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# THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

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## 海航基礎股份有限公司 HNA Infrastructure Company Limited\*

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

- (1) MAJOR AND CONNECTED TRANSACTION – THE PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT AND THE SUPPLEMENTAL PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT
- (2) THE HAINAN HNA DOMESTIC SHARES SUBSCRIPTION AGREEMENT AND THE SUPPLEMENTAL HAINAN HNA DOMESTIC SHARES SUBSCRIPTION AGREEMENT
- (3) PROPOSED NEW H SHARES ISSUE UNDER SPECIFIC MANDATE
- (4) PROPOSED CONSEQUENTIAL AMENDMENTS TO THE ARTICLES OF ASSOCIATION
- AND
- (5) NOTICES OF THE EGM AND THE CLASS MEETINGS

Financial Adviser and Placing Agent



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



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A letter from the Board is set out on pages 6 to 27 of this circular. A letter from the Independent Board Committee is set out on pages 28 to 29 of this circular. A letter from Octal Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 53 of this circular.

The notices given by the Company on 28 April 2017 for convening the EGM and the Class Meetings to be held at 10:00 a.m. on Monday, 26 June 2017 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC is set out on pages 96 to 113 of this circular. Whether or not you are able to attend the EGM or the relevant Class 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.

\* For identification purposes only

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## DEFINITIONS

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

“Articles of Association”	articles of association of the Company and its appendices
“Board”	the board of Directors
“Business Day(s)”	any day (excluding a Saturday, Sunday and public holidays in Hong Kong) on which licensed banks are generally open for business in Hong Kong and the Stock Exchange is generally open for trading of securities in Hong Kong
“CAAC”	Civil Aviation Administration of China (中國民用航空局)
“Class Meetings” and each as “Class Meeting”	the respective class meetings of the Domestic Shareholders and the H Shareholders to be convened by the Company immediately following the conclusion of the EGM or any adjournment thereof for the purpose of considering and, if thought fit, approving (i) the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder, (ii) the Hainan HNA Domestic Shares Subscription Agreement, the Supplemental Hainan HNA Domestic Shares Subscription Agreement and the Hainan HNA Subscription contemplated thereunder, (iii) the proposed New H Shares Issue, and (iv) the proposed consequential amendments to the Articles of Association and other related matters, including any adjournment in respect thereof
“Company”	HNA Infrastructure Company Limited* (海航基礎股份有限公司), a joint stock company incorporated in the PRC on 28 December 2000 with limited liability
“connected person”	shall have the meaning as defined in the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“Domestic Share(s)”	the domestic ordinary share(s) with a nominal value of RMB1.00 each in the registered share capital of the Company, which is/are subscribed for in RMB
“Domestic Shareholder(s)”	holders of Domestic Shares
“EGM”	the extraordinary general meeting to be convened by the Company for the purposes of considering and, if thought fit, approving (i) the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder, (ii) the Hainan HNA Domestic Shares Subscription Agreement, the Supplemental Hainan HNA Domestic Shares Subscription Agreement and the Hainan HNA Subscription contemplated thereunder, (iii) the proposed New H Shares Issue, and (iv) the proposed consequential amendments to the Articles of Association and other related matters, including any adjournment in respect thereof
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares of RMB1.00 each in the share capital of the Company which are listed on the Stock Exchange and traded in Hong Kong dollars
“H Shareholder(s)”	holder(s) of H Shares
“Hainan HNA”	海南海航基礎設施投資集團股份有限公司 (Hainan HNA Infrastructure Investment Group Company Limited*), a joint stock company incorporated in the PRC on 12 May 1993 with limited liability
“Hainan HNA Domestic Shares Subscription Agreement”	the domestic subscription agreement dated 30 December 2016 entered into between the Company and Hainan HNA in relation to the Hainan HNA Subscription
“Hainan HNA Subscription”	the subscription of the Subscription Shares II contemplated under the Hainan HNA Domestic Shares Subscription Agreement and the Supplemental Hainan HNA Domestic Shares Subscription Agreement
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising of all the independent non-executive Directors to advise the Independent Shareholders on the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder
“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance, and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder
“Independent Shareholders”	shareholders who are not involved or interested in the Parent Company Subscription contemplated under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement
“Last Trading Day”	26 April 2017, being the last trading day in the H Shares immediately before the date on which the Supplemental Parent Company Domestic Shares Subscription Agreement was signed
“Latest Practicable Date”	27 April 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information referred to in this circular
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Meilan Airport”	the civil airport known as 海口美蘭國際機場 (Haikou Meilan International Airport*) located in Haikou City, Hainan Province, the PRC
“New H Shares”	the maximum number of 200,000,000 H Shares proposed to be issued upon the exercise of the Specific Mandate
“New H Shares Issue”	the issue of the New H Shares by way of private placing upon the exercise of the Specific Mandate, if granted, subject to fulfilment of certain conditions stated in this circular
“Parent Company”	海口美蘭國際機場有限責任公司 (Haikou Meilan International Airport Co., Ltd.*), a limited liability company established in the PRC which is the controlling shareholder of the Company
“Parent Company Domestic Shares Subscription Agreement”	the agreement dated 30 December 2016 entered into between the Company and the Parent Company in relation to the Parent Company Subscription
“Parent Company Subscription”	the subscription of the Subscription Shares I contemplated under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement
“Phase I Runway Assets”	the Phase I runway of Meilan Airport and other auxiliary facilities as more particularly described in the Parent Company Domestic Shares Subscription Agreement
“PRC”	the People’s Republic of China and for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SFC”	Securities and Futures Commission of Hong Kong
“Shareholder(s)”	the Domestic Shareholders and the H Shareholders
“Shares”	Domestic Shares and H Shares

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## DEFINITIONS

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“Specific Mandate”	the specific mandate proposed to be granted to the Board by the Shareholders at the EGM and the Class Meetings to issue not more than 200,000,000 New H Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Shares I”	439,987,125 new Domestic Shares in aggregate proposed to be subscribed pursuant to the Supplemental Parent Company Domestic Shares Subscription Agreement
“Subscription Shares II”	50,000,000 new Domestic Shares in aggregate proposed to be subscribed pursuant to the Supplemental Hainan HNA Domestic Shares Subscription Agreement
“Supplemental Hainan HNA Domestic Shares Subscription Agreement”	the supplemental agreement dated 27 April 2017 entered into between the Company and Hainan HNA in relation to the Hainan HNA Subscription
“Supplemental Parent Company Domestic Shares Subscription Agreement”	the supplemental agreement dated 27 April 2017 entered into between the Company and the Parent Company in relation to the Parent Company Subscription
“%”	per cent

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

*For the purpose of this circular, the exchange rate of HK\$1.00 = RMB0.8958 have been used for currency translation, where applicable. Such exchange rate is for illustrative purpose only and does not constitute representations that any amount in HK\$ or RMB has been, could have been or may be converted at such a rate.*

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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### 海航基礎股份有限公司 HNA Infrastructure Company Limited\*

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

(Stock code: 357)

*Executive Directors:*

Wang Zhen (Chairman, Authorized Representative)  
Yang Xiaobin (President)  
Zhou Feng  
Liu Shanbin

*Registered Office:*

Office Building of Meilan Airport  
Haikou City  
Hainan Province  
the PRC

*Non-executive Directors:*

Hu Wentai (Vice Chairman)  
Chan Nap Kee, Joseph  
Yan Xiang

*Principal Place of Business  
in Hong Kong:*

Suites 5811-5814, 58/F  
Two International Finance Centre  
No. 8 Finance Street  
Central  
Hong Kong

*Independent Non-executive Directors:*

Deng Tianlin  
Fung Ching, Simon  
George F Meng  
He Linji

*To the Shareholders,*

Dear Sir/Madam,

- (1) MAJOR AND CONNECTED TRANSACTION – THE PARENT COMPANY  
DOMESTIC SHARES SUBSCRIPTION AGREEMENT  
AND THE SUPPLEMENTAL PARENT COMPANY DOMESTIC SHARES  
SUBSCRIPTION AGREEMENT**
- (2) THE HAINAN HNA DOMESTIC SHARES SUBSCRIPTION AGREEMENT  
AND THE SUPPLEMENTAL HAINAN HNA DOMESTIC SHARES  
SUBSCRIPTION AGREEMENT**
- (3) PROPOSED NEW H SHARES ISSUE UNDER SPECIFIC MANDATE**
- (4) PROPOSED CONSEQUENTIAL AMENDMENTS TO THE  
ARTICLES OF ASSOCIATION**
- AND**
- (5) NOTICES OF THE EGM AND THE CLASS MEETINGS**

#### **A. INTRODUCTION**

Reference is made to the announcements of the Company dated 30 December 2016 and 27 April 2017. The purpose of this circular is to provide you with information regarding (i) the Parent Company Subscription, the Hainan HNA Subscription, the proposed New H Shares

\* For identification purposes only



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## LETTER FROM THE BOARD

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Issue and the proposed consequential amendments to the Articles of Association; (ii) a letter from the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder; and (iii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder, and to give you notices of the EGM and the Class Meetings to consider and, if thought fit, to approve the resolutions at the EGM and the Class Meetings.

### **B. THE PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT AND THE SUPPLEMENTAL PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT**

#### **Background**

Reference is made to the prospectus of the Company dated 6 November 2002 in relation to the option agreement entered into between the Company and the Parent Company on 30 May 2002 and the supplemental agreement dated 25 October 2002 (the “**2002 Option Agreement**”), pursuant to which the Parent Company granted to the Company options to purchase from the Parent Company any aeronautical or non-aeronautical businesses and assets owned or to be owned by the Parent Company from time to time in accordance with the terms of the 2002 Option Agreement.

The Company delivered a preliminary notice to the Parent Company on 12 October 2016 indicating its intention to acquire the Phase I Runway Assets. In accordance with the terms of the 2002 Option Agreement, an independent professional valuer, Vigers Appraisal & Consulting Limited, was engaged to value the Phase I Runway Assets.

According to the valuation report prepared by Vigers Appraisal & Consulting Limited, the aggregate appraised asset value of the Phase I Runway Assets as at 31 October 2016 was RMB1,519,897,000. The book value of the Phase I Runway Assets as at 31 October 2016 was approximately RMB575,291,000. Upon receipt of the valuation report, the Company issued a further notice to the Parent Company on 10 November 2016 confirming its intention to acquire the Phase I Runway Assets by way of issuing new Domestic Shares to the Parent Company as consideration.

#### **Subscription Shares I**

Pursuant to the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement, the Parent Company agreed to subscribe for Subscription Shares I, which include: (i) 189,987,125 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company; and (ii) 250,000,000 new Domestic Shares by cash at an aggregate subscription price of RMB2,000,000,000 (equivalent to approximately HK\$2,232,641,214.56).

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## LETTER FROM THE BOARD

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The consideration for the transfer of the Phase I Runway Assets is RMB1,519,897,000, which is determined based on the aggregate appraised asset value of the Phase I Runway Assets as at 31 January 2017 (i.e. RMB1,519,897,000).

Set forth below are the major terms of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement:

**Date:** 30 December 2016 and as amended by the Supplemental Parent Company Domestic Shares Subscription Agreement dated 27 April 2017

**Parties:** (a) the Company; and  
(b) the Parent Company.

The cash subscription price for Subscription Shares I shall be paid by the Parent Company to the bank account of the Company within fifteen (15) Business Days (or otherwise as agreed between the Parent Company and the Company in writing) upon the satisfaction of the conditions precedent set out in the Parent Company Domestic Shares Subscription Agreement.

The subscription price of RMB8.00 (equivalent to approximately HK\$8.93) per Subscription Shares I was determined after arm's length negotiation between the Company and the Parent Company taking into account, among other things, the prevailing market price of the H Shares and the market condition.

The subscription price of RMB8.00 per Subscription Shares I (equivalent to approximately HK\$8.93) represents:

- (a) a premium of approximately 35.3% of the closing price of HK\$6.6 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 31.8% of the average closing price of approximately HK\$6.776 per H Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 27.9% of the average closing price of approximately HK\$6.984 per H Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day; and
- (d) a premium of approximately 39.5% of the closing price of approximately HK\$6.40 per H Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The aggregate nominal value of the Subscription Shares I is RMB439,987,125.

The Directors consider that the terms and conditions of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement have been negotiated on an arm's length basis, on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Conditions precedent

Effectiveness of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement is conditional upon fulfilment of the following conditions or otherwise agreed by the Parent Company and the Company in writing or waived by the Company in writing:

- (a) the passing of resolutions by the Board and the Independent Shareholders at the meetings of the Shareholders in accordance with the Articles of Association and the Listing Rules approving, among others, (i) the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription; and (ii) the proposed New H Shares Issue;
- (b) the passing of resolutions by the board of directors of the Parent Company and the meetings of the shareholders of the Parent Company approving the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription;
- (c) the governmental approvals from relevant competent departments and/or regulatory authorities including the CAAC and Ministry of Commerce of the PRC (if necessary) in relation to the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription; and
- (d) the approval from the Stock Exchange (where relevant), and the approval from SFC (where applicable), in relation to the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription.

The Parent Company Subscription is subject to the approval from the Department of Commerce of Hainan Province (海南省商務廳) and the transfer and registration of the Phase I Runway Assets are subject to the approval from Land and Resources Bureau of Haikou City (海口市國土資源局). The transfer and registration of the Phase I Runway Assets comprise two stages:

- (i) payment of relevant tax; and
- (ii) registration of the Phase I Runway Assets.

Before the transfer and registration of the Phase I Runway Assets, pledge on relevant lands of the Phase I Runway Assets shall be released.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the fulfillment status of the above conditions precedent is set out below:

- (i) the Board has passed resolutions to approve (i) the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription; and (ii) the proposed New H Shares Issue;
- (ii) the board of directors of the Parent Company and the shareholders of the Parent Company have passed resolutions to approve the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription; and
- (iii) release of pledge on relevant lands of the Phase I Runway Assets is in progress and is expected to be completed before the completion of the Parent Company Subscription.

The Company currently expects it will require approximately 180 Business Days (i.e. nine months) to prepare all relevant documentations for submission to the relevant authorities and to obtain their approvals, including (i) approximately 30 Business Days for release of pledges on relevant lands of the Phase I Runway Assets; (ii) approximately 30 Business Days for payment of relevant tax; and (iii) approximately 120 Business Days for registration of the Phase I Runway Assets (including preparation of relevant materials such as template contracts of Land and Resource Bureau, relevant certificate for land development, filing documents for valuation report and land surveying documents, and relevant authorities' review on the registration of land transfer and buildings transfer). Accordingly, the Company expects to complete the Parent Company Subscription within nine months following the passing of the relevant resolutions at the EGM and/or the Class Meetings and the resolutions relating to the Parent Company Subscription to be set out in the notices of the EGM and Class Meetings will be valid for an initial term of nine months, commencing from the date of passing of the relevant resolutions at the EGM and the Class Meetings.

Unless the parties otherwise agree in writing, the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement will automatically terminate if the completion of the Parent Company Subscription does not happen on the same date as the completion of the proposed New H Shares Issue. As article 6 of Regulation of Domestic Investment Civil Aviation (Trial Implementation)\* (《國內投資民用航空業規定(試行)》(民航總局令第148號)) requires the Parent Company to maintain 50% or more equity interests in the Company at all times, the Board undertakes that the Parent Company Subscription will be completed on the same day as the Hainan HNA Subscription and the proposed New H Shares Issue and within nine months following the passing of the relevant resolutions at the EGM and/or the Class Meetings, otherwise the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement will terminate and the Company will re-comply with the requirements under the Listing Rules, including re-obtaining the approval of the Shareholders.

### INFORMATION OF THE PHASE I RUNWAY ASSETS

The Phase I Runway Assets which consist of Phase I runway of Meilan Airport and other auxiliary facilities, are located at the Meilan Airport in Haikou City, Hainan Province, the PRC.

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## LETTER FROM THE BOARD

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Phase I runway of Meilan Airport is approximately 3,600 meters long and 60 meters wide, equipped with the parallel taxiway which is approximately 3,600 meters long and 44 meters wide, 78 aircraft parking stands, globally advanced navigational lighting aid system, communication navigation equipment and other service facilities. It can satisfy the full-weight takeoff and landing requirements of large aircrafts, such as Boeing 747-400 and handled more than 18 million passengers in 2016. The original cost of the construction of the Phase I Runway Assets of the Parent Company was approximately RMB575,291,000.

Prior to the acquisition of the Phase I Runway Assets under the Parent Company Domestic Shares Subscription Agreement, the Phase I Runway Assets is owned and operated by the Parent Company. Pursuant to an agreement (the “**Runway Agreement**”) entered into between the Parent Company and the Company dated 25 October 2002, the Parent Company agreed to, among others, operate and maintain the runway and other ancillary assets (including Phase I Runway Assets) in accordance with the applicable regulatory and industrial standards and keep the runway in good working condition in consideration for a right to 25% of certain of the aircraft movement fees, passenger charges and basic ground handling service fees (the “**Service Fees**”) as set out in the Runway Agreement. Please refer to the prospectus of the Company dated 6 November 2002 for further details on the Runway Agreement.

The Company did not purchase all the runway assets listed in the Runway Agreement from the Parent Company as the Directors consider that the Phase I Runway Assets to be acquired by the Company have higher profitability than other remaining assets of Phase I runway of Meilan Airport (the “**Remaining Phase I Runway Assets**”). The Remaining Phase I Runway Assets mainly include River Diversion Exterior Drainage System (河流改道外排水系統) and enclosing road (圍場路).

Upon the completion of the acquisition of the Phase I Runway Assets, the Phase I Runway Assets will be wholly owned by the Company and the Company will enter into a supplemental agreement with the Parent Company to reduce the Parent Company’s share of Service Fees from 25% to such decreased amount to be approved by CAAC to reflect the change in the ownership of the Phase I Runway Assets. Further disclosure in relation to such supplemental agreement will be made by the Company in accordance with the Listing Rules as and when appropriate.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Parent Company holds 50.19% shareholding interest of the Company and is a substantial shareholder of the Company. Accordingly, the Parent Company is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules.

As certain applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) for the Parent Company Subscription contemplated under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement are more than 25% and the consideration exceeds HK\$10,000,000, the Parent Company Subscription constitutes non-exempt connected transaction for the Company under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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In addition, as certain applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) computed pursuant to Rule 14.04(9) of the Listing Rules in relation to the acquisition of the Phase I Runway Assets contemplated under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement are more than 25% but less than 100%, such transaction constitute major transaction of the Company under Chapter 14 of the Listing Rules.

