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

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

CONTINUING CONNECTED TRANSACTIONS

On 2 March 2007, the Company and Hong Kong Airlines entered into:

- (a) a standard ground handling services agreement, pursuant to which the Company has agreed to provide ground handling services to Hong Kong Airlines at Meilan Airport for a term of three years commencing with effect from 28 November 2006;
- (b) an air ticket sales agency agreement, pursuant to which the Company has agreed to provide air ticket sales agency services to Hong Kong Airlines in Hainan Province, the PRC for a term of three years commencing with effect from 28 November 2006; and
- (c) a first class/business class services agreement, pursuant to which the Company has agreed to provide airport lounge services to VIP and first class/business class passengers of Hong Kong Airlines for a term of three years commencing with effect from 28 November 2006.

* *For identification purpose only*

Hainan Airlines, being a promoter of the Company, is a connected person of the Company under the Listing Rules. Xinhua Airlines, a company which holds 51% equity interests in Hainan Airlines, is also directly or indirectly interested so as to exercise or control the exercise of 45% of the voting power at general meeting of Hong Kong Airlines. Therefore, Hong Kong Airlines is an associate (as defined in the Listing Rules) of Hainan Airlines and a connected person of the Company, and all of the above transactions between the Company and Hong Kong Airlines constitute continuing connected transactions of the Company under the Listing Rules.

As each of the applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) in respect of the Continuing Connected Transactions is on an annual basis more than 0.1% but less than 2.5%, the Continuing Connected Transactions are only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules, and are exempt from the independent shareholders' approval requirements.

I. CONTINUING CONNECTED TRANSACTIONS

A. Standard ground handling services agreement

1. **Date:** 2 March 2007
2. **Parties:** The Company
Hong Kong Airlines
3. **Subject:** The Company has agreed to provide ground handling services, such as aircraft movement service, passenger and baggage security checks, cargo and mail security checks, irregular flight and baggage services, to Hong Kong Airlines.
4. **Term:** The agreement is for a term of three years commencing with effect from 28 November 2006 and ending on 27 November 2009.
5. **Price and Payment:** The amount of fees charged by the Company for the provision of ground handling services to Hong Kong Airlines, save for the irregular flight and baggage services, is determined by reference to the fees prescribed by CAAC and is subject to adjustment negotiated by both parties each year.

The amount of fees charged by the Company for the provision of irregular flight and baggage services to Hong Kong Airlines is determined through negotiation by both parties on an arm's length basis with reference to the fees which are charged by the Company for providing comparable types of services to independent third parties under normal commercial terms in the ordinary course of its business.

Before the 20th day of each calendar month, the Company would provide an invoice to Hong Kong Airlines for the services rendered in the previous month. Hong Kong Airlines shall, within 30 days upon receipt of the invoice, request to make adjustments to the invoice amount (if any) or make payments in US dollars to the Company. In case Hong Kong Airlines fails to settle the invoice amount promptly, a delay fee which amounts to 0.5% of the invoice amount shall be imposed on it on the amount due on a daily basis starting from the 31st day after its receipt of the invoice.

B. Air ticket sales agency agreement

1. **Date:** 2 March 2007
2. **Parties:** The Company
Hong Kong Airlines
3. **Subject:** The Company has agreed to provide air ticket sales agency services to Hong Kong Airlines in Hainan Province, the PRC.
4. **Term:** a term of three years commencing with effect from 28 November 2006 and ending on 27 November 2009.

5. **Price and Payment:** The commission charged by the Company for the provision of air ticket sales services to Hong Kong Airlines is determined through negotiation by both parties on an arm's length basis with reference to the commissions which are charged by the Company for providing comparable types of services to independent third party regional airlines under normal commercial terms in the ordinary course of its business.

The Company shall deduct the commission payable from the air ticket sales proceeds before delivering them to Hong Kong Airlines on a weekly basis.

C. First class/business class services agreement

1. **Date:** 2 March 2007
2. **Parties:** The Company
Hong Kong Airlines
3. **Subject:** The Company has agreed to provide airport lounge services to VIP and first class/business class passengers of Hong Kong Airlines.
4. **Term:** a term of three years commencing with effect from 28 November 2006 and ending on 27 November 2009.
5. **Price and Payment:** The amount of fees charged by the Company for the provision of airport lounge services to Hong Kong Airlines is determined through negotiation by both parties on an arm's length basis with reference to the fees which are charged by the Company for providing comparable types of services are provided by the Company to independent third parties under normal commercial terms in the ordinary course of its business, which is RMB 70 per passenger.

