of three years commencing from 1 January 2008 and ending on 31 December 2010.

Agreement with Xiamen Airlines Company

Date of Agreement: October 8, 2007

Parties: The Company
Xiamen Airlines Company

Subject: Pursuant to the agreement, the Company has agreed to provide customary airport ground services to Xiamen Airlines, including basic agency services, loading documentation and communication services, passenger and baggage services, cargo and mail processing, relevant transportation services, cleaning services, security safeguard services and other services related to Xiamen Airlines Company.

LETTER FROM THE BOARD

Price: Various charge standards are primarily determined by or with reference to the relevant regulation of CAAC applicable to all the customers including independent third parties.

Term: A term of three years commencing from 1 January 2008 and ending on 31 December 2010.

(c) *logistic composite services agreement with HNA Group*

Date of Agreement: October 8, 2007

Parties: The Company
HNA Group

Subject: Pursuant to the agreement, HNA Group has agreed to provide or procure any third party if necessary with the Company's consent to provide the Group with the following logistic services while the Company retains the right to terminate certain services if such services can be obtained from a third party on a preferential basis:

- (a) staff training;
- (b) staff shuttle bus service;
- (c) staff cafeteria service;
- (d) vehicle maintenance;
- (e) commodities and appliance procurement; and
- (f) other services required by the Company.

LETTER FROM THE BOARD

Price: Subject to the annual cap for the year of 2008 and no more than 5% of annual growth thereafter, charges as to the service in item (a) above will be the costs for providing such services; the charges as to the service in items (b) above shall be RMB10 (equivalent to approximately HK\$10) multiplied by the number of employees of the Company on a monthly basis; charges as to the service in item (c) above will be RMB924,000 (equivalent to approximately HK\$924,000) per year; charges as to the service in item (d) above will be the cost for providing such service plus a 5% mark-up fee as management fee; charges as to the service in item (e) above will be the actual cost for the commodity procurement plus 1% mark-up fee as management fee; and charges as to other services in item (f) above shall be calculated in accordance with national pricing standards, the industry pricing standards or a cost plus mark-up fee basis.

Term: A term of three years commencing from 1 January 2008 and ending on 31 December 2010.

(d) *airport composite services agreement with Parent Company*

Date of Agreement: October 8, 2007

Parties: The Company
Parent Company

Subject: Pursuant to the agreement, Parent Company has agreed to provide or procure any third party if necessary with the Company's consent to provide to the Company the following services:

- (a) security guard service;
- (b) cleaning and environment maintaining;
- (c) sewage and refuse processing;

LETTER FROM THE BOARD

- (d) power and energy supply and equipment maintenance;
- (e) passengers and luggage security inspection; and
- (f) other services required by the Company.

Price: charges as to the services in items (a) to (c) above will be determined in accordance with the cost incurred by Parent Company in providing such services plus a 5% mark-up fee as management fee; charges as to the service in item (d) above will be determined in accordance with the cost incurred by Parent Company in providing such service plus a 25% mark-up fee as management fee; charges as to the service in item (e) above shall be calculated in accordance with the standards prescribed by CAAC and collected by the Company on behalf of Parent Company from the relevant airlines; and charges as to other services in item (f) above shall be calculated in accordance with the national pricing standards, the industry pricing standards or on a cost plus mark-up fee basis.

Term: A term of three years commencing from 1 January 2008 and ending on 31 December 2010.

LETTER FROM THE BOARD

II. Reasons for the Non-exempt Continuing Connected Transactions

The Company is principally engaged in the management and operation of the aeronautical and the non-aeronautical businesses at Meilan Airport. The Non-exempt Continuing Connected Transactions contemplated in this part 3 Section II are entered into because they are necessary for and are beneficial to the Company. The Board believes that the establishment of long-term cooperation relationship with these companies will stabilize the Company's operation, ensure a broaden stream of revenue source and a relatively stable profits rate and is of commercial benefit to the Company and the Group as a whole.

In addition, the Company would like to concentrate on its core business related to the airport operation and outsource ancillary airport services to those who have the expertise and experience required for provision of such services and are in a better position to meet the quality standard and efficiency of costs required by the Company in respect of the relevant services.

The Directors (including the independent non-executive directors) are satisfied that (i) the terms and conditions of the Non-exempt Continuing Connected Transactions contemplated in this part 3 Section II have been negotiated on arms' length basis and are on normal commercial terms; (ii) such transactions will be conducted in the ordinary and usual course of business of the Company; (iii) the annual caps for the year 2008, 2009 and 2010 are reasonable and (iv) terms of the same transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Entering into the Non-exempt Continuing Connected Transaction has facilitated and will continue to facilitate the operation and growth of the Group's business.

LETTER FROM THE BOARD

III. Annual cap of the Non-exempt Continuing Connected Transactions

(a) Historical Figures

The following table shows the actual transaction amount in respect of those transactions between the Company and the relevant contractual parties for the two years ended 31 December 2006 and the year ending 31 December 2007:

	Year ended 31 December		
	2005	2006	2007 (expected transaction amount ²)
	("RMB")		
(a) 1. Airport ground services with Hainan Airlines	73,355,000	59,762,000	61,002,000
(a) 2. Cargo Mail and Luggage Services Agreement with Hainan Airline	6,000,000 ³	6,000,000 ³	6,546,000
(b) Airport ground services with China Southern Airlines and Xiamen Airlines Company (in aggregation)	44,893,000 ⁴	39,164,000 ⁴	45,466,000 ⁴
(c) Airport composite services by Parent Company	12,600,000	15,230,000	15,700,000
(d) Logistic composite services by HNA Group	10,740,000	10,190,000	11,690,000

Note 2: the expected transaction amount for the year 2007 of all the Non-exempt Continuing Connected Transactions contemplated in this part 3 Section II is calculated by the actual transaction amount for the first half year of 2007 multiplying two.

LETTER FROM THE BOARD

Note 3: the Company entered into a Business Handover Agreement (as referred to in the announcement dated 26 August 2005) with Hainan Airlines on 26 August 2005 under which a monthly rent of RMB500,000 (equivalent to approximately HK\$500,000) shall be paid by the Hainan Airlines to the Company for the period from 1 August 2005 to the date immediately before the Assets Transfer Closing Date. The Company confirms that the Assets Transfer has been completed in March 2007. Therefore the actual transaction amount is RMB6,000,000 (equivalent to approximately HK\$6,000,000) for two years of 2005 and 2006.

Note 4: the actual transaction amounts with China Southern Airlines are RMB42,900,000 (equivalent to approximately HK\$42,900,000), RMB36,900,000 (equivalent to approximately HK\$36,900,000) and RMB42,720,000 (equivalent to approximately HK\$42,720,000) respectively for the two years ended 31 December 2006 and the year ending 31 December 2007. The actual transaction amounts with China Xiamen Airlines Co., Ltd are RMB1,993,000 (equivalent to approximately HK\$1,993,000), RMB2,264,000 (HK\$2,264,000) and RMB2,746,000 (equivalent to approximately HK\$2,746,000) respectively for the two years ended 31 December 2006 and the year ending 31 December 2007.

(b) New Annual Caps

The Board has considered and proposed that the following caps be set for the annual volumes of the relevant transactions above for the same period from 1 January 2008 to 31 December 2010:

	2008	2009	2010
	<i>(“RMB”)</i>		
(a) (1) Airport ground services with Hainan Airlines	66,500,000	72,500,000	79,000,000
(a) (2) Cargo Mail and Luggage Services Agreement with Hainan Airline	3,633,000 ⁵	4,033,000 ⁵	N/A
(b) Airport ground services with China Southern Airlines and Xiamen Airlines Co., Ltd	49,110,000 ⁶	53,040,000 ⁶	57,290,000 ⁶
(c) Airport composite services by Parent Company	16,500,000	17,300,000	18,200,000
(d) Logistic composite services by HNA Group	12,500,000	13,000,000	13,500,000

LETTER FROM THE BOARD

Note 5: the Cargo Mail and Luggage Services Agreement will be with a term commencing from the effectiveness date of the agreement to 31 December 2009. The annual caps shall be for the three years of 2007, 2008 and 2009 accordingly.

Note 6: the annual caps for the airport ground services with China Southern Airlines and Xiamen Airlines Co., Ltd. are calculated in aggregation with the annual caps with China Southern Airlines of RMB46,140,000 (equivalent to approximately HK\$46,140,000), RMB49,830,000 (equivalent to approximately HK\$49,830,000) and RMB53,820,000 (equivalent to approximately HK\$53,820,000) for the year 2008, 2009 and 2010 and the annual caps with Xiamen Airlines Co., Ltd. of RMB2,970,000 (equivalent to approximately HK\$2,970,000), RMB3,210,000 (equivalent to approximately HK\$3,210,000) and RMB3,470,000 (equivalent to approximately HK\$3,470,000) for the year 2008, 2009 and 2010.

Basis of the New Annual Caps

The above New Annual Caps are estimated with reference to various factors including but not limited to (1) the historical transaction amounts recorded by the Company respectively; (2) the anticipated increases in the business to be conducted by the Company under the Non-exempt Continuing Connected Transactions. The followings set out the basic factors taken into consideration by the Board for the New Annual Caps:

- (a) (1) Terms and conditions under the agreement are the same with the agreement entered into by the Company and Hainan Airline in the year 2005. The proposed caps for item (a)(1) for the year 2008, 2009 and 2010 are estimated by the Company according to the estimation of the passengers' annual growth rate of approximately 8% made by the independent air traffic consultants appointed by the Company at the time of the Company's initial public offering in the year 2002 and the increase in the number of large-scale planes which use Meilan Airport with an annual growth rate of 3.3%. Based on the aforesaid data, the Directors think it is reasonable to calculate the new cap on an approximately 11% growth rate.