Accordingly, the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder are subject to reporting, announcement and the approval of the Independent Shareholders' taken on a poll at the EGM and the Class Meetings.

An Independent Board Committee, comprising four independent non-executive Directors, namely Mr. Deng Tianlin, Mr. Fung Ching, Simon, Mr. George F Meng and Mr. He Linji, none of whom has any direct or indirect interest in the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder, has been established to advise the Independent Shareholders on the terms of such transactions. Octal Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder.

### C. THE HAINAN HNA DOMESTIC SHARES SUBSCRIPTION AGREEMENT

Pursuant to the Hainan HNA Domestic Shares Subscription Agreement and the Supplemental Hainan HNA Domestic Shares Subscription Agreement, Hainan HNA agreed to subscribe for Subscription Shares II, being 50,000,000 new Domestic Shares by cash at an aggregate subscription price of RMB400,000,000 (equivalent to approximately HK\$446,528,242.91).

Set forth below are the major terms of the Hainan HNA Domestic Shares Subscription Agreement and the Supplemental Hainan HNA Domestic Shares Subscription Agreement:

**Date:** 30 December 2016 and as amended by the Supplemental Hainan HNA Domestic Shares Subscription Agreement dated 27 April 2017

**Parties:** (a) the Company; and  
(b) Hainan HNA.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Hainan HNA is not a connected person (as defined under the Listing Rules) of the Company.

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## LETTER FROM THE BOARD

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The cash subscription price for Subscription Shares II shall be paid in cash by Hainan HNA to the bank account of the Company within fifteen (15) Business Days (or otherwise as agreed between Hainan HNA and the Company in writing) upon the satisfaction of the conditions precedent set out in the Hainan HNA Domestic Shares Subscription Agreement.

The subscription price of RMB8.00 (equivalent to approximately HK\$8.93) per Subscription Shares II was determined after arm's length negotiation between the Company and Hainan HNA taking into account, among other things, the prevailing market price of the H Shares and the market condition.

The subscription price of RMB8.00 per Subscription Shares II (equivalent to approximately HK\$8.93) represents:

- (a) a premium of approximately 35.3% of the closing price of HK\$6.6 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 31.8% of the average closing price of approximately HK\$6.776 per H Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 27.9% of the average closing price of approximately HK\$6.984 per H Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day; and
- (d) a premium of approximately 39.5% of the closing price of approximately HK\$6.40 per H Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The aggregate nominal value of the Subscription Shares II is RMB50,000,000.

The Directors consider that terms and conditions of the Hainan HNA Domestic Shares Subscription Agreement and the Supplemental Hainan HNA Domestic Shares Subscription Agreement have been negotiated on an arm's length basis, and are normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Conditions precedent**

Effectiveness of the Hainan HNA Domestic Shares Subscription Agreement and the Supplemental Hainan HNA Domestic Shares Subscription Agreement is conditional upon fulfilment of the following conditions or otherwise agreed by Hainan HNA and the Company in writing or waived by the Company in writing:

- (a) the passing of resolutions by the Board and the Shareholders at the meetings of the Shareholders in accordance with the Articles of Association and the Listing Rules approving, among others, (i) the Hainan HNA Domestic Shares Subscription Agreement and the Hainan HNA Subscription; and (ii) the proposed New H Shares Issue;



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## LETTER FROM THE BOARD

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- (b) the passing of resolutions by the board of directors of Hainan HNA and the meetings of the shareholders of Hainan HNA (if necessary) approving the Hainan HNA Domestic Shares Subscription Agreement and the Hainan HNA Subscription;
- (c) the governmental approvals from relevant competent departments and/or regulatory authorities including the CAAC and Ministry of Commerce of the PRC (if necessary) in relation to the Hainan HNA Domestic Shares Subscription Agreement and the Hainan HNA Subscription; and
- (d) the approval from the Stock Exchange (where relevant), and the approval from SFC (where applicable), in relation to the Hainan HNA Domestic Shares Subscription Agreement and the Hainan HNA Subscription.

The Hainan HNA Subscription is subject to the approval from the Department of Commerce of Hainan Province (海南省商務廳). It is expected that the Hainan HNA Subscription will be completed within nine months following the passing of the relevant resolutions at the EGM and/or the Class Meetings and the resolutions relating to the Hainan HNA Subscription to be set out in the notices of the EGM and Class Meetings will be valid for an initial term of nine months, commencing from the date of passing of the relevant resolutions at the EGM and the Class Meetings.

As at the Latest Practicable Date, the fulfillment status of the above conditions precedent is set out below:

- (i) the Board has passed resolutions to approve (i) the Hainan HNA Domestic Shares Subscription Agreement and the Hainan HNA Subscription; and (ii) the proposed New H Shares Issue; and
- (ii) the board of directors of Hainan HNA has passed resolutions to approve the Hainan HNA Domestic Shares Subscription Agreement and the Hainan HNA Subscription.

Unless the parties otherwise agree in writing, the Hainan HNA Domestic Shares Subscription Agreement and the Supplemental Hainan HNA Domestic Shares Subscription Agreement will automatically terminate if the completion of the Hainan HNA Subscription does not happen on the same date as the completion of the proposed New H Shares Issue. As article 6 of Regulation of Domestic Investment Civil Aviation (Trial Implementation)\* (《國內投資民用航空業規定(試行)》(民航總局令第148號)) requires the Parent Company to maintain 50% or more equity interests in the Company at all times, the Board undertakes that the Hainan HNA Subscription will be completed on the same day as the Parent Company Subscription and the proposed New H Shares Issue and within nine months following the passing of the relevant resolutions at the EGM and/or the Class Meetings, otherwise the Hainan HNA Domestic Shares Subscription Agreement and the Supplemental Hainan HNA Domestic Shares Subscription Agreement will terminate and the Company will re-comply with the requirements under the Listing Rules, including re-obtaining the approval of the Shareholders.



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## LETTER FROM THE BOARD

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### D. PROPOSED NEW H SHARES ISSUE UNDER SPECIFIC MANDATE

#### Introduction

The Board has resolved to convene the EGM and the Class Meetings for the grant of the proposed Specific Mandate to the Board to issue not more than 200,000,000 New H Shares, representing not more than 42.27% of the total share capital of the Company before the Parent Company Subscription, the Hainan HNA Subscription and the proposed New H Shares Issue, and 17.20% of total share capital of the Company as enlarged by the Parent Company Subscription, the Hainan HNA Subscription and the proposed New H Shares Issue; and representing not more than 88.14% of share capital of H Shares of the Company before the New H Shares Issue, and 46.85% of share capital of H Shares of the Company as enlarged by the New H Shares Issue.

The proposed New H Shares Issue is subject to (i) the approval of relevant resolutions to be passed at the EGM; (ii) the approval of relevant resolutions to be passed at the Class Meetings; (iii) the obtaining of the necessary approvals from the relevant PRC administrative and/or regulatory authorities, including the CSRC and Department of Commerce of Hainan Province; (iv) the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement, the Hainan HNA Domestic Shares Subscription Agreement and the Supplemental Hainan HNA Domestic Shares Subscription Agreement becoming effective; (v) the entering into of the placing agreement between the Company and the placing agent(s) in relation to the placing of the New H Shares and such placing agreement not being terminated in accordance with the terms therein; and (vi) the Listing Committee granting listing of and permission to deal in the New H Shares to be issued and allotted pursuant to the proposed New H Shares Issue. A separate announcement will be made if the Board proceeds to issue New H Shares pursuant to the proposed Specific Mandate. As article 6 of Regulation of Domestic Investment Civil Aviation (Trial Implementation)\* (《國內投資民用航空業規定(試行)》(民航總局令第148號)) requires the Parent Company to maintain 50% or more equity interests in the Company at all times, it is currently expected that the New H Shares Issue will be completed on the same day as the Parent Company Subscription and the Hainan HNA Subscription within nine months following the passing of the relevant resolutions at the EGM and/or the Class Meetings, otherwise the Company will re-comply with the requirements under the Listing Rules, including re-obtaining the approval of the Shareholders.

#### Proposed Issue of the New H Shares

(a) *Class of Shares to be issued*

Shares to be issued are H Shares with nominal value of RMB1.00 each.

(b) *Time of issuance*

The Company will select an appropriate time and issuance window within the validity period of the resolutions to be passed at the EGM and the Class Meetings to proceed with the New H Shares Issue. The specific time of issue will be determined by the Board with reference to the international capital market conditions, as well as the progress of review by the domestic and foreign administrative and/or regulatory authorities. It is currently expected that the proposed New H Shares Issue will be completed on the same day as the Parent Company Subscription and the Hainan HNA Subscription.

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## LETTER FROM THE BOARD

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**(c) *Size of issuance***

The proposed New H Shares to be issued shall not exceed 200,000,000 Shares, representing not more than 42.27% of the total share capital of the Company before the Parent Company Subscription, the Hainan HNA Subscription and the New H Shares Issue, and 17.20% of total share capital of the Company after the Parent Company Subscription, the Hainan HNA Subscription and the New H Shares Issue; and representing not more than 88.14% of share capital of H Shares of the Company before the New H Shares Issue, and 46.85% of share capital of H Shares of the Company after the completion of the New H Shares Issue.

**(d) *Ranking of New H Shares***

Unless otherwise required by the applicable PRC laws and regulations and the Articles of Association, the New H Shares proposed to be issued should rank *pari passu* with the existing issued Domestic Shares and H Shares in all respects.

**(e) *Listing***

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the proposed New H Shares to be allotted and issued.

**(f) *Method of issuance***

The proposed New H Shares Issue will be carried out by way of private placement.

**(g) *Target placees***

Upon the grant of the Specific Mandate, the Board may proceed to place the New H Shares to qualified institutional, corporate and individual and other investors, who will be independent of and not connected with any Director, supervisor, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates.

It is expected that none of the placees will become a substantial shareholder (as defined in the Listing Rules) of the Company as a result of the completion of the New H Shares Issue.

**(h) *Pricing mechanism***

The New H Shares will be issued at a price to be determined by the Board after taking into account the interests of existing Shareholders, investors' capabilities and the potential issuance risks, as well as the market practice and applicable regulatory requirements, and with reference to the capital market conditions and the valuations of comparable companies at the time when the Company issues the New H Shares, provided that the issue price will be not lower than 90% of the highest among the following:

- (i) the closing price of H Share as quoted on the Stock Exchange at the date of New H Share Issue;

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## LETTER FROM THE BOARD

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- (ii) the average closing price of H Shares as quoted on the Stock Exchange over the last five (5) trading days prior to the date of New H Share Issue;
- (iii) the average closing price of H Shares as quoted on the Stock Exchange over the last ten (10) trading days prior to the date of New H Share Issue; and
- (iv) the average closing price of H Shares as quoted on the Stock Exchange over the last twenty (20) trading days prior to the date of New H Share Issue.

In any event, the issue price will be not lower than the nominal value of H Share (i.e. RMB1.00).

***(i) Method of subscription***

The New H Shares are to be subscribed by the investors in cash, and issued and allotted in accordance with the terms of the placing agreement to be entered into between the Company and the placing agent(s) in relation to the proposed New H Shares Issue.

***(j) Accumulated profits***

Any accumulated profits of the Company which remain undistributed immediately before the proposed New H Shares Issue shall be for the benefit of all the Shareholders (including the subscriber(s) of the New H Shares) as a whole.

***(k) Use of proceeds***

Please refer to the section headed “G – Use of Proceeds” below for details on use of proceeds.

***(l) Validity period of the resolutions***

The resolutions relating to the Specific Mandate to be set out in the notices of the EGM and Class Meetings will be valid for an initial term of nine months, commencing from the date of passing of the relevant resolutions at the EGM and the Class Meetings.

**Proposed Specific Mandate to Issue the New H Shares**

The Board will seek the Shareholders’ authorization at each of the EGM and the Class Meetings to authorize the Board and the persons delegated by the Board to deal with all the matters in relation to the New H Shares Issue with full authority for an initial term of nine months following the passing of the relevant resolution(s) at the EGM and/or the Class Meetings. Such matters include but are not limited to:

- (a) execute and submit all the relevant applications, reports and other documents to the relevant PRC and overseas regulatory departments or authorities and deal with all the relevant approvals, registration, filing, sanction and permission;

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## LETTER FROM THE BOARD

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- (b) determine the terms of the proposed New H Shares Issue, including the determination of the actual size, issue price (including the price range and final price), timing, method and target placee(s) of the proposed New H Shares Issue, the execution, implementation, modification and termination of any agreement, contract or other documents in relation to the exercise of the Specific Mandate to issue the New H Shares, making adjustment to the use of proceeds of the proposed New H Shares Issue, and any other relevant matter;
- (c) negotiate and enter into subscription agreements with the placing agent(s) in relation to the proposed New H Shares Issue, and approving any revision or amendments to such placing agreement;
- (d) deal with all the matters in relation to obtaining all the approvals and permissions from the relevant authorities including but not limited to the CSRC, the Stock Exchange and/or any other relevant PRC and overseas authorities in relation to the proposed New H Shares Issue;
- (e) depending on the requirements at the time of the issuance, engage and appoint financial advisor, the placing agent(s), PRC and overseas legal advisers and other relevant agencies in relation to the proposed New H Shares Issue and enter into engagement or appointment letters and other relevant legal documents;
- (f) make appropriate amendments to the terms of the proposed New H Shares Issue in light of the specific circumstances and pursuant to the approval(s) by the relevant regulatory authorities;
- (g) execute, implement, amend and complete any document and do any act as necessary and appropriate in relation to the proposed New H Shares Issue;
- (h) approve the publication of relevant announcement(s), circular(s) and notice(s) in relation to the proposed New H Shares Issue on the website of the Stock Exchange and the Company, respectively, and the submission of relevant forms, files or other documents to the Stock Exchange; and
- (i) obtain the approval from the Stock Exchange for listing of and permission to deal in all of the New H Shares to be issued and allotted pursuant to the New H Shares Issue on the Main Board of the Stock Exchange.

Upon the authorization by the Shareholders at the EGM and the Class Meetings as mentioned above, the Board will delegate such authorization to Mr. Wang Zhen (王貞先生) and Mr. Zhou Feng (周鋒先生), both being executive Directors, severally or jointly, to exercise with full discretion the authorization granted by the Shareholders to the Board as mentioned above.

As at the Latest Practicable Date, the Company has not made any application in relation to the proposed New H Shares Issue to the CSRC. A separate announcement will be made if the Board proceeds to issue New H Shares pursuant to the proposed Specific Mandate.

## LETTER FROM THE BOARD

### POSSIBLE CHANGE IN SHARE CAPITAL AND SHAREHOLDING STRUCTURE

Solely for illustration purposes, assuming that: (i) the proposed Specific Mandate is granted by the Shareholders at the forthcoming EGM and Class Meetings; (ii) the Board exercises the proposed Specific Mandate; (iii) all conditions for the proposed New H Shares Issue have been satisfied; (iv) the maximum of 200,000,000 New H Shares are issued pursuant to the proposed Specific Mandate; (v) the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement, the Hainan HNA Domestic Shares Subscription Agreement and the Supplemental Hainan HNA Domestic Shares Subscription Agreement become effective; and (vi) the Parent Company subscribes the Subscription Shares I pursuant to the Parent Company Subscription and Hainan HNA subscribes the Subscription Shares II pursuant to the Hainan HNA Subscription, the possible changes in the share capital and shareholding structure of the Company will be as follows:

Class of Shares	As at the Latest Practicable Date		Immediately after issuance of Subscription Shares I, Subscription Shares II and the New H Shares	
	No. of Shares	Percentage of total issued Share (%)	No. of Shares (maximum)	Percentage of total issued Share (%)
<b>Domestic Shares</b>				
Parent Company	237,500,000	50.19	677,487,125	58.24
Hainan Airlines Co., Ltd.* (海南航空股份有限公司)	5,287,500	1.12	5,287,500	0.45
HNA Group Co., Ltd.* (海航集團有限公司)	3,512,500	0.74	3,512,500	0.30
Hainan HNA	0	0	50,000,000	4.30
<b>H Shares</b>				
H Shares in issue				
Oriental Patron <sup>1</sup>	94,343,000	19.94	94,343,000	8.11
Public	132,570,000	28.01	132,570,000	11.40
New H Shares <sup>2</sup>	0	0	200,000,000	17.19
<b>Total Number of Issued Shares</b>	<b>473,213,000</b>	<b>100</b>	<b>1,163,200,125</b>	<b>100</b>

*Note 1:* Oriental Patron includes Oriental Patron Financial Services Group Limited, Oriental Patron Financial Group Limited and Oriental Patron Resources Investment Limited. As at the Latest Practicable Date, it holds 19.94% of the shares of the Company and therefore constitutes a connected person of the Company. However, immediately after issuance of Subscription Shares I, Subscription Shares II and the New H Shares Issue, its shareholding will be diluted to 8.11% and will no longer be a connected person of the Company and will be regarded as a public shareholder for the purpose of calculating public float.

*Note 2:* It is expected that none of the placees will become a substantial shareholder (as defined in the Listing Rules) of the Company upon completion of the New H Shares Issue and the H Shares to be held by all such placees would be considered to be held "in public hands".

The Company considers that it can comply with the public float requirement under Rule 8.08(1) of the Listing Rules after completion of the New H Shares Issue.

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## LETTER FROM THE BOARD

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### **E. PROPOSED CONSEQUENTIAL AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

On 30 December 2016, the Board resolved to convene the EGM and the Class Meetings for the grant of authority to make consequential amendments to the Articles of Association as the Board thinks fit to reflect the latest registered capital structure of the Company as a result of each of the issue of Subscription Shares I, Subscription Shares II and the New H Shares.

### **F. REASONS FOR AND BENEFITS OF THE PARENT COMPANY SUBSCRIPTION, THE HAINAN HNA SUBSCRIPTION AND THE PROPOSED NEW H SHARES ISSUE**

#### **1. Acquisition of the Phase I Runway Assets under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement**

Prior to the acquisition of the Phase I Runway Assets under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement, the Phase I Runway Assets is owned and operated by the Parent Company. The Directors are of the view that the current separation of operation of the Phase I Runway Assets and the terminal buildings of Meilan Airport leads to unclear delineation of responsibilities which affects the operational efficiency and security of Meilan Airport. The acquisition of the Phase I Runway Assets will enable the Company to better run its operational assets consistent with the “High Standard, Strict Compliance” (高標準,嚴要求) standards prevalent in the civil aviation industry.