Before the 20th day of each calendar month, the Company would provide an invoice to Hong Kong Airlines for the services rendered in the previous month. Hong Kong Airlines shall, within 60 days upon receipt of the invoice, request to make adjustments to the invoice amount (if any) or make payments in Renminbi to the Company. In case Hong Kong Airlines Company fails to settle the invoice amount promptly, a delay fee which amounts to 0.05% of the invoice amount shall be imposed on the amount due on a daily basis starting from the 61st day after its receipt of the invoice.

II. REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

As a general ground handling service provider in Haikou, the Company provides services such as air tickets sales, security checks and boarding process management to a variety of airlines, and has developed a good reputation for its professional teams and management. Thus, the Company is a favorable choice of a lot of airlines with whom they would like to develop a long-term cooperation relationship.

Hong Kong Airlines is an important business partner of the Company. Hong Kong Airlines was formerly known as CR Airways until its change of name in November 2006 after Xinhua Airlines acquired 45% of its equity interests in May 2006.

The Company previously entered into a ground handling services agreement and an air ticket sales agency agreement each for a period of one year with CR Airways on 18 July 2005 and 16 August 2005, respectively. Both agreements expired on 27 November 2006 (i.e. after extension of the original agreements). It would be in the Company's interest to maintain a close business relationship with Hong Kong Airlines.

III. ANNUAL CAP OF THE CONTINUING CONNECTED TRANSACTIONS

The Directors expect the maximum annual aggregate values of the above standard ground handling services agreement and air ticket sales agency agreement (the “**Ground Handling Services and Air Ticket Sales Annual Cap**”) for the three years ending 31 December 2009 not to exceed RMB2,900,000 (equivalent to approximately HK\$2,871,000), RMB3,200,000 (equivalent to approximately HK\$3,168,000) and RMB3,550,000 (equivalent to approximately HK\$3,515,000) respectively.

Set out below is the calculation of and the basis for the Ground Handling Services and Air Ticket Sales Annual Cap for the three years ending 31 December 2009:

	Projected aircraft movements of Hong Kong Airlines at Meilan Airport (note 1)	Projected fees and commissions for ground handling services and air ticket sales agency services provided by the Company to Hong Kong Airlines (RMB)
For the year ending 31 December 2007	360 (note 2)	$1,460,000/183 \times 360 =$ (note 3) 2,900,000
For the year ending 31 December 2008	396	$2,900,000/360 \times 396 =$ 3,200,000
For the year ending 31 December 2009	436	$3,200,000/396 \times 436 =$ 3,550,000

Notes:

1. The annual rate of growth of aircraft movements of Hong Kong Airlines is estimated to be 10%.
2. There were 31 aircraft movements of Hong Kong Airlines at Meilan Airport during January 2007. Based on this number, the Company estimated that on average there will be one aircraft movement per day in the year ending 31 December 2007, preliminarily resulting in 365 aircraft movements annually. Taking into account unexpected circumstances that may cause cancellation of aircraft movements, the Company adjusted the number of Hong Kong Airlines aircraft movements to 360 for the year ending 31 December 2007.
3. The Company entered into a ground handling services agreement and an air ticket sales agency agreement each for a period of one year with CR Airways on 18 July 2005 and 16 August 2005 respectively. Both agreements expired on 27 November 2006 (i.e. after extension of the original agreements). For the year ended 31 December 2006, fees and commissions that were received by the Company from CR Airways (which name has been changed to Hong Kong Airlines since November 2006) for the provision of ground handling services and air ticket sales agency services amounted to approximately RMB1,460,000 (equivalent to approximately HK\$1,445,545) for 183 aircraft movements during the period.

The Directors expect the maximum annual aggregate values of the above first class/business class services agreement (the “**First Class/Business Class Services Annual Cap**”) for the three years ending 31 December 2009 not to exceed RMB7,000 (equivalent to approximately HK\$6,931), RMB8,400 (equivalent to approximately HK\$8,317) and RMB10,080 (equivalent to approximately HK\$9,980) respectively.

Set out below is the calculation of and the basis for the First Class/Business Class Services Annual Cap for the three years ending 31 December 2009:

	Number of passengers using the airport lounge service <i>(note 1)</i>	Fee received by the Company from Hong Kong Airlines per headcount	Projected fees and commissions for First Class/ Business Class Services provided by the Company to Hong Kong Airlines <i>(RMB)</i>
For the year ending 31 December 2007	100	70	7,000
For the year ending 31 December 2008	120	70	8,400
For the year ending 31 December 2009	144	70	10,080

Note:

1. The annual rate of growth of the number of passengers using the airport lounge service is estimated to be 20%.

The Directors expect the maximum annual aggregate values of the Continuing Connected Transactions (the “**Continuing Connected Transactions Annual Cap**”) for the three years ending 31 December 2009 not to exceed RMB2,907,000 (equivalent to approximately HK\$2,878,220), RMB3,208,400 (equivalent to approximately HK\$3,176,630) and RMB3,560,080 (equivalent to approximately HK\$3,524,830) respectively.