LETTER FROM THE BOARD

- (a) (2) The caps proposed for item (a)(2) is determined with reference to estimation of an annual growth rate of 10% for the cargo transportation made by the independent air traffic consultant appointed by the Company at the time of the Company's initial public offering in the year 2002. Hainan Airline has no cargo centre at Meilan Airport and it needs to entrust a third party to process its cargo or lease relevant assets from the Company for operation. The Company has its own cargo centre but the business conducted by its cargo centre is comparatively small if there is no business income arising from the rent paid by Hainan Airline and if the Company can not obtain the business to process Hainan Airline's cargo, then it will have an adverse effect on the Company's business income in respect of cargo processing. In order to establish a long-term cooperation relationship with Hainan Airline and keep it as one of the Company's major customers, the Company has given a 50% discount for the cargo, mail and luggage services rendered to Hainan Airline by the Company. The annual caps for the two years ending 31 December 2008 and 2009 are RMB3,633,000 and 4,033,000 which are the amounts after such 50% discount.
- (b) Terms and conditions under the agreement are the same with the agreement entered into between the Company and China Southern Airlines and Xiamen Airlines Co., Ltd. in the year 2005. The caps proposed for item (b) are determined with reference to the actual transaction amounts for the three years ending on 31 December 2007 with an average growth rate of approximately 8% annually.
- (c) Terms and conditions under the agreement are the same with the agreement entered into between the Company and Parent Company in the year 2005. The caps proposed for item (c) are determined with reference to the actual transaction amounts for the three years ending on 31 December 2007 with an average growth rate of approximately 12.1% annually. The growth rate for the transaction amounts for the three years ending 31 December 2007 mainly arises from the company's increase of areas of the waiting hall. The Directors and the management of the Company believe that the cost increase rate can be controlled lower than 5% and take it as the calculation basis for the proposed caps for the year 2008, 2009 and 2010.

LETTER FROM THE BOARD

- (d) Terms and conditions under the agreement are the same with the agreement entered into between the Company and HNA Group in the year 2005. The Directors think the Company can control the cost increase rate no higher than 7% for the year 2008 and within an increase of RMB500,000 (equivalent to approximately HK\$500,000) for each year of 2009 and 2010.

IV. Compliance with the listing rules

Parent Company, HNA Group, Hainan Airlines and China Southern are promoters of the Company. Accordingly, each of Parent Company, HNA Group, Hainan Airlines and China Southern Airlines is a connected person of the Company under the Listing Rules, and transactions between the Company and those connected persons and their associates, including the cargo mail and luggage services agreement with Hainan Airline and the airport ground services agreement with Xiamen Airlines Co., Ltd. as calculated in aggregation, constitute connected transactions of the Company under the Listing Rules and are subject to the reporting and announcement requirements and independent shareholders' approval requirement set out in Rules 14A.45 to 14A.48 of the Listing Rules.

In relation to the cargo mail and luggage service agreement with Hainan Airline, the applicable percentage ratios computed pursuant to Rule 14.04(9) of the Listing Rules are higher than 2.5% but the consideration is 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 requirements under Chapter 14A of the Listing Rules.

In relation to the airport ground services with Xiamen Airlines Co., Ltd., the applicable percentage ratios computed pursuant to Rule 14.04(9) of Listing Rules are higher than 2.5% but the consideration is less than HK\$10,000,000. However, such transaction, when aggregated with the relevant connected transactions with China Southern 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 requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee has been established to consider the terms of the Agreements and the New Annual Caps, and First Shanghai Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on, inter alia, the terms of the Non-exempt Continuing Connected Transactions and the applicable New Annual Caps.

LETTER FROM THE BOARD

4. GENERAL INFORMATION OF THE COMPANY AND THE CONNECTED PERSONS

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

Hainan Airlines, China Southern Airlines and Xiamen Airlines Co., Ltd. are principally engaged in airline operation business and Xiamen Airlines Co., Ltd. is a 60% subsidiary of China Southern Airlines. HNA Group is principally engaged in aeronautical business. Parent Company is principally engaged in ancillary airport service business.

HNA Group Finance is a non-bank financial institution established in the PRC on 10 January 1994.

5. INDEPENDENT SHAREHOLDERS' APPROVAL AND COMPLIANCE WITH LISTING RULES

The Company will seek the approval of the Independent Shareholders at the EGM of the Agreements and the New Annual Caps in relation to the Non-exempt Continuing Connected Transactions set out in part 3 ("Transactions") above that:

- (a) The aggregate annual volume of the Transactions shall not exceed the applicable New Annual Caps;
- (b) (i) The Transactions will be entered into in the usual and ordinary course of businesses of the Group and either (A) on normal commercial terms or (B) if there is no available comparison, on terms no less favourable to the Group than terms available from independent third parties; and
- (ii) The Transactions will be entered into in accordance with the applicable Agreements and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company will comply with Rules 14A.36 to 14A.38 and Rule 14A.45 of the Listing Rules in respect of the Transactions.

LETTER FROM THE BOARD

6. EXTRAORDINARY GENERAL MEETING

Set out on pages 61 to 65 of this Circular is a notice convening an EGM to be held at held at 9:00 a.m. on 28 December 2007 (Friday) in the meeting room of the Company on the 3rd Floor, Meilan Airport Complex, Haikou City, Hainan Province, the People's Republic of China (the "PRC"). At the EGM, ordinary resolutions will be proposed to consider and, if thought fit, to approve the Non-exempt Continuing Connected Transactions and the New Annual Caps. As at the Latest Practicable Date, each of Parent Company, Hainan Airlines and HNA Group which holds, directly and indirectly, 50.19%, 1.12% and 0.74% voting rights at a general meeting of the Company respectively and has controls over the voting right in respect of their shares, and is interested in the Non-exempt Continuing Connected Transactions will abstain from voting at the EGM pursuant to the Listing Rules. Other than the Parent Company, Hainan Airlines and HNA Group, there is no other shareholder who has a material interest in the Non-exempt Continuing Transactions.

7. PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 73 of the Articles of Association of the Company, at any general meeting resolutions put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the results of the show of hands) demanded:

- (a) by the chairman of the meeting;
- (b) by at least three members present in person or by proxy for the time being entitled to vote at the meeting;
- (c) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (d) by any member or members present in person or by proxy and holding Share conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

In accordance with Rule 13.39(4), any vote of shareholders taken at a general meeting to approve the connected transactions pursuant to Chapter 14A must be taken on a poll.

LETTER FROM THE BOARD

8. RECOMMENDATION

The Board, including the Independent Board Committee, is of the opinion that the terms of the Non-exempt Continuing Connected Transactions and the New Annual Caps for each of the three years ending 31 December 2010 are fair and reasonable so far as the Company is concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the Independent Board Committee) recommends that the Independent Shareholders vote in favour of the resolutions set out in the notice of the EGM for approval of the Non-exempt Continuing Connected Transactions and the New Annual Caps.

9. 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 EGM regarding the Non-exempt Continuing Connected Transactions and the New Annual Caps, and the letter from the Independent Financial Adviser containing among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions and the New Annual Caps, both of which are set out on pages 27 and 53 respectively of this circular.

Your attention is also drawn to the additional information set out in the appendices to this Circular. A form of proxy and a copy of reply slip for use at the EGM are enclosed with this Circular.

10. COMPOSITION OF THE BOARD

As at the date of this Circular, there are 11 Directors on the Board. They are: Zhang Cong, Chairman, Mr. Dong Zhanbin, Mr. Dong Guiguo, Mr. Bo Yan as executive directors; Mr. Zhang Han'an, Mr. Joseph Chan, Mr. Yan Xiang as non-executive directors; and Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching Simon and Mr. George F Meng as independent non-executive directors.

Yours faithfully,

By order of the Board

Hainan Meilan International Airport Company Limited

Zhang Cong

Chairman of the Board

Hainan PRC, 12 November 2007

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

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

(Stock Code: 357)

12 November 2007

To the Shareholders

Dear Sir/Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS MAJOR TRANSACTION (FINANCIAL SERVICES AGREEMENT) AND RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Shareholders in respect of Non-exempt Continuing Connected Transactions, details of which are set out in the letter from the Board in this Circular to the Shareholders. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in this circular.

First Shanghai Capital Ltd. has been appointed to advise us regarding the Non-exempt Continuing Connected Transactions. We wish to draw your attention to the letter from First Shanghai Capital Ltd which contains advice to us in relation to the Non-exempt Continuing Connected Transactions and the New Annual Caps, together with the principal factors and reasons taken into consideration in arriving at such advice. Your attention is also drawn to the letter from the Board and the additional information set out in the appendixes to this Circular.

Having taken into account the advice of, and the principal factors and reasons considered by First Shanghai Capital Ltd in relation thereto as stated in its letter, we consider the terms and conditions of the Non-exempt Continuing Connected Transactions, the New Annual Caps and Financial Services Agreement to be fair and reasonable so far as the interests of the Independent Shareholders are concerned. We therefore recommend you to vote in favour of the Non-exempt Continuing Connected Transactions, the New Annual Caps.

Yours faithfully,

Independent Board Committee

Xu Boling	Fung Ching Simon	Xie Zhuang	George F Meng
<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 purpose only

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter received from First Shanghai setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Continuing Connected Transactions pursuant to (i) the Financial Services Agreement (in relation to the provision of deposit services only) and (ii) the Agreements and the New Annual Caps for the purpose of inclusion in this circular.



FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

12 November 2007

*To the Independent Board Committee and
the Independent Shareholders*

Meilan Airport Complex
Haikou City
Hainan Province
The PRC
Postal Code: 571126

Dear Sirs,

**NON-EXEMPT CONTINUING CONNECTED TRANSACTION AND
DISCLOSEABLE TRANSACTION
(FINANCIAL SERVICES AGREEMENT)
AND
RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions pursuant to (i) the Financial Services Agreement and the Supplemental Agreement (in relation to the provision of deposit services only) and (ii) the Agreements, namely, (1) Airport Ground Services Agreement entered into between the Company and Hainan Airlines; (2) Cargo Mail and Luggage Services Agreement entered into between the Company and Hainan Airlines; (3) Airport Ground Services Agreement entered into between the Company with each of China Southern Airlines and its

LETTER FROM INDEPENDENT FINANCIAL ADVISER

subsidiary, Xiamen Airlines Company; (4) Airport Composite Services Agreement entered into between the Company and the Parent Company; and (5) Logistic Composite Services Agreement entered into between the Company and HNA Group (collectively as the “Agreements”) and the New Annual Caps, as to whether the terms of the transactions contemplated therein, the New Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, details of which are contained in the “Letter from the Board” in the circular issued to the Shareholders dated 12 November 2007 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context requires otherwise.