In addition, upon the completion of the acquisition of the Phase I Runway Assets, the Parent Company’s share of the Service Fees will reduce from 25% to such lesser amount to be approved by CAAC. The increase of the Service Fees to be received by the Company going forward, as a result of the acquisition of the Phase I Runway Assets, will strengthen the revenue stream and competitiveness of the Company.

#### **2. Equity fundraising to improve working capital**

Meilan Airport, being the only airport situated in Haikou City which is a strategic city under the “One Belt, One Road” (一帶一路) initiative, is well positioned to capture opportunities in connection with the implementation of the “One Belt, One Road” initiative. The Directors are of the view that the Parent Company Subscription, the Hainan HNA Subscription and the proposed New H Shares Issue will improve its capital structure, strengthen its financial risk resilience, enhance its solvency and expand its financial base. As such, the Company wishes to take advantage of the relatively low cost to raise additional funds through the issue of domestic shares and H shares to Shareholders and investors to replenish its working capital to equip the Group to take on expansion projects and to fund any operational needs of existing direct wholly-owned subsidiaries of the Company (including the repayment of debts).

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## LETTER FROM THE BOARD

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### G. USE OF PROCEEDS

Solely for illustration purposes, assuming the New H Shares are fully placed at the price of RMB5.73 (equivalent to approximately HK\$6.40), which was calculated based on the pricing mechanism of the New H Shares Issue using the Latest Practicable Date as the benchmark date, the gross proceeds from the Parent Company Subscription, the Hainan HNA Subscription and the proposed New H Shares Issue will be approximately RMB3,546,000,000 (equivalent to approximately HK\$3,958,473,000) and the net proceeds (after deducting all applicable costs and expenses, including commission and levies) will be approximately RMB3,504,000,000 (equivalent to approximately HK\$3,911,587,000).

The net proceeds from the Parent Company Subscription, the Hainan HNA Subscription and the proposed New H Shares Issue, after deducting relevant expenses, will be used as follows:

**1. Approximately 37% shall be used for acquisition of office buildings, conference centres, amenities centres, training centres and staff quarters and other associated facilities**

The size and amount of the existing office buildings and staff quarters are far from sufficient to support the needs of the rapidly increasing number of staff required to be stationed at the Meilan Airport. Accordingly, the Company intends to acquire office buildings, conference centres, amenities centres, training centres and staff quarters and other associated facilities which are currently being constructed by the Parent Company on phase II of the Meilan Airport (“**Phase II Building Project**”). According to the feasibility study report of the Phase II Building Project, the estimated construction costs of Phase II Building Project was approximately RMB1.231 billion. The consideration for acquisition of the Phase II Building Project is estimated to be approximately RMB1.321 billion, including its construction costs, consideration for relevant lands and relevant taxation costs.

As at the Latest Practicable Date, the Company has not entered, or proposed to enter, into any agreement, arrangement, understanding or undertaking for the Phase II Building Project. As at the Latest Practicable Date, the Parent Company has completed the filing in Hainan Development and Reform Commission (海南省發展和改革委員會) and the Parent Company has confirmed it is not aware of any issue which may lead to the non-materialization of the Phase II Building Project.

The Company will make further disclosure in relation to such acquisition of the Phase II Building Project in accordance with the Listing Rules as and when appropriate.



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## LETTER FROM THE BOARD

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**2. Approximately 22% shall be used for expansions, upgrades, improvements and maintenance of existing terminal buildings and other areas of Meilan Airport**

***(a) Investment in the Airport Project of the Phase II Expansion Project of Meilan Airport***

Reference is made to the announcement of the Company dated 23 August 2015 and the circular of the Company dated 7 October 2015 in relation to an airport project of the Phase II Expansion Project of Meilan Airport (the “**Airport Project**”). As disclosed in the said announcement and circular, the Company intends to fund the construction of the Airport Project through, among others, a long-term project loan from China Development Bank, Hainan Branch. It was estimated at the time that approximately RMB4.16 billion will be available to fund the portion of the construction responsible by the Company. Based on the latest communication with China Development Bank, Hainan Branch and the Parent Company, the Company may only be able to obtain RMB3.96 billion funding from the long-term project loan. Accordingly, approximately RMB0.2 billion of the proceeds from the Parent Company Subscription, Hainan HNA Subscription and the proposed H Shares Issue will be allocated to fund the short-fall.

***(b) Investment in the maintenance of the terminal buildings of Meilan Airport***

The terminal buildings of Meilan Airport have been in use for over seventeen years. In order to realise the goal of attaining a SKYTRAX five-star airport rating and to improve safety operation of the Meilan Airport, it is expected that the Company will invest approximately RMB0.577 billion in maintenance of the terminal buildings of Meilan Airport commencing from 2017 to 2019 including, but not limited to, over thirty (30) small-scale infrastructure maintenance projects (with an aggregate investment amount of approximately RMB0.177 billion) and regular maintenance and refurbishment (with an aggregate investment amount of approximately RMB0.4 billion).

As at the Latest Practicable Date, the Company has not entered into any agreement, arrangement, understanding or undertaking for the maintenance of the terminal buildings of Meilan Airport.

**3. Approximately 14% shall be used for the development, optimisation and expansion of the operation and business of direct wholly-owned subsidiaries of the Company**

As Meilan Airport is one of the airport hubs under the “One Belt, One Road” initiative according to the Action Plan of the Construction of “One Belt, One Road” Initiative led by CACC (2016-2030) (《民航推進「一帶一路」建設行動計畫(2016-2030年)》), in order to capture investment opportunities in cities outside the Hainan Province and the Southeast Asian countries under the implementation of the “One Belt, One Road” (一帶一路) initiative, the Company plans to expand the airport management business outside of Hainan Province and increase the revenue stream of the Company by providing management service to other medium and small airport. Therefore, the Company will invest approximately RMB0.483



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## LETTER FROM THE BOARD

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billion in three of its wholly-owned subsidiaries, i.e. Hainan Meilan Airport Commercial Investment Co., Ltd.\* (海南美蘭機場商業投資有限公司) (primarily engaging in the commercial business management of Meilan Airport), Hainan Meilan Airport Hotel Investment Co., Ltd.\* (海南美蘭機場酒店投資有限公司) (primarily engaging in the management of hotels in Meilan Airport) and Hainan Meilan Airport Terminal Investment Holding Co., Ltd.\* (海南美蘭機場航站樓投資控股有限公司) (primarily engaging in the operation management of the terminal buildings of Meilan Airport) as set out in the table below:

<b>Subsidiaries</b>	<b>Payment of Registered Capital (RMB'000)</b>	<b>Investment Amount</b>
Hainan Meilan Airport Commercial Investment Co., Ltd.* (海南美蘭機場商業投資有限公司)	50,000	184,000
Hainan Meilan Airport Hotel Investment Co., Ltd.* (海南美蘭機場酒店投資有限公司)	5,000	194,000
Hainan Meilan Airport Terminal Investment Holding Co., Ltd.* (海南美蘭機場航站樓投資控股有限公司)	50,000	–

As at the Latest Practicable Date, the Company has not entered into any agreement, arrangement, understanding or undertaking for expansion of the airport management business.

#### **4. Approximately 11% shall be used for introducing innovative technology and upgrading Meilan Airport to “smart airport”**

Since 2013, the Company has launched the “smart airport” project with remarkable achievements. The Company expects to invest approximately RMB0.4 billion in construction projects in relation to “smart airport” including but not limited to the basic cloud platform (基礎雲平臺), GIS (geographic information system), the information exchange platform and the data warehouse.

As at the Latest Practicable Date, the Company has not entered into any agreement, arrangement, understanding or undertaking for investment in innovation technology.

#### **5. Approximately 11% shall be used to replenish the working capital of the Company**

To guarantee the smooth operation and to reduce the financing cost of the Company, approximately 11% of the proceeds (approximately RMB0.4 billion) shall be used to replenish the working capital of the Company (including but not limited to operation cost of the Company, such as tax, labour cost, cost of water and electricity, environmental handling fee and afforestation fee).

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## LETTER FROM THE BOARD

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### **6. Approximately 5% shall be used to reduce outstanding liabilities of the Group**

As at 31 December 2016, the Group had total current liabilities of RMB1,777,591,086 and total liabilities of RMB4,468,162,437, and the Group's gearing ratio (being calculated as total liabilities/total assets) was 54.52%. Approximately 5% of the proceeds (approximately RMB0.2 billion) shall be used to reduce the outstanding interests of the Group accrued and due in 2017.

Should the New H Shares Issue not completed in full, less proceeds will be applied towards 2(b) and reduce the allocation as working capital on *pro rata* basis.

### **H. EQUITY FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS**

The Company has not conducted any equity fund raising activity or any issue of equity securities in the 12 months preceding the Latest Practicable Date.

### **I. POSSIBLE FINANCIAL EFFECTS OF THE ACQUISITION ON THE PHASE I RUNWAY ASSETS**

#### **(a) Earnings**

As disclosed in the annual report of the Group for the year ended 31 December 2016, the Group recorded a net profit attributable to Shareholders of the Company of approximately RMB392,942,212 for the year ended 31 December 2016. Upon the completion of the acquisition of the Phase I Runway Assets, it is expected that the net profit of the Group will increase.

#### **(b) Net assets**

As disclosed in the annual report of the Group for the year ended 31 December 2016, the Group had net assets of RMB3,727,668,399 as at 31 December 2016. Upon the completion of the acquisition of the Phase I Runway Assets, it is expected that the net assets of the Group will increase.

### **J. EGM**

Set out on pages 96 to 113 of this circular are the notices given by the Company on 28 April 2017 for convening the EGM to be held at 10:00 a.m. on 26 June 2017, and the Class Meetings to be held immediately following the conclusion of the EGM or any adjournment thereof at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC. At the EGM and the Class Meetings, among other things, special resolutions will be proposed to consider, and if thought fit, (i) the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder, (ii) the Hainan HNA Domestic Shares Subscription Agreement, the Supplemental

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## LETTER FROM THE BOARD

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Hainan HNA Domestic Shares Subscription Agreement and the Hainan HNA Subscription contemplated thereunder, (iii) the proposed New H Shares Issue, and (iv) the proposed consequential amendments to the Articles of Association.

Pursuant to Rule 13.39(4) of the Listing Rules, voting at the EGM and Class Meetings will be conducted by poll. As at the Latest Practicable Date, the Parent Company, which holds 50.19% voting rights at a general meeting of the Company, and has controls over the voting right in respect of its shares, and is interested in the Parent Company Subscription contemplated under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement, will abstain from voting at the EGM and the Class Meetings (if applicable) for approving the Parent Company Subscription. Other than the Parent Company, there is no other Shareholder who has a material interest in the Parent Company Subscription, the Hainan HNA Subscription or the proposed New H Shares Issue. The poll results will be published on the websites of the Company and of the Stock Exchange following the conclusion of the EGM and the Class Meetings.

### **K. BOOK CLOSURE**

The Company's register of members will be closed from Wednesday, 24 May 2017 to Monday, 26 June 2017 (both days inclusive), during which time no transfer will be registered. In order to qualify for attending and voting at the EGM and the Class Meetings, shareholders must deliver their instruments of transfer, accompanied by the relevant share certificates and forms of transfer, to the Company's Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited, located at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 23 May 2017.

### **L. INFORMATION ON THE COMPANY, THE PARENT COMPANY AND HAINAN HNA**

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

The Parent Company is principally engaged in ancillary airport service business. The Parent Company is a company established in the PRC.

The Hainan HNA is principally engaged in investment, construction and management of properties and infrastructures.

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## LETTER FROM THE BOARD

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### **M. RECOMMENDATIONS**

The Board, including the Independent Board Committee, is of the opinion that the terms and conditions of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement are fair and reasonable and 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 notices of the EGM and the Class Meetings for approval of the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder.

The Directors also believe that the Hainan HNA Domestic Shares Subscription Agreement, the Supplemental Hainan HNA Domestic Shares Subscription Agreement the proposed New H Shares Issue and the proposed consequential amendments to the Articles of Association are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders vote in favour of all the relevant resolutions as set out in the notices of the EGM and the Class Meetings.

Each of Mr. Wang Zhen, Mr. Hu Wentai, Mr. Yang Xiaobin, Mr. Zhou Feng, and Mr. Liu Shanbin is interested in the Parent Company Subscription as they are delegates from the connected shareholder of the Company, and therefore had abstained from voting on the relevant resolutions at the Board meeting approving the same.

### **N. 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 and the Class Meetings regarding the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder, 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 Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder, details of which are set out on pages 28 to 29 and pages 30 to 53 respectively of this circular. None of the members of the Independent Board Committee has any material interest relating to the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder.

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

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**LETTER FROM THE BOARD**

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**As the Parent Company Subscription, the Hainan HNA Subscription and the proposed New H Shares Issue may or may not be completed, the Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.**

Yours faithfully,  
By Order of the Board  
**HNA Infrastructure Company Limited\***  
**Wang Zhen**  
*Chairman*

Hainan Province, the PRC  
28 April 2017



海航基礎股份有限公司  
**HNA Infrastructure Company Limited\***

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

**(Stock code: 357)**

28 April 2017

*To the Shareholders*

Dear Sir/Madam,

**MAJOR AND CONNECTED TRANSACTION  
THE PARENT COMPANY  
DOMESTIC SHARES SUBSCRIPTION AGREEMENT  
AND THE SUPPLEMENTAL PARENT COMPANY DOMESTIC SHARES  
SUBSCRIPTION AGREEMENT**

We have been appointed as members of the Independent Board Committee to advise the Shareholders in respect of the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription that are subject to the Independent Shareholders' approval, 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.

Octal Capital has been appointed as the Independent Financial Adviser to advise us regarding the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription. We wish to draw your attention to the letter from the Independent Financial Adviser which contains advice to us in relation to the terms and conditions of the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription, 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 appendices to this circular.

\* *For identification purposes only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the advice of, and the principal factors and reasons considered by the Independent Financial Adviser in relation thereto as stated in its letter, we consider the terms and conditions of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement are on normal Commercial terms, and the Parent Company Subscription is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore recommend you to vote in favour of the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription.

Yours faithfully,

*Independent Board Committee*

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter of advice from Octal Capital Limited to the Independent Board Committee and the Independent Shareholders dated 28 April 2017 setting out their opinion regarding the proposed Parent Company Subscription pursuant to the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement, for the purpose of inclusion in this circular.*



802-805, 8/F,  
Nan Fung Tower,  
88 Connaught Road Central,  
Hong Kong

28 April 2017

*To the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION  
THE PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION  
AGREEMENT  
AND THE SUPPLEMENTAL PARENT COMPANY DOMESTIC SHARES  
SUBSCRIPTION AGREEMENT**

### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed Parent Company Subscription (which involves the proposed acquisition of the Phase I Runway Assets (the “**Runway Acquisition**”) pursuant to the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular dated 28 April 2017 (the “**Circular**”) to the Shareholders, of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

### **THE PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT AND THE SUPPLEMENTAL PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT**

On 30 December 2016, the Company and the Parent Company entered into the Parent Company Domestic Shares Subscription Agreement (as amended by the Supplemental Parent Company Domestic Shares Subscription Agreement dated 27 April 2017), pursuant to which the Parent Company agreed to subscribe for Subscription Shares I, which include: (i) 189,987,125 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company; and (ii) 250,000,000 new Domestic Shares by cash at an aggregate subscription price of RMB2,000,000,000 (equivalent to approximately HK\$2,232,641,214.56).



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The consideration for the transfer of the Phase I Runway Assets is RMB1,519,897,000, which is determined based on the aggregate appraised asset value of the Phase I Runway Assets as at 31 January 2017 (i.e. RMB1,519,897,000).

### **THE HAINAN HNA DOMESTIC SHARES SUBSCRIPTION AGREEMENT AND THE SUPPLEMENTAL HAINAN HNA DOMESTIC SHARES SUBSCRIPTION AGREEMENT**

On 30 December 2016, the Company and Hainan HNA also entered into the Hainan HNA Domestic Shares Subscription Agreement (as amended by the Supplemental Hainan HNA Domestic Shares Subscription Agreement dated 27 April 2017), pursuant to which, Hainan HNA agreed to subscribe for Subscription Shares II, being 50,000,000 new Domestic Shares by cash at an aggregate subscription price of RMB400,000,000 (equivalent to approximately HK\$446,528,242.91).

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Hainan HNA is not a connected person (as defined under the Listing Rules) of the Company.

### **PROPOSED NEW H SHARES ISSUE UNDER SPECIFIC MANDATE**

On 30 December 2016, the Board resolved to convene the EGM and the Class Meetings for the grant of the proposed Specific Mandate to the Board to issue not more than 200,000,000 New H Shares by way of private placement, representing not more than 42.27% of the total share capital of the Company before the Parent Company Subscription, the Hainan HNA Subscription and the proposed New H Shares Issue; and 17.20% of total share capital of the Company as enlarged by the Parent Company Subscription, the Hainan HNA Subscription and the proposed New H Shares Issue; and representing not more than 88.14% of share capital of H Shares of the Company before the New H Shares Issue, and 46.85% of share capital of H Shares of the Company as enlarged by the New H Shares Issue.