IV. COMPLIANCE WITH THE LISTING RULES

Hainan Airlines, being a promoter of the Company, is a connected person of the Company under the Listing Rules. Xinhua Airlines, a company which holds 51% equity interests in Hainan Airlines, is also directly or indirectly interested so as to exercise or control the exercise of 45% of the voting power at general meeting of Hong Kong Airlines. Therefore, Hong Kong Airlines is an associate (as defined in the Listing Rules) of Hainan Airlines and a connected person of the Company. Hong Kong Airlines (formerly known as CR Airways before its change of name in November 2006) was not a connected person of the Company before May 2006.

The Continuing Connected Transactions are aggregated for the purposes of calculating applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) as they are of a similar nature and all of them involve the provision of services by the Company to a single connected person, Hong Kong Airlines.

As certain applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the aforementioned continuing connected transactions between the Company and CR Airways (which name has been changed to Hong Kong Airlines since November 2006) during the period from May 2006 to December 2006 is more than 0.1% but less than 2.5% and the total consideration is less than HK\$1,000,000, the same transactions constitute de minimis transactions pursuant to Rule 14A.33(3) of the Listing Rules and is exempt from the reporting, announcement and independent shareholders approval requirements as set out in Chapter 14A of the Listing Rules.

The Company reasonably expects that certain applicable percentage ratios(s) (as defined in Rule 14.07 of the Listing Rules) in respect of the aforementioned continuing connected transactions between the Company and Hong Kong Airlines during the period from January 2007 to February 2007 to be more than 0.1% but less than 2.5% and the total consideration is less than HK\$1,000,000, and therefore believe that the same transactions constitute de minimis transactions pursuant to Rule 14A.33(3) of the Listing Rules and is exempt from each of the reporting, announcement and independent shareholders approval requirements as set out in Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Continuing Connected Transactions is on an annual basis more than 0.1% but less than 2.5%, the Continuing Connected Transactions are only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules, and are exempt from the independent shareholders' approval requirements.

The Directors (including the independent non-executive Directors) are satisfied that (i) the terms and conditions of the 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.

Particulars of the Continuing Connected Transactions will also be disclosed in the annual report and accounts of the Company.

VI. GENERAL INFORMATION

The Company is principally engaged in the management and operation of aeronautical and non-aeronautical businesses at Meilan Airport in Hainan Province, the PRC. Hong Kong Airlines is an aviation enterprise engaged in the operation of international flights and freights.

VII. DEFINITION

“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)
“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 on 28 December 2000
“Continuing Connected Transactions”	the continuing connected transactions contemplated under the standard ground handling service agreement, the air ticket sales agency agreement and the first class/business class services agreement entered into between the Company and Hong Kong Airlines on 2 March 2007

“CR Airways”	CR Airways Limited (中富航空有限公司)
“Directors(s)”	the director(s) of the Company
“Hainan Airlines”	海南航空股份有限公司 (Hainan Airlines Company Limited), a joint stock limited company incorporated in the PRC and one of the promoters of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Airlines”	Hong Kong Airlines Limited (香港航空有限公司)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Meilan Airport”	the civil airport known as 海口美蘭國際機場 (Haikou Meilan International Airport) located in Haikou City, Hainan Province, PRC
“PRC”	People’s Republic of China
“RMB or Renminbi”	Renminbi, the lawful currency of the PRC
“U.S. dollars”	United States dollars, the lawful currency of the United States
“VIP”	Very important persons
“Xinhua Airlines”	中國新華航空控股有限公司 (China Xinhua Airlines Holding Company Limited)

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

Haikou, the PRC
2 March 2007

As at the date of this announcement, there are nine Directors on the Board. They are: Zhang Cong, Dong Zhanbin, Dong Guiguo and Gunnar Moller as executive Directors; Zhang han'an and Kjeld Binger as non-executive Directors; and Xu Bailing, Xie Zhuang and Fung Chin Simon as independent non-executive Directors.

Unless otherwise defined, an exchange rate of HK\$1.00 = RMB1.01 is adopted in this announcement, for illustration purposes only.

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