On 8 October 2007, the Company and HNA Group Finance entered into the Financial Services Agreement, pursuant to which, HNA Group Finance has agreed to provide the Company with deposit services, loan services and other financial services subject to the terms and conditions provided therein.

The Company has also been engaged in certain transactions with connected persons and their respective associates during the Company’s ordinary course of business, which constitute continuing connected transactions for the Company under the Listing Rules. Some of these non-exempt continuing connected transactions entered into by the Company in the year 2005 will expire on 31 December 2007 and the Board has conducted a review of the Non-exempt Continuing Connected Transactions as to the Agreements and New Annual Caps to be proposed for the Non-exempt Continuing Connected Transactions for a period from 1 January 2008 and ending on 31 December 2010.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The Company has entered into the Agreements with Hainan Airlines, China Southern Airlines, the Parent Company and HNA Group and their relevant associates, respectively, in respect of the Non-exempt Continuing Connected Transactions for the period from 1 January 2008 to 31 December 2010, details of which are summarised as follows:

	Hainan Airlines		China Southern Airlines and its subsidiary, Xiamen Airlines		HNA Group
	(a)(1)	(a)(2)	Company (b)	Parent Company (c)	(d)
Date of Agreement	1/10/2007	8/10/2007	1/10/2007	8/10/2007	8/10/2007
Nature of services provided for	Customary airport ground services	Cargo mail and luggage services	Customary airport ground services	Airport composite services	Logistic composite services
Term	3 years commencing from 1/1/2008 to 31/12/2010	A term commencing from the effective date of the agreement to 31/12/2009	3 years commencing from 1/1/2008 to 31/12/2010	3 years commencing from 1/1/2008 to 31/12/2010	3 years commencing from 1/1/2008 to 31/12/2010
Pricing	Various charge standards are primarily determined by or with reference to relevant regulations of the CAAC applicable to all the customers including independent third parties	Various charge standards are primarily determined by relevant applicable regulations of the CAAC and the standards agreed in this agreement	Various charge standards are primarily determined by the relevant regulations of the CAAC applicable to all the customers including independent third parties and the standards agreed in this agreement.	Various charge standards are primarily determined, as the case may be, in accordance with (i) the cost incurred by the Parent Company in providing such services plus a 5% mark-up fee as management fee; (ii) the cost incurred by the Parent Company in providing such service plus a 25% mark-up fee as management fee; (iii) the standards prescribed by CAAC and collected by the Company on behalf of the Parent Company from relevant airlines companies; and (iv) charges calculated in accordance with national/industry pricing standards or on a cost plus mark-up fee basis	Various charge standards are primarily determined, subject to the annual cap for the year of 2008 and no more than 5% of annual growth thereafter, as the case maybe, in accordance with (i) the costs for providing such services; (ii) a fixed unit charge multiplied by the number of employees of the Company on a monthly basis; (iii) a fixed charge per year; (iv) the cost for providing such service plus a 5% mark-up fee as management fee; (v) the actual cost for the commodity procurement plus 1% mark-up fee as management fee; and (vi) charges calculated in accordance with national/industry pricing standards or on a cost plus mark-up fee basis

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Hainan Airlines, China Southern Airlines, the Parent Company and HNA Group are promoters of the Company. Accordingly, each of Hainan Airlines, China Southern Airlines, the Parent Company and HNA Group is a connected person of the Company under the Listing Rules, and the transactions between the Company and those connected persons and their associates constitute connected transactions for the Company under the Listing Rules and is subject to the reporting and announcement requirements and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.47 and 14A.66 of the Listing Rules.

In relation to the cargo mail and luggage services agreement with Hainan Airlines, the applicable percentage ratios computed pursuant to Rule 14.04(9) of the Listing Rules are higher than 2.5% but less than HK\$10,000,000. However, such transactions, 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 requirements under Chapter 14A of the Listing Rules.

In relation to the airport ground services with Xiamen Airlines Company, the applicable percentage ratios computed pursuant to Rule 14.04(9) of the Listing Rules are higher than 2.5% but less than HK\$10,000,000. However, such transaction, when aggregated with the relevant connected transactions with China Southern 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 requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising all the four independent non-executive Directors, namely Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching, Simon and Mr. George F Meng, has been established to consider and advise the Independent Shareholders as to whether the Non-exempt Continuing Connected Transactions as contemplated under (i) the Financial Services Agreement and the Supplemental Agreement (in relation to the provision of deposit services only) for the three years commencing from 8 October 2007 to 7 October 2010; and (ii) the Agreements for the three years ending 31 December 2010 are fair and reasonable, on normal commercial terms, 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 whether the New Annual Caps have been determined on a fair and reasonable basis, and to advise the Independent Shareholders on how to vote at the forthcoming EGM, taking into account the recommendation of the independent financial adviser. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether the Non-exempt Continuing Connected Transactions as contemplated under (i) the Financial Services Agreement and the Supplemental Agreement (in relation to the provision of deposit services only) for the three years commencing from 8 October 2007 to 7 October 2010; and (ii) the Agreements for the three years ended 31 December 2010 are fair and reasonable, on normal commercial terms, 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 whether the New Annual Caps have been determined on a fair and reasonable basis, and to advise the Independent Shareholders on how to vote at the forthcoming EGM.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion, we have relied to a considerable extent on the information, statements, opinions and representations supplied to us by the Company and the Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true and accurate and, unless otherwise stated, complete at the time they were made and continue to be true at the date of the Circular, and we have relied on the same. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the “Letter from the Board” of the Circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the Circular to provide a reasonable basis of our opinions. We have no reason to suspect that any material facts or information (which is known to the Company) have been omitted or withheld from the information supplied or opinions expressed in the Circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and its Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation relating to the Non-exempt Continuing Connected Transactions pursuant to (i) the Financial Services Agreement (in relation to the provision of financial services only) and (ii) the Agreements and the New Annual Caps, we have taken into consideration, inter alia, the following principal factors and reasons:

I. NEW NON-EXEMPT CONTINUING CONNECTED TRANSACTION (FINANCIAL SERVICES AGREEMENT)

Background of the Financial Services Agreement

On 8 October 2007, the Company and HNA Group Finance entered into the Financial Services Agreement, pursuant to which, HNA Group Finance has agreed to provide the Company with deposit services, loan services and other financial services subject to the terms and conditions provided therein.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The Parent Company, being the controlling Shareholder, holds approximately 31.25% of the equity interest in HNA Group Finance. Therefore, HNA Group Finance is an associate of the Parent Company and is a connected person of the Company. The transaction contemplated under the Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transaction of the Company under the Listing Rules.

As certain percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) applicable to the provision of deposit services under the Financial Services Agreement are each more than 2.5%, the deposit services to be provided by HNA Group Finance to the Group are subject to the reporting, announcement and independent shareholders' approval requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

In addition to the deposit services to be provided by HNA Group Finance, the loan services to be provided by HNA Group Finance to the Group under the Financial Services Agreement amount to the provision of financial assistance by a connected person for the benefit of the Group, on normal commercial terms or more favourable terms than those offered by independent third parties for comparable services in the PRC where no security over the assets of the Group is granted in respect of the financial assistance. Thus, the provision of such services is exempt under Rule 14A.65(4) of the Listing Rules from all reporting, announcement and independent shareholders' approval requirements since no security over the assets of the Group is granted in respect of the loan.

In respect of other financial consulting services to be provided by HNA Group Finance to the Group under the Financial Services Agreement, the Company estimates that the total financial consulting fees payable by the Group to HNA Group Finance would not be higher than RMB2,000,000 (equivalent to approximately HK\$2,000,000) annually. As one of the percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) is above 0.1% but lower than 2.5% and the total consideration for the provision of such financial consulting services is lower than HK\$10,000,000, the provision of the same services by HNA Group Finance to the Group is subject to comply with the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under the Listing Rules.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Background of HNA Group Finance

HNA Group Finance is a non-bank financial institution established in the PRC on 10 January 1994 with a registered capital of RMB800 million. Currently, HNA Group and the Parent Company made contribution of RMB326,425,100 and RMB250 million to the registered capital of HNA Group Finance, representing approximately 40.8% and 31.25% respectively. China Xinhua Airlines Co., Ltd and HNA Hotel (Group) Co., Ltd. hold 12.5% and 6.25% in the equity interest of HNA Group Finance respectively and other equity interests are held by other third parties which are independent of the Company. HNA Group holds 36% of the equity interest in HNA Hotel (Group) Co., Ltd. and Hainan Airlines holds 60% of China Xinhua Airlines Co., Ltd.

HNA Group Finance mainly engages in the provision of financial services, including deposit services, settlement services, loans and finance leasing services, bill acceptance and discount services, entrusted loans and entrusted investment services, company debt bonds underwriting services, financial and financing consultation and credit certification. According to HNA Group Finance's 2006 Credit Rating Report issued by Dagong Global Credit Rating Co., Ltd., HNA Group Finance's credit rating is AA+. This credit rating is the judgement made in respect of a company's capability to pay its non-secured debt and its capability to fulfill economic contracts. The credit rating AA means the company can provide a high level of security with regard to repayment of its debt.

Reasons for entering into the Financial Services Agreement

One of the purposes for the establishment of HNA Group Finance is to facilitate the provision of financial services to the inter-group members in respect of production, sales, operation and management and HNA Group Finance are expected to render more expedient and efficient services than other PRC commercial banks to the Company.