The proposed New H Shares Issue is subject to (i) the approval of relevant resolutions to be passed at the EGM; (ii) the approval of relevant resolutions to be passed at the Class Meetings; (iii) the obtaining of the necessary approvals from the relevant PRC administrative and/or regulatory authorities, including the CSRC and Department of Commerce of Hainan Province; (iv) the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement, the Hainan HNA Domestic Shares Subscription Agreement and the Supplemental Hainan HNA Domestic Shares Subscription Agreement becoming effective; (v) the entering into of the placing agreement between the Company and the placing agent(s) in relation to the placing of the New H Shares and such placing agreement not being terminated in accordance with the terms therein; and (vi) the Listing Committee granting listing of and permission to deal in the New H Shares to be issued and allotted pursuant to the proposed New H Shares Issue. A separate announcement will be made if the Board proceeds to issue New H Shares pursuant to the proposed Specific Mandate.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The New H Shares will be issued at a price to be determined by the Board after taking into account the interests of existing Shareholders, investors' capabilities and the potential issuance risks, as well as the market practice and applicable regulatory requirements, and with reference to the capital market conditions and the valuations of comparable companies at the time when the Company issues the New H Shares, provided that the issue price will be not lower than (i) the nominal value of RMB1.00; and (ii) 90% of the highest among the following:

- (i) the closing price of H Share as quoted on the Stock Exchange at the date of New H Share Issue;
- (ii) the average closing price of H Shares as quoted on the Stock Exchange over the last five (5) trading days prior to the date of New H Share Issue;
- (iii) the average closing price of H Shares as quoted on the Stock Exchange over the last ten (10) trading days prior to the date of New H Share Issue; and
- (iv) the average closing price of H Shares as quoted on the Stock Exchange over the last twenty (20) trading days prior to the date of New H Share Issue.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, the Parent Company holds approximately 50.19% of the total share capital of the Company and is the controlling shareholder of the Company. Accordingly, the Parent Company is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules.

As certain applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) for the Parent Company Subscription contemplated under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement are more than 25% and the consideration exceeds HK\$10,000,000, the Parent Company Subscription constitutes non-exempt connected transaction for the Company.

In addition, as certain applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) computed in relation to the Runway Acquisition contemplated under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement are more than 25% but less than 100%, such transaction constitutes a major transaction of the Company under Chapter 14 of the Listing Rules.

Accordingly, the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder are subject to reporting, announcement and the approval of the Independent Shareholders taken on a poll at the EGM and the Class Meetings requirements. The Parent Company and its associates will abstain from voting on the relevant resolution(s) to be proposed at the EGM and the Class Meetings.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Independent Board Committee, comprising the four independent non-executive Directors, namely Mr. Deng Tianlin, Mr. Fung Ching, Simon, Mr. George F Meng and Mr. He Linji, has been established to consider the Parent Company Subscription (which included the Runway Acquisition) and the transactions contemplated under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement, and to advise the Independent Shareholders on the fairness and reasonableness in relation to the terms of the Parent Company Subscription (which included the Runway Acquisition) and the transactions contemplated thereunder. In this regard, Octal Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

As at the Latest Practicable Date, we, Octal Capital Limited, are independent from, and not connected with the Company, Directors, chief executive or, substantial shareholders of the Company or the Parent Company or any of their respective subsidiaries or their respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, we did not have any engagement with the Company, the Directors, the chief executive of the Company, the substantial shareholders of the Company or the Parent Company and no arrangement exists whereby we will receive any fees or benefits from the Company, the Parent Company, the Directors, the chief executive of the Company and the substantial shareholders of the Company or the Parent Company or any of their respective subsidiaries or associates. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Octal Capital will receive any fees or benefits from the Company or the directors, chief executive or substantial shareholders of the Company or the Parent Company or their respective associates.

In formulating our opinion, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, the Company and its management (the “**Management**”). We have assumed that all statements, information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular.

We consider that we have (i) obtained all information and documents of the Company and the Parent Company relevant to an assessment of the fairness and reasonableness of the terms of the Parent Company Subscription (which included the Runway Acquisition); (ii) researched the relevant market and other conditions and trends relevant to the pricing of the Parent Company Subscription (which included the Runway Acquisition); (iii) reviewed the fairness, reasonableness and completeness of any assumptions relevant to the Parent Company Subscription (which included the Runway Acquisition); and (iv) reviewed the opinion and valuation relevant to the Runway Acquisition provided by the expert, being Vigers Appraisal & Consulting Limited and an independent professional property valuer (the “**Independent Valuer**”), including reviewing the terms of engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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given by the expert's report provided by the Independent Valuer as at the valuation date on 31 January 2017 as set out in Appendix II to the Circular (the "**Valuation Report**"), opinion or statement). Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Parent Company Subscription (which included the Runway Acquisition), as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

We have no reason to doubt the truth, accuracy and completeness of the statements, information, facts, opinions and representations provided to us by the Directors, the Company and the Management. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed and we have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular, or the reasonableness of the opinions and representations provided to us by the Company. All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular, while the omission of which would make any statement in the Circular misleading. We have relied on such information and opinions and have not however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group and the Parent Company.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in relation to the Parent Company Subscription (which included the Runway Acquisition) pursuant to the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement (including the grant of the Specific Mandate), we have considered the following principal factors and reasons:

**1. Background and reasons for and benefits of entering into, among others, the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement**

- *Background of the Company*

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

The Meilan Airport, the main gateway to, and located at Hainan Province, the PRC has been operated smoothly by the Company since May 1999, and has experienced a satisfactory growth in terms of aircraft movement, passenger throughput and cargo throughput since then.

- *Background of the Parent Company*

The Parent Company is a company with limited liability established in the PRC and the controlling shareholder of the Company. The Parent Company is principally engaged in ancillary airport service business in the PRC.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- *Information on the Phase I Runway Assets*

The Phase I Runway Assets which consist of the Phase I runway of the Meilan Airport and other auxiliary facilities, are located at the Meilan Airport in Haikou City, Hainan Province, the PRC. The Phase I runway of the Meilan Airport is approximately 3,600 meters long and 60 meters wide, equipped with the parallel taxiway which is approximately 3,600 meters long and 44 meters wide, 78 aircraft parking stands, globally advanced navigational lighting aid system, communication navigation equipment and other service facilities. The Phase I Runway Assets can satisfy the full-weight takeoff and landing requirements of large aircrafts, such as Boeing 747-400, and handle more than 18 million passengers in 2016. The original cost of the construction of the Phase I Runway Assets of the Parent Company was approximately RMB575,291,000.

Prior to the Runway Acquisition, the Phase I Runway Assets are owned and operated by the Parent Company. Pursuant to an agreement entered into between the Parent Company and the Company dated 25 October 2002 (the “**Runway Agreement**”), the Parent Company agreed to, among others, operate and maintain the runway and other ancillary assets (including the Phase I Runway Assets) in accordance with the applicable regulatory and industrial standards and keep the runway in good working condition in consideration for a right to 25% of certain of the aircraft movement fees, passenger charges and basic ground handling service fees (the “**Service Fees**”) as set out in the Runway Agreement.

Upon the completion of the Runway Acquisition, the Phase I Runway Assets will be wholly-owned by the Company and the Company will enter into a supplemental agreement with the Parent Company to reduce the Parent Company’s share of the Service Fees from 25% to such decreased ratio/amount to be approved by the CAAC to reflect the change in ownership of the Phase I Runway Assets.

According to the Valuation Report, the aggregate appraised asset value of the Phase I Runway Assets as at 31 January 2017 was RMB1,519,897,000.

- *Reasons for and benefits of entering into, among others, the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement*

As mentioned in the Letter from the Board, the Directors consider that the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement will benefit the Company for the following reasons:

*Acquisition of the Phase I Runway Assets under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Prior to the acquisition of the Phase I Runway Assets under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement, the Phase I Runway Assets are owned and operated by the Parent Company. The Directors are of the view that the current separation of operation of the Phase I Runway Assets and the terminal buildings of the Meilan Airport leads to unclear delineation of responsibilities which affects the operational efficiency and security of the Meilan Airport. The acquisition of the Phase I Runway Assets will enable the Company to better run its operational assets consistent with the “High Standard, Strict Compliance (高標準,嚴要求)” standards prevalent in the civil aviation industry.

In addition, upon the completion of the acquisition of the Phase I Runway Assets, the Parent Company’s share of the Service Fees will be reduced from 25% to such lesser amount to be approved by the CAAC. The increase of the Service Fees to be received by the Company going forward, as a result of the acquisition of the Phase I Runway Assets, will strengthen the revenue stream and competitiveness of the Company.

### *Equity fund raising to improve working capital*

Meilan Airport, being the only airport situated in Haikou City, which is a strategic city under the “One Belt, One Road (一帶一路)” initiative, is well positioned to capture opportunities in connection with the implementation of the “One Belt, One Road” initiative. The Directors are of the view that the Parent Company Subscription, the Hainan HNA Subscription and the proposed New H Shares Issue will improve its capital structure, strengthen its financial risk resilience, enhance its solvency and expand its financial base. As such, the Company wishes to take advantage of the relatively low cost to raise additional funds through the issue of the new Domestic Shares and the New H Shares to the Shareholders and investors to replenish its working capital to equip the Group to take on expansion projects and to fund any operational needs of existing direct wholly-owned subsidiaries of the Company (including the repayment of debts).

As such, the Board considers the Parent Company Subscription (which included the Runway Acquisition) is in the interests of the Company and the Shareholders as a whole.

### *Our analysis*

Based on our independent research from the official websites of The National Bureau of Statistics of China (中華人民共和國國家統計局) and The People’s Government of Hainan Province, the PRC (the “**Government of Hainan Province**”) (中華人民共和國海南省人民政府), according to the statistical information as extracted therefrom, Hainan Province had a population of approximately 9.1 million as at 31 December 2015 and had experienced a substantial economic growth in the past ten years. The real gross domestic products (the “**GDP**”) growth rate of Hainan Province exceeded the average national growth rate of GDP for the past few years. Since Hainan became a province of the PRC in 1988, the economic structure has gradually evolved toward a healthy balance between



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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primary, secondary and tertiary sectors comparing to its substance in the agricultural industry before. In 2016, the GDP rose by 7.5% on a year-on-year basis to approximately RMB404.5 billion, which was higher than the national average growth rate of 6.7%. The GDP growth was mainly contributed by investment and consumption. Hainan Province's fixed-asset investment surged 11.7% on a year-on-year basis to approximately RMB374.7 billion, while its total retail sales increased by approximately 9.7% to approximately RMB145.4 billion.

According to the statistical information published by the Government of Hainan Province, tourism in Hainan Province has recorded rapid growth over the past five years, representing an average increase in terms of revenue and number of tourists of almost 10% per annum. In 2016, around 60.2 million tourists visited Hainan Province bringing in gross revenue of approximately RMB67.2 billion, which represented respective increases of approximately 12.9% in tourist number and 17.4% in gross revenue over those of 2015. According to a statement of the State Council of the PRC, the PRC's central government aims to build the southern island of Hainan into a top international tourism destination by 2020; and plans to develop the only tropical island province (i.e. the Hainan Province) to be a platform for international economic cooperation and cultural exchanges. In view of the above, the Government of Hainan Province had anticipated that there would be about 47.6 million and 76.8 million tourists visiting Hainan Province and bringing in gross revenue of approximately RMB54.0 billion and RMB124.0 billion in 2015 and 2020 respectively. Based on the above published statistical information on actual performance, the number of tourists visiting Hainan Province in 2016 of approximately 60.2 million had already exceeded the government's previous estimation of approximately 47.6 million for the year 2015.

Based on the above scenario, we concur with the Directors' view that the Runway Acquisition will enable the Group to better secure the key operational assets which has been and will be vital for its business operation and development of the existing Meilan Airport in the long-term future, and therefore potentially benefit and strengthen the revenue stream and earning base of the Group going forward.

In view of the above, we are of the view that the Runway Acquisition is in line with the business development strategy of the Group and would alleviate its reliance on the operational support by the controlling Shareholder in the long run, despite it is not conducted in the ordinary and usual course of business of the Group and shall be regarded as a way of capital formation for better securing the operational assets of the Group for its long-term business development without expending any of its cash resources or incurring external liability for the Group. Meanwhile, the Parent Company Subscription (save for the Runway Acquisition) is a fund raising shall be regarded as corporate financing activities instead of usual operating activities. Notwithstanding the above, we consider the Parent Company Subscription (which included the Runway Acquisition) is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Principal terms and conditions of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement

#### *Background*

Reference is made to the prospectus of the Company dated 6 November 2002 (the “**Prospectus**”) in relation to the option agreement entered into between the Company and the Parent Company on 30 May 2002 and the supplemental agreement dated 25 October 2002 (the “**2002 Option Agreement**”), pursuant to which, the Parent Company granted to the Company options to purchase from the Parent Company any aeronautical or non-aeronautical businesses and assets owned or to be owned by the Parent Company from time to time in accordance with the terms of the 2002 Option Agreement.

The Company delivered a preliminary notice to the Parent Company on 12 October 2016 indicating its intention to acquire the Phase I Runway Assets. In accordance with the terms of the 2002 Option Agreement, the Independent Valuer being a professional and independent property valuer, was engaged to evaluate the Phase I Runway Assets.

According to the Valuation Report, the aggregate appraised asset value of the Phase I Runway Assets as at 31 October 2016 (which was subsequently updated as at 31 January 2017) was RMB1,519,897,000. The book value of the Phase I Runway Assets as at 31 October 2016 was approximately RMB575,291,000. Upon receipt of the Valuation Report, the Company issued a further notice to the Parent Company on 10 November 2016 confirming its intention to acquire the Phase I Runway Assets by way of issuing new Domestic Shares to the Parent Company as the consideration for the Runway Acquisition.

#### *Subscription Shares I*

On 30 December 2016, the Company and the Parent Company entered into the Parent Company Domestic Shares Subscription Agreement (as amended by the Supplemental Parent Company Domestic Shares Subscription Agreement dated 27 April 2017), details of which are set out below:

Pursuant to the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement, the Parent Company agreed to subscribe for Subscription Shares I, which include: (i) 189,987,125 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets (the “**Consideration Share(s)**”) by the Parent Company to the Company; and (ii) 250,000,000 new Domestic Shares by cash at an aggregate subscription price of RMB2,000,000,000 (equivalent to approximately HK\$2,232,641,214.56).

The cash subscription price for the Subscription Shares I shall be paid by the Parent Company to the bank account of the Company within fifteen (15) Business Days (or otherwise as agreed between the Parent Company and the Company in writing) upon the satisfaction of the conditions precedent set out in the Parent Company Domestic Shares Subscription Agreement.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Subscription Shares I will be allotted and issued at the subscription price of RMB8.00 (equivalent to approximately HK\$8.93) (the “**Subscription Price**”) per Subscription Share I. The Subscription Price was determined with reference to the prevailing market price of H Shares and the market condition after arm’s length negotiation between the Company and the Parent Company. It is currently expected that the Parent Company Subscription will be completed on the same day as the Hainan HNA Subscription as well as the proposed New H Shares Issue and within six months following the passing of the relevant resolutions at the EGM and/or the Class Meetings, subject to having obtained all relevant regulatory approval.

The Directors consider that the terms and conditions of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement have been negotiated on an arm’s length basis, on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

### *Information on the Phase I Runway Assets*

Please refer to the Prospectus for further details of the Runway Agreement and the paragraph headed “Background and reasons for and benefits of entering into, among others, the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement” above.

### *Valuation of the land sites, buildings, and navigation equipment and other service facilities (the “Equipment”) under the Runway Acquisition*

We have interviewed the Independent Valuer and made inquiry on any current or prior relationship between the Valuer and the Group, the Parent Company and their core connected persons which the Valuer has confirmed their independence. We have reviewed the Valuation Report and enquired with the Independent Valuer on the methodology adopted and the basis and assumptions used in arriving at the valuation of market value as at 31 January 2017 as set out in the Appendix II to the Circular (the “**Valuation**”). In the course of our enquiry, we understand that the Independent Valuer carried out a physical inspection on the Equipment and a site inspection to the land sites at Haikou City, Hainan Province, the PRC in April and June 2016, respectively, to research into the necessary information to determine the market value of the Equipment and the land sites and properties under the Runway Acquisition. The Independent Valuer has advised that it has adopted the depreciated replacement cost approach for the valuation of the Equipment and the properties; and has adopted the direct comparison and standard land price approaches for the valuation of the land sites by making reference to the standard land price in Haikou City, Hainan Province, the PRC, and the comparable land sales transaction evidences as available to it from the official public website in the locality.

Since the information of the comparables is publicly available from an official website regarding sale and purchase of land and properties in the PRC and sufficient number of samples in the similar locality had been obtained for making a meaningful

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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comparison according to the general industry practice, the Independent Valuer considered that such comparables are a fair and representative sample for evaluating the land use rights attributable to the Phase I Runway Assets. We have reviewed the comparables and concur with the selection criteria, bases for compiling such comparables and the slight adjustment for dissimilarities on transportation and other public facilities made by the Independent Valuer, which we consider to be a fair and representative sample.

In respect of the buildings and structures erected onto the land sites and the Equipment under the Runway Acquisition, the Independent Valuer has adopted the depreciated replacement cost approach for the Valuation which takes into account the replacement costs therefor after deducting depreciation charges. As the nature of the buildings, structures and the Equipment cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and Equipment and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property and Equipment in the absence of a known and established secondhand market based on comparable sales.

Hence, the combination of the three results represents the market value of the land sites and properties, together with the Equipment as a whole. As confirmed by the Independent Valuer, the direct comparison, standard land price as well as depreciated replacement cost approaches are commonly adopted for valuation of properties and Equipment in Hong Kong and the PRC and are also consistent with the normal market practice. Further details of the bases and assumptions of the Valuation are included in the Valuation Report as contained in the Appendix II to the Circular.

According to our independent research, the Independent Valuer has possessed sufficient qualifications and experience in valuing assets similar to that of the Parent Company for listed companies in the PRC and Hong Kong over the years. During the course of our review of the Valuation Report and enquiry with the Independent Valuer, we understand the reasons behind and appropriateness for the Independent Valuer adopting the combined valuation approaches (i.e. direct comparison and standard land price approaches and depreciated replacement cost approach, as the case maybe) for the Valuation of the Phase I Runway Assets, and have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the Valuation. Due to inadequate information which could be obtained for the use of other valuation approaches considered by the Independent Valuer (including the absence of a known and established secondhand market for comparable sales for the use of market approach in valuing the Equipment and the properties; and the difficulty in distinguishing the income or earnings derived from the land sites and properties in their daily operation), no other methodology has been used to cross-check the Valuation. Notwithstanding that, based on the foregoing, we considered the Valuation Report from the Independent Valuer to be an appropriate source of information for the purpose of our assessment on the fair and reasonableness of the terms under the Runway Acquisition.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Since the total consideration for the Runway Acquisition is equivalent to the amount of the valuation of the Phase I Runway Assets as at 31 October 2016, being approximately one month immediately preceding the entering into of the Parent Company Domestic Share Subscription Agreement (which was subsequently updated to as at 31 January 2017), at RMB1,519,897,000 (the “**Consideration**”) as evaluated and concluded by the Independent Valuer, we consider that the basis for determining the Consideration is fair and reasonable. Accordingly, we are of the view that the entering into of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement are for the benefit of the Group, in the interests of the Company and the Shareholders as a whole, and is fair and reasonable so far as the Independent Shareholders are concerned.