Inter-group fund settlement and transaction costs can be reduced if it can use HNA Group Finance's system for the settlement of transactions between the Company and other companies in the HNA Group.

The rates on loans and deposits offered by HNA Group Finance to the Group will be equal to or more favourable than those offered by commercial banks in the PRC.

The Group is expected to benefit from HNA Group Finance acting as a financing platform and facilitate the use of external funding.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The Directors (including the independent non-executive Directors) are satisfied that (i) the terms and conditions of the Financial Services Agreement have been negotiated on an arm's length basis and are on normal commercial terms; (ii) such transactions will be conducted in the ordinary and usual course of business of the Company; and (iii) the terms of the same transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Major terms of the Financial Services Agreement

Financial services to be provided

Pursuant to the Financial Services Agreement, subject to the Company's request and provided that HNA Group Finance obtained the relevant approval from the CBRC, HNA Group Finance shall provide to the Group with financial services, include deposit services, settlement services, loans and finance leasing services, bill acceptance and discount services, entrusted loans and entrusted investment services, company debt bonds underwriting services, financial and financing consultation, credit certification and other relevant advice and agency services and provision of security and other financial services approved by CBRC.

As to the integrated credit facilities, HNA Group Finance will approve the scope, projects to be used, amount and securities together as a package.

Service principles

HNA Group Finance has undertaken to adhere to the principles below in providing the aforementioned financial services to the Group:

1. the interest rate for the Group's deposits with HNA Group Finance shall be fixed as the deposit interest rate and shall not be lower than the benchmark deposit rate as announced by the PBOC;
2. the interest rate for loans granted to the Group by HNA Group Finance shall be the base lending rate and shall not be higher than the benchmark lending rate as announced by the PBOC; and
3. as to the settlement services, HNA Group Finance shall provide such services to the Company if requested, including but not limited to the business of central settlement management on a free-charge basis except those fees requested by PBOC.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

The Company's discretion

The Group, with the benefit of the information of the market rate and in view of its own interests, has the rights to determine whether to maintain the business relationship with HNA Group Finance or not. The Group may obtain financial services from other financial institutions in addition to those provided by HNA Group Finance pursuant to the Financial Services Agreement.

Termination

HNA Group Finance should safeguard the fund and if any loss happened to the fund, the Company shall have the right to unilaterally terminate the Financial Services Agreement.

Term

The term of the Financial Services Agreement shall be three years commencing from 8 October 2007 to 7 October 2010.

On 6 November 2007, the Company entered into the Supplemental Agreement pursuant to which the Company, after negotiation with HNA Group Finance, has adjusted the maximum daily deposit balance (excluding the interest accrued therefrom) with HNA Group Finance for a period commencing from 8 October 2007 to 7 October 2010. Under the Supplemental Agreement, the maximum daily deposit balance (excluding the interest accrued therefrom) will not exceed RMB450 million (equivalent to approximately HK\$450 million).

Given (i) the deposit interest rate for the Group's deposits with HNA Group Finance shall not be lower than the benchmark deposit rate as announced by the PBOC; (ii) the Group has sole discretion to determine whether to maintain the business relationship with HNA Group Finance or not; (iii) the Group may obtain financial services from other financial institutions in addition to those provided by HNA Group Finance pursuant to the Financial Services Agreement; (iv) the Company shall have the right to unilaterally terminate the Financial Services Agreement, we are of the view that (a) the terms and conditions of the Financial Services Agreement are entered into on normal commercial terms, (b) the Non-exempt Continuing Connected Transaction will be conducted in the ordinary and usual course of business of the Group; and (c) the terms of the Non-exempt Continuing Connected Transaction are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Annual cap of the Non-exempt Continuing Connected Transaction

The Company estimates its daily deposit balance (excluding the interest accrued therefrom) with HNA Group Finance for the four years 2007, 2008, 2009 and 2010 will not exceed RMB450 million (equivalent to approximately HK\$450 million). Such proposed annual cap has been determined based on the following three factors:

- the Group had a total amount of time deposits and cash and cash equivalents of approximately RMB506,229,000 (equivalent to approximately HK\$506,229,000) as at 30 June 2007;
- there is about RMB44,445,000 (equivalent to approximately HK\$44,445,000) airport fee receivable by the Company as at 30 June 2007 as disclosed in the Company's interim report dated 11 September 2007; and
- the future plan of the Company.

The Company confirms that there is neither historical cap nor maximum outstanding balance for the deposit services. The deposit services are subject to the annual review requirement under the Listing Rules.

Based on the interim report of the Company for the six months ended 30 June 2007, the Group had bank and cash balances (including time deposits) of approximately RMB506.2 million as at 30 June 2007. We have discussed with the Directors that, though the Company has proposed an annual cap of RMB450 million for 2007 and the coming three years from 2008 to 2010, it would merely provide greater flexibility to the Directors for better management of the Group's funding; whilst the Directors will, from time to time, carefully review its funding needs and working capital requirements prior to placing deposit(s) to HNA Group Finance in the future. The Company currently expects to deposit all its cash balance to HNA Group Finance. We have reviewed the annual report and interim report of the Company for the two years ended 31 December 2006 and the six months ended 30 June 2007 respectively, and noted that the Group had large operating cash inflows of approximately RMB121.6 million, RMB173.9 million and RMB124.3 million respectively. In view of such scenario, we are of the view that it is justifiable to provide greater flexibility to the Directors in managing the Group's future funding needs, and the proposed annual cap of RMB450 million for 2007 and the three years from 2008 to 2010 is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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II. RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Background of the Group

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

Background of the connected persons as contracting parties under the Agreements

Hainan Airlines, China Southern Airlines and Xiamen Airlines Company are principally engaged in airline operation business and Xiamen Airlines Company is a 60% subsidiary of China Southern Airlines.

The Parent Company is principally engaged in ancillary airport service business.

HNA Group is principally engaged in aeronautical business.

Reasons for the Non-exempt Continuing Connected Transactions

The Company is principally engaged in the management and operation of the aeronautical and the non-aeronautical businesses at Meilan Airport. As mentioned in the “Letter from the Board” of the Circular, the Non-exempt Continuing Connected Transactions are entered into because they are necessary for and beneficial to the Company. The Board believes that the establishment of long-term cooperation relationship with these companies will stabilise the Company’s operation, ensure a broad stream of revenue source and a relative stable profits rate and is of the commercial benefits to the Company and the Group as a whole.

In addition, the Company would like to concentrate on its core business related to the airport operation and outsource ancillary airport services to those who have the expertise and experience required for provision of such services and are in a better position to meet the quality standard and efficiency of costs required by the Company in respect of the relevant services.

The Directors (including the independent non-executive Directors) are satisfied that (i) the terms and conditions of the Non-exempt Continuing Connected Transactions have been negotiated on an arm’s length basis and are on normal commercial terms; (ii) such transactions will be conducted in the ordinary and usual course of business of the Company; and (iii) the terms of the same transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The entering into of the Non-exempt Continuing Connected Transactions has facilitated and will continue to facilitate the operation and growth of the Group’s business.

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We noted that the Group has been operating the Meilan Airport, the main gateway to the Hainan Island, Hainan Province, the PRC since May 1999, and has basically been experiencing a smooth operation and satisfactory growth in terms of aircraft movement, passenger throughput and cargo throughput since then. In the course of the Group's history of business development, the business co-operation relationship between the Group and each of Hainan Airlines, China Southern Airlines, the Parent Company, HNA Group and its associates has been well established since its commencement of operations in 1999.

Given that there is a long history of cooperation between the Group and each of Hainan Airlines, China Southern Airlines, the Parent Company, HNA Group and its associates, the Non-exempt Continuing Connected Transactions are consistent with the Group's established relationship with each of them. In order for the Group to continue to maintain the mutual and well-established relationship with each of Hainan Airlines, China Southern Airlines, the Parent Company, HNA Group and its associates, it is important that the Group is able to accommodate stable revenue sources or operational support from each of them. We believe that the New Annual Caps are therefore necessary to facilitate this and is in the interest of the Group and fair and reasonable to the Shareholders as a whole.

Background of the Non-exempt Continuing Connected Transactions

(a)(1) Airport ground services to Hainan Airlines

The Company has been providing customary airport ground services including landing facilities, basic ground handling service, passenger and baggage services and other related services to Hainan Airlines and its subsidiaries. The previous contractual arrangements and the existing waiver granted in respect of the provision for the airport ground services will expire on 31 December 2007. The execution of the new contractual arrangements is to secure continuity of the provision for the airport ground services.

(a)(2) Cargo mail and luggage services to Hainan Airlines

On 5 January 2005, the Company entered into a cargo centre lease agreement with Hainan Airlines (the "Cargo Centre Lease Agreement"), pursuant to which, the Company had taken over the management and operation of the cargo centre at Meilan Airport under a contractual management arrangement. Under the cargo center facilities and assets lease agreement, Hainan Airlines agreed to rent part of the premises, facilities and assets at the cargo centre

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from the Company for conduction of its own cargo handling and storage operation. Pursuant to the Cargo Centre Lease Agreement, the Company agreed, for a period of three years, to lease part of the premises, facilities and assets at the cargo centre to Hainan Airlines for the latter's conduction of its own cargo handling and storage operation. The rental charges were primarily set at different rates depending on the function and usage of the premises and the book value of the movable assets. The charge rates were fixed by the Company with reference to the costs of depreciation on a 6-year basis for movable assets and rates of investment return of 5% to 7% for immovable assets.

However, the Company subsequently entered into a business handover agreement with Hainan Airlines on 26 August 2005 (the "Business Handover Agreement") under which a monthly rate of RMB500,000 (equivalent to approximately HK\$500,000) is to be paid by Hainan Airlines to the Company for the period from 1 August 2005 to the date immediately before the Assets Transfer Closing Date. For more details of this arrangement, please refer to the Company's circular dated 16 September 2005. The Company confirms that the Assets Transfer was completed in March 2007, and therefore the actual transaction amount shall be RMB6,000,000 (equivalent to approximately HK\$6,000,000) for the years of 2005 and 2006. Starting from April 2007, the service charges to be paid by Hainan Airlines to the Company are calculated according to the actual transaction amount incurred for the remaining period of 2007.