### *Payment of the Consideration for the Runway Acquisition*

As can be seen from the settlement terms above, the total consideration for the Runway Acquisition shall be settled by allotment and issue of the Consideration Shares to the Parent Company after obtaining, among others, the approval of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement at the EGM and the Class Meetings; and the governmental approvals from the relevant competent departments and/or regulatory authorities including the CAAC and Ministry of Commerce of the PRC (if necessary). In view of the above, we consider that the payment schedule by allotment and issue of the Consideration Shares is fair and reasonable.

Having considered the above factors, we are of the view that the Consideration for the Runway Acquisition (including its payment terms) is fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole.

### *Conditions precedent*

Effectiveness of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement are conditional upon fulfilment of the following conditions or otherwise agreed by the Parent Company and the Company in writing or waived by the Company in writing:

- (a) the passing of resolutions by the Board and the Independent Shareholders at the meetings of the Shareholders in accordance with the Articles of Association and the Listing Rules approving, among others, (i) the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription; and (ii) the proposed New H Shares Issue;
- (b) the passing of resolutions by the board of directors of the Parent Company and the meetings of the shareholders of the Parent Company approving the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (c) the governmental approvals from relevant competent departments and/or regulatory authorities including the CAAC and Ministry of Commerce of the PRC (if necessary) in relation to the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription; and
- (d) the approval from the Stock Exchange (where relevant), and the approval from SFC (where applicable), in relation to the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription.

The Parent Company Subscription is subject to the approval from the Department of Commerce of Hainan Province (海南省商務廳) and the transfer and registration of the Phase I Runway Assets is subject to the approval from Land and Resources Bureau of Haikou City (海口市國土資源局). The transfer and registration of the Phase I Runway Assets comprise two stages:

- (i) payment of relevant tax; and
- (ii) registration of the Phase I Runway Assets

Before the transfer and registration of the Phase I Runway Assets, pledge on relevant lands of the Phase I Runway Assets needs to be released.

As at the Latest Practicable Date, the fulfillment status of the above conditions precedent is set out below:

- (i) the Board has passed resolutions to approve (i) the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription; and (ii) the proposed New H Shares Issue;
- (ii) the board of directors of the Parent Company and the shareholders of the Parent Company have passed resolutions to approve the Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription;
- (iii) release of pledge on relevant lands of the Phase I Runway Assets is in progress and is expected to be completed before the completion of the Parent Company Subscription.

Unless the parties otherwise agree in writing, the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement will automatically terminate, if the completion of the Parent Company Subscription does not happen on the same day as the completion of the proposed New H Shares Issue. It is currently expected that the Parent Company Subscription will be completed on the same day as the proposed New H Shares Issue and within six months following the passing of the relevant resolutions at the EGM and/or the Class Meetings, subject to having obtained all relevant regulatory approval.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We consider that the conditions precedent set out above are fair and equitable between the both contracting parties to the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement, and therefore not unusual in substance.

### *Completion of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement*

Completion of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement will take place upon all the conditions precedent thereto are fully fulfilled.

### *Issuance of the new Domestic Shares as the consideration for the Runway Acquisition*

Pursuant to the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement, the Parent Company agreed to subscribe for Subscription Shares I, which include: (i) 189,987,125 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company; and (ii) 250,000,000 new Domestic Shares by cash at an aggregate subscription price of RMB2,000,000,000 (equivalent to approximately HK\$2,232,641,214.56).

### *The Subscription Price*

The Subscription Price of RMB8.00 (equivalent to approximately HK\$8.93) per Subscription Share I represents:

- (a) a premium of approximately 35.3% of the closing price of HK\$6.6 per H Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 31.8% of the average closing price of approximately HK\$6.776 per H Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 27.9% of the average closing price of approximately HK\$6.984 per H Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Last Trading Day; and
- (d) a premium of approximately 39.5% of the closing price of approximately HK\$6.4 per H Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The aggregate nominal value of the Subscription Share I is RMB439,987,125.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Solely for illustration purposes, the Subscription Price of RMB8.00 (equivalent to approximately HK\$8.93) per Subscription Share I represents:

- (a) a premium of approximately 16.12% of the closing price of HK\$7.69 per H Share as quoted on the Stock Exchange on the last trading day immediately preceding the date of entering into of the Parent Company Domestic Shares Subscription Agreement (the “**Pre-Agreement Day**”);
- (b) a premium of approximately 16.28% of the average closing price of approximately HK\$7.68 per H Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including the Pre-Agreement Day; and
- (c) a premium of approximately 12.19% of the average closing price of approximately HK\$7.96 per H Share as quoted on the Stock Exchange for the last ten (10) consecutive trading days up to and including the Pre-Agreement Day.

To assess the fairness and reasonableness of the Subscription Price for the Subscription Shares I, we have also endeavoured to identify all listed companies in Hong Kong which are principally engaged in the management and operation of an airport in the PRC; and recorded a net profit in the latest financial year of 2015 and examined the price to net asset value multiple (the “**P/B Ratio**”) as well as price to earnings multiple (the “**P/E Ratio**”) by comparing with the closing prices of such companies as quoted on the Pre-Agreement Day. We have identified only one company whose H shares are also listed on the Main Board of the Stock Exchange, namely Beijing Capital International Airport Co., Ltd. (Stock Code: 694) (“**Beijing Capital**”) and is principally engaged in the ownership and operation of the international airport in Beijing, the PRC and the provision of related services. However, we consider Beijing Capital’s size of operation in terms of revenue, net profit, net asset value and market capitalization are substantially larger than those of the Company, so which shall not be regarded as directly comparable with the Company. In any event, solely for Independent Shareholders’ additional reference, we have noted from our independent analysis that the P/B Ratio and P/E Ratio of Beijing Capital accounted for approximately 0.90 times and 17.92 times, which were higher than that of the Company implied by the Subscription Price of RMB8.00 (equivalent to approximately HK\$8.93) at approximately 0.47 times and 7.41 times, respectively, as at the Pre-Agreement Day, which we consider mainly due to a higher premium attributable to the much profitable and sizeable scale of operation (approximately 3.7 times) and net asset value (approximately 5.6 times) of Beijing Capital when compared to that of the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Comparison with other domestic share subscription exercises*

As an alternative way for making meaningful analyses, we have tried to identify those domestic share subscription exercises with fixed subscription/issue price starting from 1 January 2015 up to the Pre-Agreement Day, being almost two complete calendar years, comprising the date of the relevant agreement as announced by companies listed on the Stock Exchange (the “**Comparable Issues**”). To the best of our knowledge and belief, such eight transactions are eligible and sufficient for us to make a meaningful comparison and analysis, details of which are as follows:

Company name (stock code)	Date of announcement	Subscription/ issue price RMB	Premium/ (discount) of subscription/issue price over/(to) the closing price of H shares as at the Pre-Agreement Day %	Premium/ (discount) of subscription/issue price over/(to) the average closing price of the H shares for the last five trading days up to and including the Pre-Agreement Day %
YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (1558)	16/12/2016	16.12	30.61	25.43
Northeast Tiger Pharmaceutical Co., Ltd. (8197)	13/7/2016	0.89	(13.45)	(19.41)
Biosino Bio-Technology and Science Incorporation (8247)	27/5/2016	2.40	(8.33)	(12.80)
Shenyang Public Utility Holdings Company Limited (747)	18/12/2015	1.00	92.90	94.80
Beijing Capital Land Ltd. (2868)	10/12/2015	3.08	2.36	6.09
Xi'an Haitian Antenna Technologies Co., Ltd. (8227)	26/6/2015	0.105	(55.93)	(60.94)
Shenyang Public Utility Holdings Company Limited (747)	22/5/2015	1.00	3.93	6.20
Jiangsu Nandasoft Technology Company Limited (8045)	16/1/2015	0.28	6.06	16.67
		<b>Maximum</b>	<b>92.90</b>	<b>94.80</b>
		<b>Average</b>	<b>7.274</b>	<b>7.01</b>
		<b>Median</b>	<b>3.15</b>	<b>6.15</b>
		<b>Minimum</b>	<b>(55.93)</b>	<b>(60.94)</b>
<b>The Company (357)</b>	<b>29/12/2016</b>	<b>8.00</b>	<b>16.12</b>	<b>16.28</b>

Source: [www.hkex.com.hk](http://www.hkex.com.hk) and the respective announcements containing details of the Comparable Issues



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As indicated in the above table setting out the issue statistics of the Comparable Issues, we noted the following scenario:

- (i) the considerable premium of approximately 16.12% represented by the Subscription Price to the closing price on the Pre-Agreement Day falls within the range of premiums/discounts represented by the Comparable Issues on the relevant last trading days and well above the average premium of approximately 7.27% thereof, which ranges very widely from a discount of approximately 55.93% to a premium of approximately 92.90%;
- (ii) the considerable premium of approximately 16.28% represented by the Subscription Price over the 5-day average closing price for the last five trading days up to and including the Pre-Agreement Day falls within the range of premiums/discounts represented by 5-day average closing prices of the Comparable Issues on the relevant last five trading days and well above the average premium of approximately 7.01% of the Comparable Issues, which also ranges very widely from a discount of approximately 60.94% to a premium of approximately 94.80%; and
- (iii) if taking out the two very extreme cases of the highest premium of approximately 92.90% and the lowest discount of approximately 55.93% from the above list of Comparables Issues, the considerable premium of approximately 16.12% represented by the Subscription Price to the closing price on the Pre-Agreement Day would be well above the average premium of approximately 3.53% of the Comparable Issues on the relevant last trading days, which ranges relatively narrowly from a discount of approximately 13.45% to a premium of approximately 30.61%.

Having considered the above analysis and factors, we consider that the basis for determination of the consideration for the Runway Acquisition (including the Subscription Price of allotment and issue of the Consideration Shares) is fair and reasonable, and the terms of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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To further assess the fairness and reasonableness of the Subscription Price, we set out the following informative analyses for illustrative purpose:

### *Review on H Share price performance*

The highest and lowest closing prices and the average daily closing price of the H Shares as quoted on the Stock Exchange in each month during the past almost 12 full calendar months commencing from 1 February 2016 up to and including the Last Trading Day (the “**Review Period**”) are shown as follows:

	<b>Highest closing price HK\$</b>	<b>Lowest closing price HK\$</b>	<b>Average daily closing price HK\$</b>	<b>Number of trading days in each month</b>
<b>2016</b>				
February	8.90	8.08	8.57	18
March	8.99	8.43	8.81	21
April	8.63	8.17	8.36	20
May	8.60	8.06	8.34	21
June	8.60	8.05	8.30	21
July	8.58	8.33	8.46	20
August	8.92	8.37	8.64	22
September	8.86	8.50	8.68	21
October	8.68	8.52	8.61	19
November	8.90	8.51	8.69	22
December	8.65	7.42	8.22	20
<b>2017</b>				
January	7.98	7.38	7.77	19
February	8.02	7.57	7.77	20
March	7.60	6.89	7.45	23
April (up to the Last Trading Day)	7.33	6.60	7.03	15

*Source: the Stock Exchange website (www.hkex.com.hk)*

During the Review Period, the average daily closing price of the H Shares had been fluctuating narrowly and ranged from HK\$6.99 to HK\$8.81 per H Share in each month (the “**Price Range**”) during the year 2016 and for the three months ended 31 March 2017 and for the 15 trading days up to and including the Last Trading Day. The lowest average closing price of the H Shares at approximately HK\$7.03 per H Share was recorded in April 2017. The Subscription Price at RMB8.00 (equivalent to approximately HK\$8.93) is hence higher than the maximum average daily closing price of approximately HK\$8.81 per H Share within the Price Range; and also higher than the average closing price of the

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H Shares during the Review Period of approximately HK\$8.25 per H Share. We also noted that although the market price of the H Shares had been dropping since January 2016, the historical market price of the H Shares fluctuated moderately and did not show a persistent upward or downward moving trend throughout the Review Period, and hence its future movement would be unpredictable. During the period after the Pre-Agreement Day and up to the Last Trading Day, the closing price of the H Shares have basically been stable within the range between HK\$6.60 to HK\$8.02 per H Share.

Given the facts that (i) the pricing mechanism adopted by the Company for setting the Subscription Price at RMB8.00 (equivalent to approximately HK\$8.93) had been higher than the average closing price of the H Shares of approximately HK\$8.25 per H Share during the Review Period; and (ii) the Subscription Price is also higher than the prevailing closing price of H Shares and the net asset value per Share as at 31 December 2016, and thus fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *The Subscription Shares I*

The Subscription Shares I to be allotted and issued by the Company to the Parent Company under the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement represents:

- (i) approximately 178.6% and 93.0% of the existing Domestic Shares in issue and the existing registered share capital of the Company, respectively; and
- (ii) approximately 64.1% and 48.2% of the Domestic Shares in issue as enlarged by the allotment and issue of the Subscription Shares I, and the registered share capital of the Company as enlarged by the allotment and issue of the Subscription Shares I (i.e. including the allotment and issue of Consideration Shares), respectively.

### *Specific Mandate*

The Subscription Shares I shall be allotted and issued under the Specific Mandate to be obtained from the Independent Shareholders at the EGM and the Class Meetings, respectively.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Ranking*

The Subscription Shares I, when issued and fully paid, will rank *pari passu* among themselves and with the Shares then in issue at the time of the allotment and issue of the Subscription Shares I.

Pursuant to the Letter from the Board, solely for illustrative purposes, assuming that: (i) the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement, the Hainan HNA Domestic Shares Subscription Agreement and the Supplemental Hainan HNA Domestic Shares Subscription Agreement become effective; (ii) the Parent Company subscribes the Subscription Share I pursuant to the Parent Company Subscription and Hainan HNA subscribes the Subscription Share II pursuant to the Hainan HNA Subscription; (iii) the proposed Specific Mandate is granted by the Shareholders at the forthcoming EGM and Class Meetings; (iv) the Board exercises the proposed Specific Mandate; (v) all conditions for the proposed New H Shares Issue have been satisfied; and (vi) the maximum of 150,375,940 New H Shares are issued pursuant to the proposed Specific Mandate, the equity interest of the Parent Company in the Company as at the Latest Practicable Date of approximately 50.19% will be increased to approximately 61.10% immediately after issuance of Subscription Shares I, Subscription Shares II and the New H Shares.

Based on the above scenario, we have noted that the principal terms and conditions, in particular for setting the Subscription Price at RMB8.00 per new Domestic Share under the Parent Company Subscription and the Hainan HNA Subscription are exactly the same as that for the issue price per Consideration Share for allotment and issue of the Consideration Shares to the Parent Company for the Runway Acquisition under the Parent Company Domestic Shares Subscription Agreement and the Supplement Parent Company Domestic Shares Subscription Agreement, irrespective of whether they are connected person of or independent third party from the Company. Accordingly, we are of the view that the terms of the Parent Company Domestic Shares Subscription Agreement and the Supplement Parent Company Domestic Shares Subscription Agreement (including the grant of the Specific Mandate for the allotment and issue of the Subscription Shares I, the corresponding amendments to the Articles of Association and the transactions contemplated thereunder) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

Based on the above, we consider the terms of the Parent Company Subscription (which included the Runway Acquisition) are fair and reasonable.

**3. Possible financial effects on the Parent Company Subscription to the Group**

*Earnings*

As disclosed in the Prospectus, the Company and the Parent Company entered into the Runway Agreement on 25 October 2002 in respect of the operation and maintenance of the runway at Meilan Airport and other integrated services provided to airline customers. The parties had confirmed in that Runway Agreement that the Service Fees, comprising the aircraft movement fees (for domestic, Hong Kong, Macau and foreign airlines, the passenger charges (for domestic airlines) and the basic ground handling services fees (for Hong Kong, Macau and foreign airlines), have been shared by the Company and the Parent Company on such ratio as the CAAC or any other regulatory authorities may from time to time prescribe, which as at the date of the Runway Agreement and up to the Latest Practicable Date has been on the basis of 75% to the Company and 25% to the Parent Company.

Upon completion of the Parent Company Subscription (which included the Runway Acquisition), there is no immediate material impact on earnings of the Group, while the above Service Fees' sharing arrangement in the current respective ratio of 75% versus 25% between the Company and the Parent Company would be adjusted, subject to the final decision of and approval by the CAAC. Since the Runway Acquisition forms a very significant portion under the Phase I Runway Assets, it is currently expected that as a result of completion of the Runway Acquisition, the current 25% share of Service Fees by the Parent Company would be greatly reduced in the future, and in turn further contribute to the Group's earnings base in the long run, but the quantification of such impact will depend on the future operating performance of the Group following completion of the Runway Acquisition. For Independent Shareholders' reference, the 25% share of the Service Fees received by the Parent Company had amounted to approximately RMB89.1 million, RMB106.4 million and RMB88.1 million for each of the two financial years ended 31 December 2015 and the nine months ended 30 September 2016, respectively.

*Working capital*

Based on the annual report of the Company for the year ended 31 December 2016 (the "Annual Report"), the Group's deficiency of working capital (i.e. total current assets of approximately RMB1,267.7 million, less total current liabilities of approximately RMB1,777.6 million) and cash at banks and on hand as at 31 December 2016 amounted to approximately RMB509.9 million and RMB952.9 million, respectively, representing a current ratio of approximately 0.71%. This showed that the Group's working capital position was relatively tighter at that time.

As the total consideration for the Runway Acquisition amounting to approximately RMB1,519,897,000 will be fully settled by allotment and issue of new Domestic Shares, the Runway Acquisition itself would not exert any considerable immediate pressure on

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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the working capital of the Group. Upon completion of the Parent Company Subscription, the Group's working capital position would be enhanced as a result of the net cash proceeds received from the Parent Company.

### *Net asset value*

It is currently expected that there will not be any material adverse impact of the net asset value of the Group following completion of the Parent Company Subscription, as the increase in the value of the non-current assets attributable to the Runway Acquisition will be funded by the allotment and issue of new Domestic Shares as the total Consideration, whilst the Parent Company Subscription would generate meaningful cash resources and enhance the net asset value of the Group.

According to the Annual Report, the Group had consolidated net asset value (excluding non-controlling interests) of approximately RMB3,695.9 million as at 31 December 2016, representing a net asset value per Share of approximately RMB7.81 (equivalent to approximately HK\$8.72). The Subscription Price of RMB8.00 per new Domestic Share would represent a slight premium over the unaudited consolidated net asset value per Share attributable to the Shareholders of approximately RMB7.81 as at 31 December 2016. On such basis, it is anticipated that the total net asset value of the Group as well as the net asset value per Share could be slightly improved, upon completion of the Parent Company Subscription.

### *Gearing position*

As at 31 December 2016, the Group's interest-bearing borrowings and net asset value amounted to approximately RMB3,309.6 million and RMB3,695.9 million respectively, and hence a relatively higher gearing ratio (which is calculated as total interest-bearing borrowings, corporate bonds and long-term payables divided by the net asset value of the Group) of approximately 89.5%. As the total Consideration for the Runway Acquisition will be settled by allotment and issue of new Domestic Shares to the Parent Company, it is currently anticipated that the gearing position of the Group would decrease to a lower level, because its net asset value would be enhanced following completion of the Parent Company Subscription as a whole (which included the Runway Acquisition).

In light of the foregoing financial effects of the Parent Company Subscription (which included the Runway Acquisition) on the earnings, working capital, net asset value and gearing position of the Group, we are of the view that the Parent Company Subscription (which included the Runway Acquisition) would have positive impact on the Group's financial position. Therefore, we are of the view that the Parent Company Subscription (which included the Runway Acquisition) is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 4. Potential dilution effect on the interests of other public Shareholders

Based on the shareholding structure of the Company as at the Latest Practicable Date, 132,570,000 H Shares were held by public Shareholders, representing approximately 28.01% of the issued share capital of the Company. For illustration, upon completion of the Parent Company Subscription only, the corresponding shareholding of public Shareholders will be diluted to approximately 24.85%. In view of such scenario, the shareholding dilution effect appears to be pretty material, while such dilution effect is inevitable on the grounds that the Company (i) would take up full control over the Phase I Runway Assets without expending any cash resources or incur any liability of the Group so as to alleviate its reliance on the operational support by the controlling Shareholder in the long-term future; and (ii) would have received considerable amount of net proceeds from allotment and issue of the Subscription Shares I to the Parent Company.

However, the Independent Shareholders should note that dilution effect on earnings per Share and shareholding is inevitable for the allotment and issue of new Domestic Shares, they would face a similar level of dilution if a placing as well as a rights issue or an open offer of similar size to the issue of the Subscription Shares I is proceeded, instead of the allotment and issue of the Subscription Shares I while the Shareholders do not subscribe for the new Shares in full (under the rights issue or the open offer). Having considered the possible enhancement and broadening of shareholders' capital base of the Company upon completion of the Parent Company Subscription, we consider that the dilution effect on the shareholding is inevitable for the possible issue of new Shares and therefore acceptable, though on its own is not favourable, so far as the Independent Shareholders are concerned after taking into account of the expected increase in the net asset value per Share upon completion of the Parent Company Subscription.

### RECOMMENDATION

Having taken into account the above principal factors and reasons, in particular, (i) the long-term benefits of the Parent Company Subscription (which included the Runway Acquisition) to the Group; (ii) the Runway Acquisition being in line with the business development strategy of the Group and would alleviate its reliance on the operational support by the controlling Shareholder in the long run; (iii) the basis for determination of the consideration for the Runway Acquisition and the Subscription Price for the Consideration Shares; and (iv) the financial effects on the Parent Company Subscription (which included the Runway Acquisition) to the Group, and that the terms of the Parent Company Domestic Shares Subscription Agreement and the Supplemental Parent Company Domestic Shares Subscription Agreement (including the grant of the Specific Mandate) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that (a) the Runway Acquisition (being part of the Parent Company Subscription) is not conducted in the ordinary and usual course of business of the Group but it can facilitate the Group to secure its operational assets for its long-term business development without expending any of its cash resources or incurring external liability for the Group; (b) the Parent Company Subscription is a fund raising exercise which shall be regarded as corporate financing activities instead of usual operating activities; and (c) the Parent Company Subscription (which included the Runway Acquisition) is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we recommend the Independent Shareholders, to vote in favour of the special resolution(s) to approve the Parent Company Subscription and the Supplemental Parent Company Domestic Shares Subscription Agreement (which included the Runway Acquisition) and the transactions contemplated under, or in connection with, the Parent Company Domestic Shares Subscription Agreement (including the grant of the Specific Mandate for the allotment and issue of the Subscription Shares I, the corresponding amendments to the Articles of Association) at the EGM and the Class Meetings.

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

<b>Alan Fung</b> <i>Managing Director</i>	<b>Louis Chan</b> <i>Director</i>
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*Note:*

*Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 23 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 15 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.*

## 1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016 is disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.mlairport.com>) respectively:

- annual report of the Company for the year ended 31 December 2014 published on 24 April 2015 (pages 107 to 228);
- annual report of the Company for the year ended 31 December 2015 published on 18 April 2016 (pages 131 to 240); and
- annual report of the Company for the year ended 31 December 2016 published on 18 April 2017 (pages 167 to 272).

## 2. INDEBTEDNESS

As at the close of business on 31 March 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular, the Group had total indebtedness as follows:

	<i>RMB'000</i>
<b>Non-current</b>	
Long-term borrowings	677,497
<b>Current</b>	
Short-term borrowings	469,091
Long-term borrowings – current portion	194,000
	<u>663,091</u>
<b>Total borrowings</b>	<u><u>1,340,588</u></u>
<b>Representing:</b>	
– secured (a)	169,091
– guaranteed (b)	300,000
– guaranteed and secured (c)	871,497
	<u>1,340,588</u>
<b>Long-term corporate bonds – unguaranteed and unsecured (d)</b>	<u><u>1,809,924</u></u>
<b>Obligations under finance leases</b>	
Obligations under finance leases without guarantee (e)	140,474
	<u><u>140,474</u></u>
<b>Total indebtedness</b>	<u><u>3,290,986</u></u>



- (a) As at 31 March 2017, bank borrowings of USD24,508,000 (equivalent to approximately RMB169,091,000) with interest rate of 0.20% per annum were secured by fixed deposits of RMB160,000,000.
- (b) As at 31 March 2017, bank borrowings of RMB300,000,000 were guaranteed by the Parent Company with interest rate of 5.25% per annum.
- (c) On 2 July 2015, the Company entered into an arrangement with CITIC Trust Co., Ltd. whereby the Company obtained financing from the trust of RMB1,100,000,000 under which the Company's entitlements to aviation service income for the period from 1 May 2015 to 30 April 2020 were pledged to the trust for issuing an asset-backed security ("ABS"). As at 31 March 2017, the remaining principal of the external borrowings of the ABS amounted to RMB873,000,000. The borrowings were guaranteed by the Parent Company.
- (d) Pursuant to Zheng Jian Xu Ke 2011 No. 2082 approved by the China Securities Regulatory Commission, the Company issued real-name registered book-entry corporate bonds of RMB800,000,000 which are listed on the Shanghai Stock Exchange on 13 March 2012. The maturity of the bonds is 7 years with fixed interest rate of 7.8% per annum and the interest is payable annually on 15 March of each year and the principal is repayable upon maturity.

On 27 April 2016, the Company issued Guohai private equity bonds phase I of RMB500,000,000 to qualified investors which are listed on the Shenzhen Stock Exchange. The maturity of the bonds is 3 years, with fixed interest rate of 7.3% per annum, and the interest is payable annually on 27 April of each year and the principal is repayable upon maturity.

On 2 September 2016, the Company issued Guohai private equity bonds phase II of RMB520,000,000 to qualified investors which are listed on the Shenzhen Stock Exchange. The maturity of the bonds is 3 years, with fixed interest rate of 6.7% per annum, and the interest is payable annually on 2 September of each year and the principal is repayable upon maturity.

- (e) Payables for finance lease represent the minimum lease payments for the Group's fixed assets held under finance leases less unrecognised finance charges. As at 31 March 2017, the unrecognised financing charge amounted to RMB12,744,000. As at 31 March 2017, the payables for finance lease amounted to RMB140,474,000, of which RMB75,606,000 is due within one year.

At the close of business on 31 March 2017, the Group had no contingent liabilities or guarantees.

Save as aforesaid, and apart from intra-group liabilities and normal trade payables in the normal course of business, as at the close of business on 31 March 2017, the Group did not have any debt securities, issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 March 2017.

### **3. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the internal resources available to the Group including the internally generated funds and the available banking and other financing facilities, the expected completion of the Parent Company Subscription, the Hainan HNA Subscription, the proposed New H Shares Issue, and the long-term project loan credit which will be granted by the China Development Bank, Hainan Branch and in the absence of unforeseeable circumstances, the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

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

For the year ended 31 December 2016, the Group recorded an audited revenue of RMB1,208,710,234, and a net profit attributable to Shareholders of RMB392,942,212. Earnings per share was RMB0.83.

In 2016, In face of the pressure of global economic downturn, the civil aviation industry of China maintained uplifting momentum of over 10% and enjoyed relatively better momentum. The first eleven months of 2016 saw a profit of RMB60.13 billion across the civil aviation industry, representing a year-on-year growth of 10.5%. Meanwhile, in face of the adverse effects of terrorism activities and social unrest in all parts of the world, the civil aviation industry of China maintained safe operation and kept the overall safety operation under stable control with no record of air transportation and air security incidents. A record of safe flight for consecutive 76 months has been achieved for the civil aviation industry. During the year 2016, the civil aviation industry of China met the guideline of “Sincere service” in building various indexes for the services provided by air transport industry and raising the quality of civil aviation service. With a punctuality rate of 76.76% of the whole industry in 2016, the civil aviation industry of China has achieved a record high in terms of this index in recent years.

Since 2017, the civil aviation industry of China has been timely proposing its “Thirteenth Five-Year Development Plan of CACC” in accordance with the “Thirteenth Five-Year Plan” of China and is expected to play its role in the major national “One Belt, One Road” initiative and “Thirteenth Five-Year Plan” in an in-depth, extensive and comprehensive manner.

The Company believes that in 2017, with the comprehensive and in-depth promotion of the national “One Belt, One Road” initiative, the construction and development of Hainan International Tourism Island and the continued implementation of offshore duty-free policy for Hainan, a safe and stable environment for the operation of Meilan Airport’s domestic and international routes can be maintained and an annual passenger volume of over 20.0 million passengers could be achieved in 2017 following that of over 18.8 million passengers in 2016. The Company will implement its key project of “Thirteenth Five-Year Development Plan of CACC” (《中國民用航空發展第十三個五年規劃》) and the Action Plan of the Construction of “One Belt, One Road” Initiative led by CACC (2016-2030) (《民航推進“一帶一路”建設行動計畫 (2016-2030年)》) and continue to implement emergency alert mechanism and safety performance management. Meanwhile, it will try its best effort to achieve its plan of becoming a SKYTRAX five star airport. In addition to ensuring safety and service quality, the Company will grasp the opportunities arising from the further expansion of flight volume per hour of Meilan Airport as approved by CACC to conduct cost control and generate new income sources so as to maintain annual income level and strive for fruitful return to shareholders.

#### **Aviation Business**

In 2017, the Company will further deepen transformation to adapt to the market. Whilst developing the throughput of the base company, the development of small and medium-sized unnavigable airports is continuously promoted. It will enhance the depth and width of the route network of Meilan Airport and implement the development strategy of Southeast Asia airport hub, with Meilan Airport as the Southeast Asia airport hub as designed by CACC. It will continue to seek the government’s policy support and strive to improve the standards of airlines incentives, so as to increase the flight traffic volume, guarantee service quality and ensure safety operations.

#### **Non-Aviation Business**

In 2017, whilst the Company will proactively seek for customers to broaden its customer base in the aviation market, it will grasp the opportunities arising from the operation of the terminal complex project, fully explore the potentials of business resources, strive for realization of gains and maximization of profits, further strengthen the operational management and control efforts as well as strengthen business resources in building up the investment system and the business data control system. It will continue the cooperation amongst its offshore duty free franchisee and implement innovative model of development for a growth of its non-aviation business.

**Vigers Appraisal & Consulting Limited**  
**International Assets Appraisal Consultants**

10th Floor, The Grande Building  
398 Kwun Tong Road  
Kowloon  
Hong Kong



28 April 2017

The Directors  
HNA Infrastructure Company Limited  
Suites 5811-5814, 58th Floor  
Two International Finance Centre  
No. 8 Finance Street  
Central  
Hong Kong

Dear Sirs,

**EXECUTIVE SUMMARY**

**VALUATION OF PLANT AND EQUIPMENT**

In accordance with your instructions for us to conduct and prepare a valuation of certain plant and equipment (referred to as the “Equipment”) exhibited to us as being owned by **HNA Infrastructure Company Limited** (海航基礎股份有限公司) (herein referred to as the “Company”), we confirm that we have conducted an inspection, made relevant enquiries and obtained such further information as is available for the purpose of providing you with our opinion of the market value of the Equipment.

Our report consists of this letter which identifies the assets appraised, valuation methodology, scope of our investigation, assumptions and considerations, opinion of value, schedule of assets showing the appraised value and limiting conditions.

Based on the foregoing, it is our opinion that the market value (in-continued use) of the subject Equipment, appraised as at 31 January 2017, is reasonably represented in the amount of:

**RMB11,507,000**

**(Renminbi Eleven Million Five Hundred And Seven Thousand)**

We hereby certify that we have neither present nor prospective interest in the Company or the appraised Equipment or the values reported.

This valuation report is presented subject to our assumptions and consideration, and limitations as stated in this report.

Our report is provided for the stated purposes and for the sole use of the named client. It will be confidential to the client and his professional advisers. We will not be responsible for any losses suffered arising from a use other than that for which the report was originally prepared. The client may not disclose the content of our report to any other party other than his professional advisers. We do not intend or expect our valuation to be relied upon by any other party, and accordingly if, contrary to this provision, our valuation is disclosed to and relied upon by any other party other than the client himself we cannot accept any responsibility whatsoever to such a person.

Yours faithfully,

For and on behalf of

**VIGERS APPRAISAL & CONSULTING LIMITED**

**Raymond Ho Kai Kwong**

*Registered Professional Surveyor (GP)*

*MRICS MHKIS MSc (e-com)*

*Managing Director*

#### **Valuation Consultant**

Mr. Maximo I. Montes Jr., BSME, PME, is a Professional Mechanical Engineer, having a bachelor degree in Mechanical Engineering. He has obtained professional training in plant, machinery and equipment valuation and has 45 years' experience in the valuation of plant, machinery and equipment in China, Hong Kong, ASEAN countries and Asia-Pacific region.

**REPORT PROPER****PURPOSE OF VALUATION**

It is our understanding that this valuation is for the purpose of incorporation in the circular.

**DATE OF VALUATION**

Our opinion of the market value (in-continued use) of the Equipment is stated as at 31 January 2017.

**BASIS OF VALUATION**

We have valued the Equipment on the basis of Market Value, defined as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**ASSETS APPRAISED**

The assets subject of this valuation, as per the list provided to us, utilized by the Company in carrying-out its business of airport operation of Nos. 1, 2 & 3 aircraft airfield and runway, consist of the following categories:

*Machinery and Equipment* – these comprised of light dimmer and monitoring system, lamps and lanterns, sliding guide sign, generator sets, charging machine, air compressor, lawn mower, constant-current dimmer adjustment plate, transformer, display, aircraft jack-up airbags, GPS, washer, aircraft rescue hoisting equipment, remote spray locomotive traction, tester, insecticidal lamp, aircraft hanging fixture, wire rope, UPS, bird repellent machine and related supporting facilities.

*Motor Vehicles* – these include roller, excavator, bird repellent car, patrol car, pick-up car, test car, cleaning car, electric cars and other vehicles.

*Office Equipment and Miscellaneous* – these consist of computer, printer, air conditioning, scanner, walkie-talkie, portable computer, conference table, cabinets, projectors, cameras and other equipment.

**Location**

The Equipment was inspected in Meilan Airport, Haikou City, Hainan Province, People's Republic of China.

**Observations and Comments**

At the time of our inspection on 18 April 2016, the Equipment was in normal operation and it is believed to be capable of operating efficiently the function for which it was designed, built and erected. The Equipment undergoes periodic maintenance and was noted to be in fair to good physical condition. There was evidence of good maintenance program.

**VALUATION METHODOLOGY**

There are three (3) recognized and accepted approaches to value assets, namely: cost approach (depreciated replacement cost), market data or comparative sales approach and income or earnings approach.

*Cost Approach (depreciated replacement cost)* – this considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present, taking into consideration past and present maintenance policy and rebuilding history. This approach generally furnishes the most reliable indication of value for assets in the absence of known market based on comparable sales.

*Market Data or Comparative Sales Approach* – this considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is established market comparable maybe appraised by this approach.

*Income or Earnings Approach* – a technique in which the estimated stream of future benefits maybe enjoyed by reason of ownership, usually the anticipated or projected earnings, is processed to indicate the amount measured through capitalization of net income or application of multiples derived from financial analysis of similar industries.

**Analysis**

The value derived from income or earnings approach is for a total business enterprise, which includes all classifications of assets such as real estate, plant and machinery, intangibles and working capital. It is extremely difficult to segregate an earning and expenses stream attributable only to specific piece of asset. Therefore, this approach was not used.

The two approaches deemed appropriate in valuing the subject assets that were considered were the cost approach (depreciated replacement cost) and the market data or comparative sales approach. However, since complex and specialized plants similar to the subject appraised assets are seldom sold and no active and efficient secondhand market for all items of machinery exists, it is hardly to find a readily identifiable used market comparables. Therefore, the best indication of market value for these assets without a known and established secondhand market comparables is arrived at using the cost approach.



In the cost approach (depreciated replacement cost), one consideration was the physical depreciation, which is the loss in value due to physical deterioration resulting from wear and tear in operation and exposure to the elements. Deterioration due to age and deterioration due to usage are the main factors that affect physical condition. Physical condition due to wear and tear is proportional to use rather than age. Use is the best indicator to estimate physical deterioration. Although age of an asset is not the controlling factor in determining its physical condition, consideration must be given to age because the passage of time results in a certain amount of depreciation that could not be observed. Other factors considered were functional and economic obsolescence.