It is currently expected that, commencing from 1 January 2008, the Company agrees to provide flights of Hainan Airlines with cargo mail and luggage services, including container equipment management service, luggage service, cargo and mail service, uploading and loading service and land transportation service to Hainan Airlines and its subsidiaries. The various charge standards are primarily determined by relevant applicable regulations of the CAAC and the standards agreed in the relevant agreement.

(b) *Airport ground services to China Southern Airlines and its subsidiary, Xiamen Airlines Company*

The Company has been providing customary airport ground services including landing facilities, basic ground handling service, passenger and baggage services and other related services to China Southern Airlines and Xiamen Airlines Company, a 60% owned subsidiary of China Southern Airlines ("Xiamen Airlines Company"). The previous contractual arrangements and the existing waiver granted in respect thereof will expire on 31 December 2007 and the execution of new contractual arrangements is to secure continuity of the services.

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(c) Airport composite services by the Parent Company

The Parent Company has been providing airport composite services (including (i) security guard services, (ii) cleaning and environment maintenance services, (iii) sewage and refuse processing services, (iv) power and energy supply and equipment maintenance services, (v) passengers and luggage security inspection services and (vi) other services required by the Company) to the Group. The previous contractual arrangement and the existing waiver granted in respect thereof will expire on 31 December 2007. The Company intends to secure continuity of the services from the Parent Company by executing a new agreement.

(d) Logistic composite services by HNA Group

HNA Group has been providing logistic composite services (including (i) staff training, (ii) staff shuttle bus services, (iii) staff cafeteria services, (iv) vehicle maintenance services, (v) commodities and appliance procurement and (vi) other services required by the Company) to the Group. The previous contractual arrangement and the existing waiver granted in respect thereof will expire on 31 December 2007. The Company intends to secure continuity of the services from HNA Group by executing a new agreement.

Nature and terms of the Agreements

Details of the terms of each of the Agreements are set out in the “Letter from the Board” of the Circular. Set out below is the summary of the key terms of each of the Agreements:

(a)(1) The Airport Ground Services Agreement with Hainan Airlines

Under the Airport Ground Services Agreement with Hainan Airlines, the Company agreed, for a period of three years commencing from 1 January 2008, to provide customary airport ground service to Hainan Airlines, including basic agency service, container equipment management service, passenger and baggage service, cargo and mail processing, relevant transportation service, cleaning service, security safeguard service and other services related to Hainan Airlines and its subsidiaries. The various service charge rates are primarily determined by relevant regulations of the CAAC applicable to all the domestic airlines including independent third parties.

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(a)(2) The Cargo Mail and Luggage Services Agreement with Hainan Airlines

Under the Cargo Mail and Luggage Services Agreement with Hainan Airlines, the Company agreed, for a period from the effective date of the agreement to 31 December 2009, to provide flights of Hainan Airlines with cargo mail and luggage services, including container equipment management services, luggage services, cargo and mail services, uploading and loading services and land transportation services to the Hainan Airlines and its subsidiaries Hainan Airlines and its subsidiaries. The various service charge rates are primarily determined by the CAAC and applicable to all the domestic airlines including independent third parties and the standards agreed in this agreement.

As stated in the “Letter from the Board” of the Circular, Hainan Airlines is a company principally engaged in airlines operation business. Under the existing contractual arrangements, the customary airport ground services and cargo mail and luggage services provided by the Company to Hainan Airlines and its subsidiaries are charged at rates that are primarily fixed by the CAAC. As discussed with the management of the Group, the customary airport ground services and cargo mail and luggage services being and to be provided by the Company to Hainan Airlines and its subsidiaries pursuant to the Airport Ground Services Agreement and the Cargo Mail and Luggage Services Agreement respectively with Hainan Airlines are of the same type of customary airport ground services and cargo mail and luggage services as previously provided and the charge rates will continue to be fixed at the rates fixed by the CAAC which are applicable to all domestic airlines including independent third parties. Accordingly, the Directors consider that the charge rates are determined on an arm’s length basis.

For the cargo mail and luggage services to be provided by the Company to Hainan Airlines and its subsidiaries, we have noted that the Company will offer a 50% discount thereof to Hainan Airlines by the Company. Based on our discussion with the Directors, we understand that Hainan Airlines has no cargo centre at Meilan Airport and it needs to entrust third parties to process its cargo or lease relevant assets from the Company for operations. The Company has its own cargo centre, but the business conducted by its cargo centre is comparatively small if without the business income arising from the rent paid by Hainan Airlines. In addition, in an event of failure of obtaining the business to process Hainan Airlines’ cargo operations, the Company’s business income in respect

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of cargo processing operations would be adversely affected. In order to establish a long-term cooperation relationship with Hainan Airlines and keep it as one of the Company's major customers, the Company has agreed to offer a 50% discount of the cargo mail and luggage service rendered to Hainan Airlines by the Company. In view of such scenario, we consider that it is justifiable for the 50% discount to be offered to Hainan Airlines, so as to prolong the "win-win" situation between the Company and Hainan Airlines in the long run.

Based on the above facts and representations by the management of the Group, we are of the view that the Airport Ground Services Agreement and the Cargo Mail and Luggage Services Agreement are entered into (i) on normal commercial terms, (ii) in the ordinary and usual course of business of the Group; and the terms thereof are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

(b) The Airport Ground Services Agreements with China Southern Airlines and its subsidiary, Xiamen Airlines Company

Under the Airport Ground Services Agreements with China Southern Airlines and its subsidiary, Xiamen Airlines Company, the Company agreed to provide customary airport ground services to Xiamen Airlines Company, including basic agency services, loading documentation and communication services, passenger and baggage service, cargo and mail processing, relevant transportation service, cleaning service, security safeguard service and other services related to Xiamen Airlines Company for a period of three years commencing from 1 January 2008. The service charge rates are primarily determined by the relevant regulations of the CAAC which are applicable to all domestic airlines including independent third parties and the standards agreed in this agreement.

Similar to the Airport Ground Services Agreement with Hainan Airlines, the Company has been providing airport ground services to China Southern Airlines and Xiamen Airlines Company charging at rates primarily fixed by the CAAC. We have discussed with the management of the Group and noted that the airport ground services being and to be provided by the Company to China Southern Airlines and Xiamen Airlines Company are of the same type of the airport ground services as previously provided and the charge rates will continue to be fixed at the rates primarily fixed by the CAAC which are applicable to all domestic airlines including independent third parties. The Directors consider that the charge rates are determined on an arm's length basis.

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Based on the above facts and representations by the management of the Group, we are of the view that the Airport Ground Services Agreement with China Southern Airlines and Xiamen Airlines Company are entered into (i) on normal commercial terms, (ii) in the ordinary and usual course of business of the Group; and the terms thereof are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

The Airport Composite Services Agreement with the Parent Company

Under the Airport Composite Services Agreement between the Company and the Parent Company, the Parent Company agreed, to provide including (i) security guard services; (ii) cleaning and environment maintenance services; (iii) sewage and refuse processing services; (iv) power and energy supply and equipment maintenance services; (v) passengers and luggage security inspection services; and (vi) other services required by the Company to the Group for a period of three years commencing from 1 January 2008. The charges relating to the services provided will be levied in the following manners:

- for items (i) to (iii) above will be determined in accordance with the cost incurred by the Parent Company in providing such services plus a 5% mark-up fee as management fee;
- for item (iv) above will be determined in accordance with the cost incurred by the Parent Company in providing such service plus a 25% mark-up fee as management fee;
- for item (v) above shall be calculated in accordance with standards prescribed by the CAAC and collected by the Company on behalf of the Parent Company from relevant airlines companies; and
- for item (vi) above shall be calculated in accordance with national pricing standards, the industry pricing standards or a cost plus mark-up fee basis.

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As stated in the “Letter from the Board” of the Circular, the Parent Company is a company principally engaged in ancillary airport service business. The charges relating to the provision of airport composite services will be determined in accordance with the cost to the Parent Company in providing such services plus a 5% mark-up as management fee, except for power and energy supply and equipment maintenance services, the mark-up of which will be 25% pursuant to the relevant pricing guidelines set by the CAAC. The charges relating to the provision of passengers and luggage security inspection services will be determined in accordance with the rate prescribed by the CAAC and charged to the airlines’ customers directly and the Company will collect on behalf of the Parent Company such fees from the airlines customers. For the possible provision of any other services as required by the Company, the charge rates will be calculated in accordance with national pricing standards, the industry pricing standards or a cost plus mark-up fee basis.

The Directors consider that the above terms of the Airport Composite Services Agreement have been negotiated on an arm’s length basis and are determined by reference to the historical rates charged by the Parent Company and the pricing guidelines prescribed by the CAAC. We have discussed with the Directors about the 5% mark-up as management fee charged by the Parent Company and noted that such management fee corresponds with the business tax rate charged by the relevant PRC tax authorities. Accordingly, the Parent Company charges a 5% mark-up as management fee to cover the taxation cost to be incurred by the Parent Company and such rate will continue to apply for the coming three years ending 31 December 2010. We have also discussed with the management of the Company on the 25% mark-up management fee for power and energy supply and equipment maintenance services and noted that the charge rate is based on the pricing guidelines set by the CAAC (which is also a historical rate since the inception of such services). The Directors consider that the charges of 5% and 25% mark-up as management fee for providing the airport composite services are determined on a fair and reasonable basis.

Based on the above facts and representations by the management of the Group, we are of the view that the terms of the various services being and to be provided by the Parent Company under the Airport Composite Services Agreement and the Airport Composite Service Agreement with the Parent Company (i) are entered into on normal commercial terms, (ii) will be conducted in the ordinary and usual course of business of the Group; and (iii) are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

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The Logistic Composite Services Agreement with HNA Group

Under the Logistic Composite Services Agreement, HNA Group has agreed, to provide and procure any third party (if necessary) with the Company's consent to provide including (i) staff training; (ii) staff shuttle bus services; (iii) staff cafeteria services; (iv) vehicle maintenance services; (v) commodities and appliance procurement; and (vi) other services required by the Company to the Group for a period of three years commencing from 1 January 2008 while the Company retain the right to terminate certain services if such services can be obtained from a third party on a preferential basis.

Subject to the annual cap for the year of 2008 and no more than 5% of annual growth thereafter, the charges relating to the various services provided will be levied in the following manners:

- for item (i) above will be the costs for providing such services;
- for item (ii) above shall be RMB10 (equivalent to approximately HK\$10) multiplied by the number of employees of the Company on a monthly basis;
- for item (iii) above will be RMB924,000 (equivalent to approximately HK\$924,000) per year;
- for item (iv) above will be the cost for providing such service plus a 5% mark-up fee as management fee;
- for item (v) above will be the actual cost for the commodity procurement plus 1% mark-up fee as management fee; and
- for item (vi) above shall be calculated in accordance with national pricing standards, the industry pricing standards or a cost plus mark-up fee basis.

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As mentioned in the “Letter from the Board” of the Circular, HNA Group is a company principally engaged in an aeronautical business. The charges relating to (i) the provision of staff training will be at cost for providing such services; the charge rates (ii) for the staff shuttle bus services and (iii) staff cafeteria services will be at a fixed price with reference to the relevant cost per headcount (e.g. food material cost, rental cost, staff cost, etc.); (iv) for the vehicle maintenance services, the charge rates will be determined in accordance with the cost for providing such services plus a 5% markup as management fee; (v) for commodities and appliance procurement, the charges rates determined in accordance with the actual costs for the commodities and procurement plus 1% mark-up as management fee; and (vi) for other services required by the Company, the charge rates will be calculated in accordance with national pricing standards, the industry pricing standards or a cost plus mark-up fee basis.

We noted from the Directors that the above charge bases in essence have been remaining unchanged from those applicable to the parties during the three years ending 31 December 2007. We have discussed with the management of the Group about the 5% mark-up as management fee charged by HNA Group and noted that such management fee corresponds with the business tax rate charged by the relevant PRC tax authorities. Accordingly, HNA Group charges a 5% mark-up as management fee to cover the taxation cost to be incurred by HNA Group and such rate will continue to apply for the coming three years ending 31 December 2010. We have also discussed with the management of the Group on the 1% mark-up management fee for the commodity and appliance procurement and noted that such minimal management fee merely represents a nominal handling charge in compensation for the administrative work to be borne by HNA Group. The Directors consider that the charges of 5% mark-up as management fee for providing the logistic composite services are determined on a fair and reasonable basis. In addition, the Directors have confirmed that the basis of charging the 1% management fee on actual costs of commodities and appliance procurement is basically the same as the previous rate charged by HNA Group.

We have reviewed the charges for the three years ending 31 December 2007 and noted that they are basically the same as the historical rate. In this regard, we consider that the above bases in relation to staff training, staff shuttle bus services, staff cafeteria services, vehicle maintenance services and commodities appliance procurement are essentially based on the costs to HNA Group in providing such services or costs plus management fee mark-up by HNA Group, which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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Based on the above facts and representations by the management of the Group, we are of the view that the terms of the various services being and to be provided by HNA Group under the Logistic Composite Services Agreement and the Logistic Composite Service Agreement with HNA Group (i) are entered into on normal commercial terms, (ii) will be conducted in the ordinary and usual course of business of the Group; and (iii) are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

Annual caps of the Non-exempt Continuing Connected Transactions

Historical figures

The following table shows the actual transaction amount in respect of those transactions between the Company and the relevant contractual parties in the past three years ending on 31 December 2007:

	Year ended/ending 31 December		
	2005	2006	2007 (expected transaction amount²)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(a)(1) Airport ground services with Hainan Airlines	73,355	59,762	61,002
(a)(2) Cargo mail and luggage services with Hainan Airlines	6,000 ³	6,000 ³	6,546
(b) Airport ground services with China Southern Airlines and Xiamen Airlines Company (in aggregation)	44,893 ⁴	39,164 ⁴	45,466 ⁴
(c) Airport composite services by the Parent Company	12,600	15,230	15,700
(d) Logistic composite services by HNA Group	10,740	10,190	11,690

Notes:

- The expected transaction amount for the year 2007 of all the Non-exempt Continuing Connected Transactions contemplated in the Circular is calculated by the actual transaction amount for the first half year of 2007 multiplying two.

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3. The Company entered into a Business Handover Agreement (as referred to in the announcement dated 26 August 2005) with Hainan Airlines on 26 August 2005 under which a monthly rent of RMB500,000 (equivalent to approximately HK\$500,000) is to be paid by the Hainan Airlines to the Company for the period from 1 August 2005 to the date immediately before the Assets Transfer Closing Date. The Company confirms that the Assets Transfer completed at March 2007. Therefore the actual transaction amount is RMB6,000,000 (equivalent to approximately HK\$6,000,000) for the two years of 2005 and 2006.
4. The actual transaction amounts with China Southern Airlines are RMB42,900,000 (equivalent to approximately HK\$42,900,000), RMB36,900,000 (equivalent to approximately HK\$36,900,000) and RMB42,720,000 (equivalent to approximately HK\$42,720,000) respectively for the three years ending on 31 December 2007. The actual transaction amounts with Xiamen Airlines Company are RMB1,993,000 (equivalent to approximately HK\$1,993,000), RMB2,264,000 (HK\$2,264,000) and RMB2,746,000 (equivalent to approximately HK\$2,746,000) respectively for the three years ending on 31 December 2007.

New Annual Caps

The Board has considered and proposed that the following caps be set for the annual volumes of the relevant transactions above for the same period from 1 January 2008 to 31 December 2010:

	Increase/ (decrease)		Increase		Increase	
	2008	from 2007	2009	from 2008	2010	from 2009
	RMB'000	%	RMB'000	%	RMB'000	%
(a)(1) Airport ground services with Hainan Airlines	66,500	9.0	72,500	9.0	79,000	9.0
(a)(2) Cargo mail and luggage services with Hainan Airlines	3,633 ⁵	(44.5)	4,033 ⁵	11.0	N/A	N/A
(b) Airport ground services with China Southern Airlines and Xiamen Airlines Company	49,110 ⁶	8.0	53,040 ⁶	8.0	57,290 ⁶	8.0
(c) Airport composite services by the Parent Company	16,500	5.1	17,300	4.8	18,200	5.2
(d) Logistic composite services by HNA Group	12,500	6.9	13,000	4.0	13,500	3.8

Notes:

5. The Cargo Mail and Luggage Services Agreement will be with a term commencing from the effective date of the agreement to 31 December 2009. The annual caps shall be for the three years of 2007, 2008 and 2009 accordingly.

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6. The annual caps for the airport ground services with China Southern Airlines and Xiamen Airlines Company are calculated in aggregation with the annual caps with China Southern Airlines of RMB46,140,000 (equivalent to approximately HK\$46,140,000), RMB49,830,000 (equivalent to approximately HK\$49,830,000) and RMB53,820,000 (equivalent to approximately HK\$53,820,000) for the year 2008, 2009 and 2010 and the annual caps with Xiamen Airlines Company of RMB2,970,000 (equivalent to approximately HK\$2,970,000), RMB3,210,000 (equivalent to approximately HK\$3,210,000) and RMB3,470,000 (equivalent to approximately HK\$3,470,000) for the year 2008, 2009 and 2010.

Basis of the New Annual Caps

The above New Annual Caps are estimated based on various factors including but not limited to (1) the historical transaction amounts recorded by the Company respectively; and (2) the anticipated increases in the business to be conducted by the Company under the Non-exempt Continuing Connected Transactions. The following sets out the basic factors taken into consideration by the Board for the New Annual Caps.

For the purpose of making analysis for the basis of determination for the New Annual Caps, we have noted the following statistical information in the PRC as extracted from the website of 中華人民共和國國家統計局 (The National Bureau of Statistics of China):

- the real gross domestic products (the “GDP”) growth rate of the PRC for the year 2006 and the first half year of 2007 had increased by approximately 10.4% and 11.9% when compared with that in 2005 and the corresponding first half year in 2006 respectively;
- the GDP of Hainan Province, the PRC in 2006 amounted to approximately RMB105.24 billion, representing an increase of approximately 12.5% when compared with that in 2005;
- the consumer price index (the “CPI”) of the PRC for the eight months ended 31 August 2007 was approximately 6.5% when compared with that of the corresponding period in 2006; and

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- tourism in Hainan Province, the PRC had been growing rapidly over the past years, it recorded over 16.1 million tourists visiting Hainan Province and bringing gross revenue of approximately RMB14.1 billion in 2006, representing respective increases of approximately 5.8% and 13.1% over that in 2005. Of the total number of tourists in 2006, the number of overseas and domestic tourists accounted for approximately 616,900 and 15.4 million persons, representing respective increases of approximately 42.8% and 4.8% over that in 2005.

(a)(1) Airport ground services with Hainan Airlines

Terms and conditions under the agreement are the same with the agreement entered into by the Company and Hainan Airlines in the year 2005. The proposed caps for item (a)(1) for the year 2008, 2009 and 2010 are estimated by the Company according to the estimation of passengers' growth rate of approximately 8% annually made by the independent air traffic consultants appointed by the Company at the time of the Company's initial public offer in the year 2002 and the growth rate of 3.3% annually for the number of large-scale planes which use Meilan Airport. Based on the aforesaid data, the Directors considers it reasonable to calculate the new cap on an approximately 9.0% growth rate per annum. Given (i) the new annual cap is estimated based on the historical figure of approximately RMB61.0 million in 2007 and applying the same rate of approximately 9.0% per annum for the coming three years to 31 December 2010; (ii) the respective GDP growth rate of approximately 10.4 % and 12.5% of the PRC and Hainan Province in 2006; (iii) the CPI of the PRC of approximately 6.5% for the eight months ended 31 August 2007; and (iv) the rapid growth in terms of gross revenue and number of tourists in Hainan Province for 2006, we concur with the Directors' view that the use of 9.0% each year for estimation of the new annual caps over the preceding year from 2008 to 2010 for airport ground services to be provided to Hainan Airlines is prudent, fair and reasonable.