Market approach is best applied when duplicate or similar assets exist and have been sold or available for sale in a measurable comparative market. An upward or downward adjustment is made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

### **SCOPE OF INVESTIGATION, ASSUMPTIONS AND CONSIDERATIONS**

During our inspection of the Equipment, we have observed for any deferred maintenance, physical wear and tear, lack of utility, or any observable conditions distinguishing the appraised assets from assets of like kind in new conditions, which were made part of our judgement in arriving at the values.

Consideration has been given to accrued depreciation that was based on the observed condition and present and prospective serviceability in comparison with new units of like kind, maintenance policy, character, level of use and to all other factors that are deemed to have an influence in its value.

In forming our opinion of the market value (in-continued use) of the Equipment, we have assumed that it will continue to be used in its present existing state in the business of the Company for which it was designed, built and erected, subject to potential profitability of the business.

The opinion of market value (in-continued use) of the Equipment as installed for intended utilization is not necessarily intended to represent the amount that might be realized from piecemeal disposition of the subject Equipment in the open market or from alternative use of the Equipment.

In arriving at our opinion of the defined value using the cost approach, we have considered the cost of reproduction/replacement new of the subject assets, defined as the estimated amount of money needed to acquire in like kind and in new condition an asset or group of assets, taking into consideration current prices of materials, labour, manufactured equipment, contractor's overhead, profit and fees, and all other attendant costs associated with its acquisition and installation in place, without provision for overtime or bonuses for labour, and premiums for materials.

We have assumed in our market value (in-continued use) estimate that the Equipment will be used in its present existing state with the benefit of continuity of the tenure of land and buildings during the foreseeable future.

We have made no investigation of and assume no responsibility for titles to or liabilities against the Equipment appraised.

Our investigation was restricted to a detailed inventory and valuation of the subject Equipment and does not attempt to arrive at any conclusion of values of the Company as a total business entity.

We did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the subject Equipment is used.

We have not made any deduction in respect of any grant either available or received, neither has any adjustment been made for any outstanding amounts owing under financing agreements.

We have relied to a considerable extent on information such as records, listings, cost information and specifications provided to us by the Company.

#### OPINION OF VALUE

Premised on the above and as supported by the accompanying schedule of assets, we are of the opinion that the market value (in-continued use) of the Equipment for its intended usage, as part of an on-going business, appraised as at 31 January 2017, is fairly represented in the amount of **RMB11,507,000** (Renminbi Eleven Million Five Hundred And Seven Thousand), summarized hereunder:

	<b>Market Value (in-continued use) as at 31 January 2017 RMB</b>
Machinery and Equipment & Miscellaneous	9,349,400
Motor Vehicles	<u>2,157,600</u>
Total	<u>11,507,000</u>

**Vigers Appraisal & Consulting Limited**  
**International Assets Appraisal Consultants**

10th Floor, The Grande Building  
398 Kwun Tong Road  
Kowloon  
Hong Kong



28 April 2017

The Directors  
HNA Infrastructure Company Limited  
Office Building of Meilan Airport  
Haikou City  
Hainan Province  
the PRC

Dear Sirs,

In accordance with the instructions of HNA Infrastructure Company Limited (the “Company”) for us to value the property interest held by 海口美蘭國際機場有限責任公司 (Haikou Meilan International Airport Co., Ltd.) (“Haikou Meilan”), which is to be acquired by the Company in the People’s Republic of China (“the PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interest as at 31 January 2017 (“date of valuation”) for the purpose of incorporation in the circular.

Our valuation is our opinion of the market value of the property interest which we would define market value as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

In valuing the property interest, we have adopted a combination of the direct comparison and standard land price approaches and depreciated replacement cost approach in assessing the land portion of the property and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the property as a whole. In the valuation of the land portion, reference has been made to the standard land price in Haikou City and the sales evidence as available to us in the locality. As the nature of the buildings and structures cannot be valued on the basis of market value, they have therefore been valued on the basis of their depreciated replacement costs. The depreciated replacement cost approach considers the current cost of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

Our valuation has been made on the assumption that the owner sells the property interest on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest. In addition, no forced sale situation in any manner is assumed in our valuation.

We have not caused title searches to be made for the property interest at the relevant government bureau in the PRC. We have been provided with certain extracts of title documents relating to the property interest. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the property interest, we have relied on the legal opinion (the “PRC legal opinion”) provided by the Company’s PRC legal adviser, King & Wood Mallesons.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us by the Company on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the property and other relevant matter. We have also been advised by the Company that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the property are free from defect. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Our valuation is prepared in accordance with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

We enclose herewith a valuation certificate.

Yours faithfully,  
For and on behalf of  
**Vigers Appraisal & Consulting Limited**  
**Raymond Ho Kai Kwong**  
*Registered Professional Surveyor (GP)*  
*MRICS MHKIS MSc (e-com)*  
*China Real Estate Appraiser*  
*Managing Director*

*Note:* Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc(e-com), has over twenty seven years' experiences in undertaking valuations of properties in Hong Kong and has over twenty years' experiences in valuations of properties in the PRC.

## VALUATION CERTIFICATE

## Property interest to be acquired by the Company in the PRC

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2017
The land and various buildings and structures located at Haikou Meilan International Airport, Lingshan Town, Meilan District, Haikou City, Hainan Province, the PRC	<p>The property comprises 3 parcels of land (Lot Nos.: 460108102011GB02029, 01-11-12-6 and 01-09-13-32) with a total site area of approximately 1,956,808.21 sq.m. and 2 transformer stations with a total gross floor area of approximately 1,235.57 sq.m. and various structures, including runway, taxiway, carport, warehouse, airfield lightings and flight zone fences erected thereon completed in between 1999 and 2011.</p> <p>The property is held with the land use rights for terms expiring on 25 May 2065, 26 March 2069 and 5 October 2069 respectively for airport use.</p>	The property is occupied by Haikou Meilan for runway and taxiway uses.	RMB1,508,390,000

## Notes:

- According to 3 State-owned Land Use Rights Certificates, the land use rights of the property having a total site area of approximately 1,956,808.21 sq.m. have been granted to Haikou Meilan for airport use. Details are summarized as follows:

No.	Lot No.	State-owned Land Use Rights Certificate No.	Use	Site Area (sq.m.)	Date of Term Expiry
1	460108102011GB02029	Haikou City Guo Yong (2015) No. 004293	Airport	1,891,451.64	25 May 2065
2	01-11-12-6	Haikou City Guo Yong (2009) No. 003859	Airport	8,820.69	26 March 2069
3	01-09-13-32	Haikou City Guo Yong (2010) No. 012298	Airport	56,535.88	5 October 2069
Total:				<u>1,956,808.21</u>	

- According to 2 Building Ownership Certificates (Document Nos.: Haikou City Fang Quan Zheng Hai Fang Zi Nos. HK247963 and HK247964), the building ownership rights of 2 transformer stations of the property with a total gross floor area of approximately 1,235.57 sq.m have been granted to Haikou Meilan.
- The PRC legal opinion states, inter alia, the following:
  - The land use rights (Haikou City Guo Yong (2009) No. 003859 and Haikou City Guo Yong (2010) No. 012298) of the property are subject to a property charge in favour of China CITIC Bank Corporation Limited, Haikou Branch.
  - The land use right (Haikou City Guo Yong (2015) No. 004293) of the property is subject to 2 property charges in favour of China Construction Bank Corporation Limited, Haikou New HNA Sub-branch.

- (iii) The land use right (Haikou City Guo Yong (2015) No. 004293) of the property is subject to a property charge in favour of Bank of Communications Company Limited, Hainan Province Branch.
  - (iv) Haikou Meilan has legally owned the land use rights of the property and is legally entitled to transfer the land use rights of the property to the Company after the discharge of the property charges disclosed in Notes 3(i), 3(ii) and 3(iii).
  - (v) Haikou Meilan has legally owned the building ownership rights of the buildings of the property and is legally entitled to occupy, use, transfer, lease, charge or other legal means to handle the buildings of the property.
4. The property was inspected by Ms. Xu Xiao Yun, China Real Estate Appraiser, on 2 June 2016.



## 1. BACKGROUND

### A. HNA Infrastructure Company Limited

Haikou Meilan International Airport commenced service on 25 May, 1999, with beautiful scenery, spectacular view and up to 99.6% of greenbelt area ratio, it was considered as China's No. 1 ecological landscape garden airport. In early 2015, "Hainan Meilan International Airport Company Limited" changed its name to "HNA Infrastructure Company Limited".



In recent years, Meilan International Airport has developed rapidly, the transportation capacity rises over the years, and it has led to a sustained growth rate of annual passenger throughput at 10% above. As at 26 December 2011, the passenger throughput of Meilan International Airport had a breakthrough of 10,000,000, which was considered on a par with other major airports in Mainland China. In March 2012, the National Development and Reform Commission agreed to implement the Haikou Meilan International Airport Phase II Expansion Construction. Haikou Meilan International Airport Phase II Expansion Construction will be built in conformity with the standards of a 5-star airport.

To satisfy the relevant requirements pursuant to the listing of HNA infrastructure Company Limited (hereinafter referred to as "**HNA Infrastructure**"), as at November 2016, Chelbi Engineering Consultants, Inc. was commissioned by HNA Infrastructure to conduct a forecast on the traffic of Haikou Meilan International Airport in the coming 30 years (year of prospects: 2045) for the purpose of incorporation in the circular.

### B. Chelbi Engineering Consultants, Inc.

Chelbi Engineering Consultants, Inc. (hereinafter referred as "**Chelbi Inc.**") was established in 1984 and was co-invested by China Communication Construction Company Limited's affiliation, CCC Highways Consultants CO., Ltd (HPDI, originally Research Institute of Highway, Ministry of Transport) and Louis Berger Group, Inc., It was one of the earliest engineering consultants companies incorporated by a Chinese partner and a foreign company to be established in Mainland China, which is currently one of the largest joint venture engineering consultants companies in Mainland China as well and is principally engaged in businesses such as investigation of communication development strategy, planning of communication and construction engineering project, feasibility study, International Financial Institution loan technical assistance topical study, survey and design, tender consultation and bidding agency, project assessment, project management, traffic safety study and consultation on the financing and marketization operation of communication infrastructure project, etc.

**C. Study basis**

The report collects base data that is relatively complete to use as an important reference for the traffic study, as follows:

- Haikou Meilan International Airport 2005-2015 Air Transport Statistics;
- Sanya Phoenix International Airport 2006-2015 Air Transport Statistics;
- Global Economic Prospects (Asia-Pacific region), the World Bank (June, 2016);
- World Economic Outlook Update, the International Monetary Fund (June, 2016);
- GDP Forecast (each country), official website of Trading economics;
- Haikou Meilan International Airport Phase II Expansion Construction Feasibility Study Report (July, 2013);
- The development of civil aviation in China and the aviation industry of other major cities across the country;
- Historic statistic yearbook and statistic communiqué of Hainan Province;
- Hainan International Tourism Island Construction Development Plan (2010-2020);
- Related regulations and standards of other industries.

To expressly indicate, the information providers are responsible for the accuracy and validity of the aforesaid information, Chelbi Inc. has not solely verified any of the aforesaid information.

**2. MEILAN INTERNATIONAL AIRPORT HISTORICAL DEVELOPMENT TREND**

Being a modernized 4E-rating civil airport, Haikou International Airport has been developing rapidly in recently years, the three indicators, which include, passenger throughput, cargo throughput, aircraft movement, retains a relatively fast growing momentum. Viewing the matter from the annual rate of growth (from 2005 to 2015), the growth rate of passenger throughput, cargo throughput and aircraft movement is 8.7%, 8.4% and 7.7% respectively, the increase in ratio of wide-body aircraft, large passenger aircraft allows aircraft movement, under certain circumstances, to be able to fulfill the increasing demand for transportation.

Notwithstanding a slight decrease in the passenger throughput of Meilan International Airport in 2006, the remaining years retain a relatively fast growth. The passenger throughput of Meilan International Airport from 2005 to 2015 is shown in the table below.

**Table 1 – Historic passenger throughput of Meilan International Airport fact sheet  
(Unit: people/year)**

<b>Year</b>	<b>Total</b>	<b>Domestic</b>	<b>International</b>	<b>Regional</b>
2005	7,027,397	6,799,474	88,015	139,908
2006	6,668,016	6,397,147	140,299	130,570
2007	7,265,352	6,926,203	165,270	173,879
2008	8,221,997	7,871,710	189,079	161,208
2009	8,391,165	8,083,307	151,893	155,965
2010	8,773,771	8,416,614	191,481	165,676
2011	10,167,502	9,779,671	189,135	198,696
2012	10,696,721	10,266,721	191,347	238,653
2013	11,935,470	11,460,903	186,739	287,828
2014	13,853,859	13,307,062	244,889	301,908
2015	16,167,004	15,620,074	244,257	302,673
Annual average growth rate (2005-2015)	8.7%	8.7%	10.7%	8.0%

The cargo throughput of Meilan International Airport from 2005 to 2015 is shown in the table below.

**Table 2 – Historic cargo throughput of Meilan International Airport Fact sheet  
(Unit: ton/year)**

<b>Year</b>	<b>Total</b>	<b>Domestic</b>	<b>International</b>	<b>Regional</b>
2005	60,590.3	60,103.1	212.3	274.9
2006	62,510.1	62,072.5	213.3	224.3
2007	69,791.0	69,265.3	65.8	459.9
2008	74,062.6	73,537.4	167.0	358.2
2009	77,786.1	77,476.0	137.4	172.7
2010	91,667.3	91,312.3	86.5	268.5
2011	97,826.9	97,414.1	107.9	304.9
2012	99,945.0	99,183.4	352.8	408.8
2013	111,813.6	110,876.6	382.6	554.4
2014	121,131.5	120,214.6	464.7	452.2
2015	135,944.7	135,144.1	197.6	603.0
Annual average growth rate (2005-2015)	8.4%	8.4%	-0.7%	8.2%

The aircraft movement of Meilan International Airport from 2005 to 2015 is shown in the table below.

**Table 3 – Aircraft movement of Meilan International Airport fact sheet (Unit: time/year)**

<b>Year</b>	<b>Total</b>	<b>Domestic</b>	<b>International</b>	<b>Regional</b>
2005	57,994	55,498	934	1,562
2006	54,222	51,389	1,187	1,646
2007	56,872	53,675	1,387	1,810
2008	63,100	59,895	1,508	1,697
2009	65,186	62,444	1,290	1,452
2010	67,501	64,551	1,551	1,399
2011	75,528	72,360	1,516	1,652
2012	79,886	76,002	1,651	2,233
2013	88,859	84,652	1,724	2,483
2014	102,130	96,839	2,870	2,421
2015	121,827	116,938	2,556	2,333
Annual average growth rate (2005-2015)	7.7%	7.7%	10.6%	4.1%

As observed from table 1 to table 3, the annual average growth rate of international passengers, international cargo and international aircraft movement is among the highest. It is closely associated with the internationalized development trend of the economic society of Hainan Province.

### **3. ANALYSIS ON FACTORS AFFECTING FUTURE DEVELOPMENT OF AIR TRANSPORT SERVICE OF MEILAN INTERNATIONAL AIRPORT**

#### **A. GDP**

Economic and social development and the increase in its incidental disposable income is the key factor to promote international, regional and domestic air travel. The relationship between GDP and travel frequency in each market is rather intimate. The economic situation of China is particularly important, as it is the key driver to promote the growth of air travel in China and the increase in domestic passenger. The economic situation of countries where the incoming passengers belong to is equally important, the following table provides the GDP of related countries and regions and is deemed the basis upon which we forecast the airport transport base scenario. The forecast of underestimation scenario is based on the GDP growth rate which is 1% less than the estimation, and the forecast of overestimation scenario is based on the GDP growth rate which is 1% more than the estimation.

**Table 4 – The GDP growth rate forecast of major source countries of Meilan International Airport 2016-2045 (%)**

Source Market	2016	2017	2018	2019-2020	2021-2030	2031-2040	2041-2045
China	6.7	6.5	6.3	6.3*	6.0*	5.0*	4.0*
Hainan Province	8.3*	8.3*	8.3*	8.3*	7.6*	6.5*	5.0*
Hong Kong	3.4*	3.4*	3.4*	3.4*	3.0*	2.5*	2.0*
Taiwan	0.75*	1.17*	1.54*	2.84	2.8*	2.88*	2.96
Korea	3.0	2.7	2.7	2.7	2.7	2.7	2.7
Japan	0.5	0.5	0.7	0.7*	1*	1.2*	1.2*
Singapore	2.0	2.3	3.0	2.5*	2.5*	2.0*	2.0*
Thailand	2.5	2.6	3.0	2.75	2.6*	2.3*	2.19
Malaysia	4.4	4.5	4.7	4.84	4.5*	4.18*	3.86
Vietnam	6.2	6.3	6.3	6.4	6.35*	6.28*	6.23
The Philippines	6.4	6.2	6.2	4.5	3.6*	2.7*	1.75
Indonesia	5.1	5.3	5.5	5.03	4.28*	3.53*	2.79
Cambodia	6.9	6.8	6.8	7.75	7.76*	7.78*	7.79
India	7.6	7.7	7.7	7.0*	6.0*	5.2*	4.5
The Maldives	3.5	3.9	4.6	3.36	3.36*	3.36*	3.36
Sri Lanka	5.3	5.3	5.3	5.3*	5.3*	5.3*	5.3

*Notes:*

1. Data sources: Global Economic Prospects (Asia-Pacific region), The World Bank (Jun, 2016), Global Economic Prospects (South Asia region), The World Bank (Jun, 2016) and Trading economics official website;
2. “\*” represents the results estimated pursuant to the data sources.