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(a)(2) Cargo mail and luggage services with Hainan Airlines

The caps proposed for item (a)(2) is determined with reference to estimation of an annual growth rate of 10% (after allowing 50% discount of the cargo mail and luggage services rendered to Hainan Airlines by the Company) for the cargo transportation made by an independent air traffic consultant appointed by the Company at the time of the Company's initial public offer in the year 2002. Hainan Airlines has no cargo centre at Meilan Airport and it needs to entrust a third party to process its cargo or lease relevant assets from the Company for operation. The Company has its own cargo centre, but the business conducted by its cargo centre is comparatively small if (i) without the business income arising from the rent paid by Hainan Airlines; and (ii) the Company can not obtain the business to process Hainan Airlines' cargo operations, the Directors estimate that it would have an adverse effect on the Company's business income in respect of cargo processing operations. In order to establish a long-term cooperation relationship with Hainan Airlines and maintain it as one of the Company's major customers, the Company has given a 50% discount of the cargo mail and luggage services rendered to Hainan Airlines by the Company. The annual caps for the two years ending 31 December 2008 and 2009 are RMB3,633,000 and RMB4,033,000 which are the amounts after such 50% discount. Given (i) the annual cap amounts involved would merely amount to approximately RMB3.6 million and RMB4.0 million for the year 2008 and 2009, and represent approximately 55.5% and 61.6% respectively when compared with that of 2007; (ii) the charge rates will continue to be fixed at the rates fixed by the CAAC which are applicable to all domestic airlines including independent third parties; (iii) the respective GDP growth rate of approximately 10.4 % and 12.5% of the PRC and Hainan Province in 2006; (iv) the CPI of the PRC of approximately 6.5% for the eight months ended 31 August 2007; and (v) the rapid growth in terms of gross revenue and number of tourists in Hainan Province for 2006, we are of the view that the new annual caps for the cargo mail and luggage services to be provided to Hainan Airlines for the year 2008 and 2009 are prudent, fair and reasonable.

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(b) Airport ground services with China Southern Airlines and Xiamen Airlines Company

Terms and conditions under the agreement are the same with the agreement entered into by the Company and Hainan Airlines in the year 2005. The caps proposed for item (b) are determined with reference to the actual transaction amounts for the last three years ending on 31 December 2007 with an average growth rate of approximately 8.0% annually. Given (i) the new annual cap is estimated based on the historical figure of approximately RMB45.5 million in 2007 and applying the same rate of approximately 8.0% per annum for the coming three years to 31 December 2010; (ii) the respective GDP growth rate of approximately 10.4 % and 12.5% of the PRC and Hainan Province in 2006; (iii) the CPI of approximately 6.5% for the eight months ended 31 August 2007; and (iv) the rapid growth in terms of gross revenue and number of tourists in Hainan Province for 2006, we concur with the Directors' view that the use of 8.0% each year for estimation of the new annual caps over the preceding year from 2008 to 2010 for airport ground services to be provided to China Southern Airlines and Xiamen Airlines Company is prudent, fair and reasonable.

(c) Airport composite services by the Parent Company

Terms and conditions under the agreement are the same with the agreement entered into by the Company and Parent Company in the year 2005. The caps proposed for item (c) are determined with reference to the actual transaction amounts for the last three years ending on 31 December 2007 with an average growth rate of approximately 12.1% annually. The growth rate for the transaction amounts for the last three years ending 31 December 2007 mainly arise from the company's increase of areas for the waiting hall of the Company. The Directors and the management of the Company believe that the cost increase rate can be controlled to an extent lower than 5.0% and take it as the calculation basis for the proposed caps for the year 2008, 2009 and 2010. Given (i) the new annual cap is estimated based on the historical figure of approximately RMB15.7 million in 2007 and applying the same rate of around 5.0% per annum for the coming three years to 31 December 2010; (ii) the proposed increase in the annual cap is slightly lower than the CPI of the PRC of approximately 6.5% for the eight months ended 31 August 2007, we concur with the Directors' view that the use of around 5.0% each year for estimation of the new annual caps over the preceding year from 2008 to 2010 for airport composite services to be provided by the Parent Company is prudent, fair and reasonable.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(d) *Logistic composite services by HNA Group*

Terms and conditions under the agreement are the same with the agreement entered into by the Company and HNA Group in the year 2005. The Directors consider that the Company can control the cost increase rate to no higher than 7% for the year 2008 and within an increase of RMB500,000 (equivalent to approximately HK\$500,000) for each year of 2009 and 2010. Given (i) the new annual cap is estimated based on the historical figure of approximately RMB11.7 million in 2007 and applying the rate of increase of below 7.0% (i.e. approximately 6.9% in 2008, 4.0% in 2009 and 3.8% in 2010) per annum for the coming three years to 31 December 2010; and (ii) the proposed increase in the annual cap is either slightly higher or lower than the CPI of the PRC of approximately 6.5% for the eight months ended 31 August 2007, we concur with the Directors' view that the use of 6.9% to 3.8% each year for estimation of the new annual caps over the preceding year from 2008 to 2010 for logistic composite services to be provided by HNA Group is prudent, fair and reasonable.

RECOMMENDATION

Having taking into consideration the above principal factors and reasons, we are of the view that the terms of the Non-exempt Continuing Connected Transactions pursuant to (i) the Financial Services Agreement and the Supplemental Agreement (in relation to the provision of deposit services only) and (ii) the Agreements and the New Annual Caps are fair and reasonable, and the terms of (i) the Financial Services Agreement and the Supplemental Agreement (in relation to the provision of deposit services only) and (ii) the Agreements and the New Annual Caps together with the conditions of the waiver (i) are entered into on normal commercial terms, (ii) will be conducted in usual and ordinary course business of the Group, and (iii) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions in relation to (i) the Financial Services Agreement and the Supplemental Agreement (in relation to the provision of the deposit services only); and (ii) each of the Agreements and the New Annual Caps at the forthcoming EGM.

Yours faithfully,

For and on behalf of

First Shanghai Capital Limited

Helen Zee

Managing Director

Eric Lee

Executive Director

1. STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS**(a) Director's interest and short position**

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had any interest or short positions 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.

None of the Directors and their respective associates (as defined in Listing Rules) has 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.

None of the Directors has any material interest, directly or indirectly, in any asset which, since 30 June 2007, 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.

None of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries which can not be terminated by the Group within one (1) year without the payment of compensation other than statutory compensation.

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. Joseph Chan, a non-executive Director, is a director of Oriental Patron Financial Services Group Limited. The shareholding of the Oriental Patron Financial Services Group Limited in the Company is disclosed in paragraph 3 of this section; Mr. Zhang Han'an, another non-executive Director, is a director in the Parent Company. Save as disclosed above, as at the Latest Practicable Date, no director or proposed director is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as known to any of the Directors, supervisors or chief executive of the Company, the following persons (other than a Director, Supervisor or chief executive of the Company) had, or were deemed or taken to have 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 Securities and Futures Ordinance (“SFO”); or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital; or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

Long position in shares

Domestic shares

Name of Shareholders	Type of Interest	Number of shares	Percentage of domestic share	Percentage of issued share capital
Haikou Meilan International Airport Company Limited (Note 1)	Beneficial	237,500,000	96.43%	50.19%

APPENDIX A**GENERAL INFORMATION***H shares*

Name of Shareholders	Type of Interest	Number of shares	Percentage of H share	Percentage of issued share capital
Zhang Gaobo (<i>Note 2</i>)	Controlled corporate interest	94,643,000	41.71%	20.00%
Zhang Zhiping (<i>Note 2</i>)	Controlled corporate interest	94,643,000	41.71%	20.00%
Million West Limited (<i>Note 2</i>)	Controlled corporate interest	94,643,000	41.71%	20.00%
Best Future International Limited (<i>Note 2</i>)	Controlled corporate interest	94,643,000	41.71%	20.00%
Oriental Patron Holdings Limited (<i>Note 2</i>)	Controlled corporate interest	94,643,000	41.71%	20.00%
Oriental Patron Financial Services Group Limited (<i>Note 2</i>)	Controlled corporate interest	94,643,000	41.71%	20.00%
Oriental Patron Resources Investment Limited (<i>Note 2</i>)	Beneficial	94,643,000	41.71%	20.00%
UBS AG (<i>Note 3</i>)	Beneficial, security interest and controlled corporate interest	24,876,400	10.96%	5.26%

APPENDIX A**GENERAL INFORMATION**

Name of Shareholders	Type of Interest	Number of shares	Percentage of H share	Percentage of issued share capital
ChinaRock Capital Management Limited (<i>Note 4</i>)	Investment manager	14,118,000	6.22%	2.98%
Farallon Capital Management, L.L.C (<i>Note 4</i>)	Investment manager	14,118,000	6.22%	2.98%
Utilico Emerging Markets Utilities Limited (<i>Note 5</i>)	Investment manager	11,629,000	5.12%	2.46%

Notes:

1. Haikou Meilan International Airport Company Limited is a company established in the PRC and is the controlling shareholder of the Company.
2. Zhang Gaobo holds 90% of the interests in Million West Limited. Zhang Zhiping holds 89% of the interests in Best Future International Limited. Million West Limited and Best Future International Limited each holds 50% of the interests in Oriental Patron Holdings Limited. Oriental Patron Holdings Limited holds 95% of the interests in Oriental Patron Financial Services Group Limited. Oriental Patron Financial Services Group Limited wholly owns the interests of Oriental Patron Resources Investment Limited.
3. Among the 20,460,000 shares in the Company, UBS AG holds 433,714 shares as the beneficial owner. Its wholly owned subsidiary UBS Fund Services (Luxembourg) SA and UBS Global Asset Management (Singapore) Ltd. hold respectively and beneficially own 10,850,686 and 3,160,000 shares of the Company. 2,339,000 shares are held by UBS AG as interest of corporation controlled by the substantial shareholder.
4. ChinaRock Capital Management Limited and Farallon Capital Management, L.L.C holds 14,118,000 shares acting as Investment manager.
5. Utilico Emerging Markets Utilities Limited is a company listed on the Alternative Investment Market of the London Stock Exchange and the Bermuda Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date so far as is known to the Directors, supervisors or chief executives of the Company, no other person (not being a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have 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, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital; or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

4. INTERESTS OF INDEPENDENT FINANCIAL ADVISER

The Independent Financial Adviser did not have any direct or indirect interest in assets which have been acquired or disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Group since 30 June 2007, being the date to which the latest published audited accounts of the Group were made up.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in the Company or any other member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.

5. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial position or trading prospects of the Group since 30 June 2007, the date to which the latest audited financial statements of the Group were made up.

6. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and 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.

7. CONSENT AND EXPERT

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

Name	Qualification
First Shanghai Capital Ltd.	A licenced corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO.

First Shanghai Capital Ltd. has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, First Shanghai Capital Ltd. is not beneficially interested in the share capital of any member of the Group nor does 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 does 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 are proposed to be acquired or disposed of by or leased to any member of the Group.

8. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Bai Yan, a member of the Institute of Chartered Secretaries. Mr. Bai Yan graduated from the Economics Department of Northwestern University. From July 1997 to March 2002, he worked in the Securities Department of Hainan Airlines. In October 2000, Mr. Bai was assigned to assist in the establishment of the Company, the related restructuring, H share issue and listing process matters.

- (b) The qualified accountant of the Company is Mr Fung Ching Simon. Mr. Fung graduated from the Queensland University of Technology, Australia and obtained a bachelor's degree in Accountancy. Mr. Fung is a Hong Kong resident. He is a senior member of the Australia Society of Institute of Certified Public Accountants and an associate member of the Hong Kong Society of Institute of Certified Public Accountants.
- (c) The registered address of the Company is at Meilan Airport Complex, Haikou City Hainan Province, PRC.
- (d) The Hong Kong Branch Share Registrar and Transfer Office of the Company is Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) The English text of this circular and form of proxy shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the office of Unit B, 7/F No. 2 Austin Avenue Tsimshatsui, Kowloon, Hong Kong from the date of this circular up to and including 27 November 2007:

- (a) the articles of association of the Company;
- (b) the agreements of the Non-exempt Continuing Connected Transactions;
- (c) the letter from First Shanghai Capital Ltd. to the Independent Board Committee, the text of which is set out on pages 27 to 53 of this Circular;
- (d) the written consent from First Shanghai Capital Ltd. as referred to in the section headed "Expert" in this appendix;
- (e) the letter from the Independent Board Committee to the Independent Shareholders as set out on page 26 in this Circular;
- (f) The annual report of the Company for the three years ended 31 December 2006 and the interim report of the Company for the six months ended 30 June 2007; and
- (g) Business Handover Agreement entered into by the Company and Hainan Airlines on 26 August, 2005.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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

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

(Stock Code: 357)

**NON-EXEMPT CONTINUING CONNECTED TRANSACTION
(FINANCIAL SERVICES AGREEMENT) AND
RENEWAL OF NON-EXEMPT
CONTINUING CONNECTED TRANSACTIONS**

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of Hainan Meilan International Airport Company Limited (the “**Company**”) will be held at 9:00 a.m. on 28 December 2007 (Friday) in the meeting room of the Company on the 3rd Floor, Meilan Airport Complex, Haikou City, Hainan Province, the People’s Republic of China (the “**PRC**”), to consider and, if thought fit, approve the following resolutions:

By way of ordinary resolution:

- (a) the Financial Services Agreement (in relation with the deposit services only) dated October 8, 2007 and the Supplemental Agreement dated November 6, 2007 entered into between the Company and HNA Group Finance Co., Ltd. (“HNA Group Finance”) and the non-exempt continuing connected transactions (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (the “Listing Rules”) contemplated thereunder and applicable Annual Caps for each of the three financial years ending 31 December 2010 be and are hereby approved;
- (b) the Airport Ground Services Agreement dated October 1, 2007 entered into between the Company and Hainan Airlines Company Limited (“Hainan Airlines”) and the non-exempt continuing connected transactions (as defined in the Listing Rules) contemplated thereunder and applicable Annual Caps for each of the three financial years ending 31 December 2010 be and are hereby approved;
- (c) the Cargo Mail and Luggage Service Agreement dated October 8, 2007 entered into between the Company and Hainan Airlines and the non-exempt continuing connected transactions (as defined in the Listing Rules) contemplated thereunder and applicable Annual Caps for each of the three financial years ending 31 December 2009 be and are hereby approved;

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (d) the Airport Ground Services Agreement dated October 1, 2007 entered into between the Company and China Southern Airlines Company Limited (“China Southern Airlines”) and the non-exempt continuing connected transactions (as defined in the Listing Rules) contemplated thereunder and applicable Annual Caps for each of the three financial years ending 31 December 2010 be and are hereby approved;
- (e) the Airport Ground Services Agreement dated October 8, 2007 entered into between the Company and Xiamen Airlines Company and the non-exempt continuing connected transactions (as defined in the Listing Rules) contemplated thereunder and applicable Annual Caps for each of the three financial years ending 31 December 2010 be and are hereby approved;
- (f) the Logistic Composite Service Agreement dated October 8, 2007 entered into between the Company and HNA Group Company Limited (“HNA Group”) and the non-exempt continuing connected transactions (as defined in the Listing Rules) contemplated thereunder and applicable Annual Caps for each of the three financial years ending 31 December 2010 be and are hereby approved; and
- (g) the Airport Composite Services Agreement dated October 8, 2007 entered into between the Company and Haikou Meilan Airport Co., Ltd. (“Parent Company”) and the non-exempt continuing connected transactions (as defined in the Listing Rules) contemplated thereunder and applicable Annual Caps for each of the three financial years ending 31 December 2010 be and are hereby approved.

By Order of the Board

Hainan Meilan International Airport Company Limited

Bai Yan

Company Secretary

Hainan, the PRC
12 November 2007

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (A) The H share register of the Company will be closed from 28 November 2007 (Wednesday) to 28 December 2007 (Friday) (both days inclusive), during which no transfer of H shares will be effected. Holders of the H shares of the Company whose names appear on the Company's register of members at the close of business on 28 November 2007 (Wednesday) are entitled to attend and vote at the EGM (or any adjournment thereof).

In order to be entitled to attend and vote at the EGM (or any adjournment thereof), share transfer documents should be lodged with the Company's H shares share registrar not later than 4:30 p.m. on 27 November 2007 (Tuesday).

The address of the Company's H shares share registrar is as follows:

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

- (B) Holders of H shares and domestic shares of the Company, who intend to attend the EGM, must complete and return the reply slips for attending the EGM to the Secretary Office to the board of directors of the Company not later than 20 days before the date of the EGM. i.e. no later than 7 December 2007 (Friday).

Holders of H shares and domestic shares of the Company can deliver the reply slips by hand, by post or by facsimile.

Details of the Secretary Office to the board of directors of the Company are as follows:

Meilan Airport Complex
Haikou City
Hainan Province
PRC

Tel: (86-898) 6576 2009

Fax: (86-898) 6576 2010

- (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. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If the instrument appointing a proxy 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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (D) For holders of H shares of the Company, 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 certified copy of that power of attorney or other authority (such certification to be made by a notary public), must be delivered to the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited, 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 of the Company is entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on its behalf at the EGM. Note (C) also applies to holders of domestic shares of the Company, except that the proxy form or other documents of authority must be delivered to Secretary Office to the board of directors of the Company, the address of which is set out in Note (B) above, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.
- (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 legal representative, which specifies the date of its issuance. If the legal representative of the holder of legal person shares 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 shares appoints a representative of a company other than its legal representative to attend the EGM, such representative should produce his ID card and an authorization instrument affixed with the seal of the holder of legal person shares and duly signed by its legal representative.
- (G) Set out below is the procedure by which shareholders of the Company and the chairman of any shareholders' meeting of the Company may demand a poll pursuant to the articles of association of the Company:

"At any general meeting of shareholders, a resolution shall be decided on a show of hands unless a poll is required in accordance with the Listing Rules or is demanded before or after any vote by show of hands by:

- (i) the chairman of the meeting;
- (ii) at least two shareholders with voting rights or their proxies; or
- (iii) any shareholder or shareholders (including proxies) holding separately or in aggregate 10 percent or more of the shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman of the shareholders' meeting that a resolution has on a show of hands been carried and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against such resolution, that the resolution has been carried.

A demand for a poll may be withdrawn by the person who made the demand."

- (H) 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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

BOOK CLOSURE NOTICE

The H share register of the Company will be closed from 28 November 2007 (Wednesday) to 28 December 2007 (Friday) (both days inclusive), during which period no transfer of H shares will be effected.

In order to be entitled to attend and vote at the EGM (or any adjournment thereof) on 28 December 2007, share transfer documents should be lodged with the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 27 November 2007 (Tuesday).

As at the date of this notice, the Board comprises eleven directors, Mr. Zhang Cong, Mr. Dong Zhanbin, Mr. Dong Guiguo, Mr. Bo Yan as executive directors; Mr. Zhang Han'an, Mr. Joseph Chan, Mr. Yan Xiang as non-executive directors; and Mr. Xu Bailing, Mr. Xie Zhuang, Mr. Fung Ching Simon and Mr. George F Meng as independent non-executive directors.