**B. Hainan International Tourism Island**

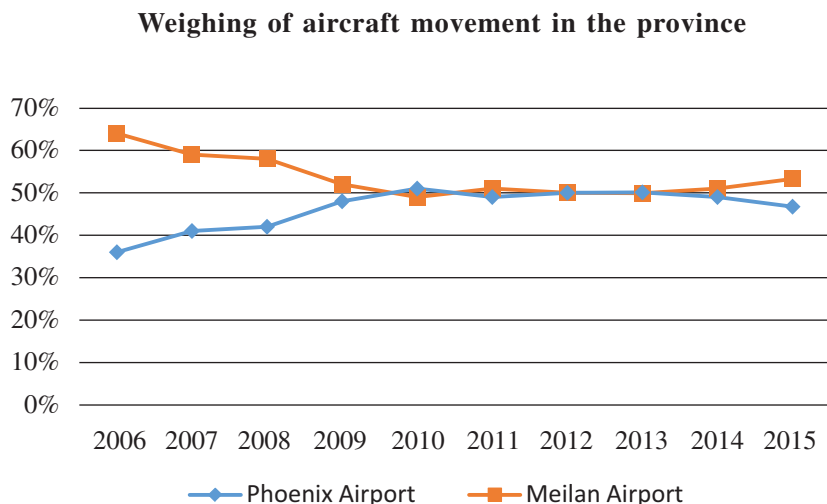
As a national material strategic deployment, our country will initially develop Hainan as the world’s first class recreational resort island in 2020, to be the island of liberalization, the island of green, the island of civilization, the island of harmony.

According to the development goal of Hainan International Tourism Island, the tourist service facility, operation management and service quality will be in full convergence with international tourist service standards by 2020, to initially develop the world’s first class recreational resort island. The weighing of the increase rate of tourism industry to the regional GDP takes up to 12% above, the weighing of the increase rate of tertiary industry to the regional GDP takes up to 60% and the number of tertiary industry worker takes up to 60%, to optimize the GDP of the province, the income of rural and urban residents and the quality of life to get on the country’s advanced level, to pursue excellent comprehensive ecology quality as to continue maintaining its leading position in the country, and to strive to further improve its sustainability.

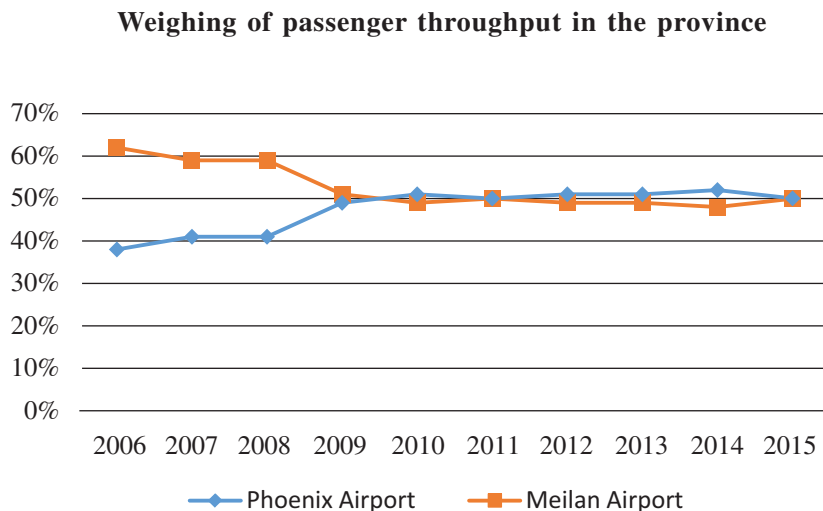
Transportation infrastructure is a major support to the construction of Hainan International Tourism Island. The planned construction of the Qiongzhou Straits Sea Crossing Bridge will be separated into two stories, of which the railway bridge is a quadruple-lane bridge, the designated speed for civil train is 160 km/hour, the speed of cargo train is 120 km/hour, the designated speed for highway bridge is 100 km/hour. The construction scenario and timetable of Sea Crossing Engineering Project of Qiongzhou Straits preliminarily determined that the Sea Crossing Bridge will strive to commence operation in 2020. The sea crossing roadway directly brings the economy of Hainan and Guangzhou and even the whole country closely together, it does not only foster the development of Hainan, but also allows coastal manufacturing industry of southeast China to penetrate deeply into Southeast Asian market to create better opportunities, and the construction of International Tourism Island can let Hainan become a brand new international consumer market, which is beneficial to China to establish its own-built image in the world. Furthermore, the development of Hainan is also beneficial to exploit and manipulate petroleum gas resource in the South China Sea, which is favorable to China protecting the completeness of its territory in the South China Sea.

**C. Impacts on Sanya Phoenix International Airport**

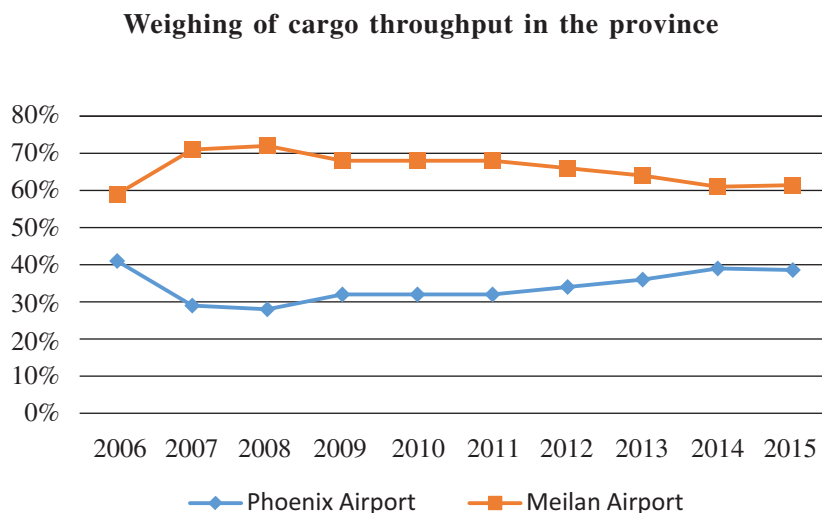
Sanya Phoenix International Airport is a domestic airport, it spans 466.67 hectares, and the floor area of the terminal is 85,000 square metres. Phoenix International Airport has established 4 base companies, there are up to 36 airline companies that have flights to Sanya, of which 24 of them are domestic airline companies and 12 of them are international and regional airline companies; there are 145 routes in operation (of which 127 of them are domestic routes, 15 of them are international routes, 3 of them are regional routes); with flights to 83 local and foreign cities (of which 65 of them are domestic cities, 3 of them are regional cities, 15 of them are international cities); there are 36 airline companies in operation (of which 24 of them are domestic airline companies and 12 of them are international and regional airline companies). The airport is evaluated as SKYTRAX 4-star airport. The comparison between Sanya Phoenix International Airport and Haikou Meilan International Airport is shown in the figure below.



**Figure 1 – Figure of aircraft movement weighing of Sanya Phoenix International Airport and Haikou Meilan International Airport**



**Figure 2 – Figure of passenger throughput weighing of Sanya Phoenix International Airport and Haikou Meilan International Airport**



**Figure 3 – Figure of cargo throughput weighing of Sanya Phoenix International Airport and Haikou Meilan International Airport**

As for the aircraft movement, Sanya Phoenix International Airport and Haikou Meilan International Airport remains flat; as for the passenger throughput, Sanya Phoenix International Airport is slightly higher than Haikou Meilan International Airport; as for the cargo throughput, Sanya Phoenix International Airport is relatively lower.

According to the growth rate of the three indicators, the aircraft movement and the annual average growth rate of passengers approximately doubles the amount of Haikou Meilan International Airport, up to 14.3% and 17.1% respectively. Whereas, the growth rate of cargo throughput of Sanya Phoenix International Airport is relatively lower, which is 7.8% and it is 0.6 percentage point lower than that of Haikou Meilan International Airport.

Sanya Phoenix International Airport, being one of the two 4E-rating airports in Hainan Province, plays an important role in the traffic diversion to Haikou Meilan International Airport, they are jointly engaged in the air freight business of Hainan Province. In 2015, the passenger throughput of Sanya Phoenix International Airport was 16.1919 million passengers. Sanya Phoenix International Airport is currently undergoing the phase III expansion construction. Upon the completion of the project, it is guaranteed that the airport will reach a 25,000,000-passenger throughput each year, to provide better services to passengers.

#### **D. Service and fare levels of airline companies**

Fare level is a crucial determining factor affecting the demand in aviation, the key factor that affects the fares of Meilan International Airport is attributable to the fluctuation in global crude oil prices, and internal competition within the airline industry. In the short-run, as the international crude oil price remains in the doldrums, the 37 airline companies of Meilan International Airport are in adequate market competitions. In the long-run, the main factor affecting the fares is attributable to the advancement in technology which leads to an improvement in function efficiency of aircrafts.

#### **E. Capacity constraints**

Meilan International Airport can satisfy an annual passenger throughput of 16,000,000 passengers. In 2015, the passenger throughput of Meilan International Airport was 16.1670 million passengers, facilities like the airport terminal and airfield were gradually saturated, which imposed pressure upon the operation of the airport.

Meilan International Airport is currently undergoing the phase II expansion construction, the year of 2020 will be the target year of construction. It is guaranteed that the airport can satisfy demand for an annual passenger throughput of 30,000,000 passengers, an annual cargo throughput of 300,000 tons, an annual aircraft movement of 225,000 times. Meanwhile, the phase II expansion construction not only drastically improves current position of existing infrastructure in the airport, but also further fosters economic society development of Haikou City and even the surrounding area.

#### **F. Aircraft models**

Meilan International Airport, currently being a 4E-ranking airport itself, can satisfy the takeoff requirements of a fully loaded Boeing 747-400. In the course of the phase II expansion construction of Meilan International Airport, it includes a 3,600-metre runway. After the construction is implemented, Meilan International Airport will form two airfields, namely the north airfield and south airfield, of which the north airfield is ranked the 4F grade and it is able to satisfy the takeoff and landing requirements of A380, the biggest commercial plane. The maximum takeoff weight and the required runway length of each aircraft model is shown in the table below.



**Table 5 – The maximum takeoff weight and the required runway length of each aircraft model**

<b>Model</b>	<b>Number of seats (Person)</b>	<b>Cargo (Ton)</b>	<b>Maximum structural weight (Ton)</b>	<b>Actual takeoff weight (Ton)</b>	<b>Runway length (Meter)</b>
B747-200	–	93.8	377.84	377.8	3,600
B747-400	334	28.18	385.5	385.5	3,630
B777-200	345	16.2	242.67	242.67	2,800
A330-200	283	18.85	233.0	233	3,200
A340-313	370	15.3	271.0	271	3,750
A380-841	555	66.4	560.0	560	3,600

#### 4. AIR TRAFFIC FORECAST OF MEILAN INTERNATIONAL AIRPORT

The traffic forecast of Meilan International Airport adopts the method of econometric model, such model has been widely recognized by the industry. It is garnered as the industry’s “best practice” by organizations like International Civil Aviation Organization (ICAO) and the Department of Transport of the United Kingdom.

According to the acquired historical information regarding the passenger throughput, cargo throughput and aircraft movement of Meilan International Airport, based on the analysis on regional, national economic society and current position of transportation, this report combines the national, regional economic prospects provided by the World Bank and the International Monetary Fund, in order to further predict its trend type economic society development, to adapt elastic coefficient method to estimate future passenger throughput, cargo throughput and aircraft movement.

- **Elastic coefficient method**

Through analyzing the variation of economic activities and social activities, by analyzing the relationship between them and transportation, we can capture the variation generated by transportation more precisely. Transportation expedition is in accordance with the forecast result of economic society, applying elastic coefficient method to estimate future passenger throughput, cargo throughput and aircraft movement. Elastic coefficient method is to capture the relevant relationship between economic development and transportation as a whole. The formula of elastic coefficient is shown below:

$$\text{Elastic coefficient } e = \frac{\text{Percentage of the change of transportation indicators}}{\text{Percentage of the change of economic indicators}}$$

According to the analysis on the relevant index, generally we would use the growth rate of passenger throughput, cargo throughput and aircraft movement for regression analysis, to calculate its elastic coefficient, and by referring to these coefficients, we are able to determine the future elastic coefficient.

During the course of analyzing the traffic of regional and international airport, regions and international countries (i.e. Hong Kong and Korea) that we most often deal with are used as the typical method for analysis. Through analyzing Hong Kong's and Korean economic society development and the airport's historic districts and international traffic, we can determine the future regional and international elastic coefficient of the airport in order to estimate traffic growth.

Under the background of the PRC vigorously developing the tourism industry of Hainan Province, the passenger throughput of airports in Hainan Province is closely related to the country's economic development. Therefore, utilizing the country's GDP to forecast domestic flight traffic is relatively objective and possible.

- **The elastic coefficient forecast of future transportation expedition**

In the beginning stage of the airport's development, economic development has a relatively high demand on transportation, the development of transportation expedition presents a booming growth, and the elastic coefficient of cargo expedition is relatively high at this moment. When the development of airport reaches its saturation point, flights gradually become stable and due to the airport's capacity constrain, throughput will gradually deteriorate, the development trend of the airport traffic and the development trend of economy gradually slow down at this point, and the elastic coefficient gradually decreases.

During the course of this forecast on Meilan International Airport's domestic, regional, international passenger, cargo throughput, pursuant to the GDP development trend reports regarding the country and analysis on typical countries or regions (i.e. Korea, Hong Kong) published by institutions like the World Bank, the elastic coefficient which is analyzed through historic traffic and GDP, to forecast the growth of future traffic.

- **Future airport traffic growth rate forecast**

On account of forecast on the elastic coefficient of the speed of economic development and airport throughput as noted above, we are able to calculate the future traffic growth rate, the formula is:

$$\gamma k(h) = Tk(h) \cdot E$$

In the formula :  $\gamma k(h)$  – Airport traffic throughput growth rate (%);  
 $Tk(h)$  – Transportation elastic coefficient;  
 $E$  – GDP growth rate (%).

## A. AVIATION PASSENGERS FORECAST

### 1. Domestic passengers throughput forecast

According to the forecast, as for the base scenario, the domestic passenger throughput of Meilan International Airport will reach 56,930,000 in 2045 which is equivalent to an annual average growth rate of 4.4% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 3.7% and 5.2% in the upcoming thirty years respectively. For detail, please refer to table 6.

**Table 6 – Domestic passenger throughput forecast (Unit: people/year)**

<b>Year</b>	<b>Underestimate scenario</b>	<b>Base scenario</b>	<b>Overestimate scenario</b>
2015	15,620,000	15,620,000	15,620,000
2016	17,133,600	17,399,200	17,664,700
2017	18,735,600	19,321,800	19,916,900
2018	20,423,700	21,391,100	22,388,600
2019	22,263,900	23,682,100	25,167,100
2020	24,269,800	26,218,500	28,290,300
2025	29,528,000	33,144,700	37,149,900
2035	39,664,500	47,406,700	56,554,000
2045	45,799,300	56,932,700	70,628,500
<b>Annual average growth rate (%)</b>			
2016-2020	9.2	10.9	12.6
2016-2025	6.6	7.8	9.1
2016-2035	4.8	5.7	6.6
2016-2045	3.7	4.4	5.2

### 2. International passenger throughput forecast

According to the forecast, as for the base scenario, the international passenger throughput of Meilan International Airport will reach 7,170,000 in 2045 which is equivalent to an annual average growth rate of 11.9% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 7.6% and 16.2% in the upcoming thirty years respectively. For detail, please refer to table 7.

**Table 7 – Domestic passenger throughput forecast (Unit: people/year)**

<b>Year</b>	<b>Underestimate scenario</b>	<b>Base scenario</b>	<b>Overestimate scenario</b>
2015	244,200	244,200	244,200
2016	293,100	317,500	341,900
2017	342,900	403,200	468,400
2018	401,200	512,100	641,800
2019	469,400	650,400	879,200
2020	549,200	826,000	1,204,600
2025	1,450,700	3,707,300	8,944,700
2035	2,026,700	6,272,900	18,264,600
2045	2,204,900	7,166,700	21,903,100

**Annual average growth rate (%)**

2016-2020	17.6	27.6	37.6
2016-2025	19.5	31.3	43.3
2016-2035	11.2	17.6	24.1
2016-2045	7.6	11.9	16.2

**3. Regional passenger throughput forecast**

According to the forecast, as for the base scenario, the regional passenger throughput of Meilan International Airport will reach 4,280,000 in 2045 which is equivalent to an annual average growth rate of 9.2% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 6.1% and 12.3% in the upcoming thirty years respectively. For detail, please refer to table 8.

**Table 8 – Regional passenger throughput forecast (Unit: people/year)**

<b>Year</b>	<b>Underestimate scenario</b>	<b>Base scenario</b>	<b>Overestimate scenario</b>
2015	302,600	302,600	302,600
2016	346,200	364,400	382,500
2017	396,100	438,700	483,500
2018	453,100	528,200	611,200
2019	518,400	636,000	772,600
2020	593,000	765,700	976,500
2025	1,280,300	2,378,400	4,308,100
2035	1,720,700	3,874,100	8,474,700
2045	1,808,500	4,277,400	9,824,500

## Annual average growth rate (%)

2016-2020	14.4	20.4	26.4
2016-2025	15.5	22.9	30.4
2016-2035	9.1	13.6	18.1
2016-2045	6.1	9.2	12.3

**4. Total passenger throughput forecast**

According to the forecast, as for the base scenario, the total passenger throughput of Meilan International Airport will reach 68,370,000 in 2045 which is equivalent to an annual average growth rate of 4.9% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 3.8% and 6.3% in the upcoming thirty years respectively. For detail, please refer to table 9.

**Table 9 – Total passenger throughput forecast (Unit: people/year)**

Year	Underestimate scenario	Base scenario	Overestimate scenario
2015	16,167,000	16,167,000	16,167,000
2016	17,773,000	18,081,100	18,389,200
2017	19,474,700	20,163,800	20,869,000
2018	21,278,100	22,431,500	23,641,700
2019	23,251,700	24,968,600	26,819,000
2020	25,412,200	27,810,300	30,471,500
2025	32,259,100	39,230,500	50,402,800
2035	43,411,900	57,553,900	83,293,500
2045	49,812,700	68,376,900	102,356,200

## Annual average growth rate (%)

2016-2020	9.5	11.5	13.5
2016-2025	7.2	9.3	12.0
2016-2035	5.1	6.6	8.5
2016-2045	3.8	4.9	6.3

**B. AIR CARGO FORECAST****1. Domestic cargo forecast**

According to the forecast, as for the base scenario, the domestic cargo throughput of Meilan International Airport will reach 580,000 tons in 2045 which is equivalent to an annual average growth rate of 5.0% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 4.1% and 5.8% in the upcoming thirty years respectively. For detail, please refer to table 10.

**Table 10 – Domestic cargo throughput forecast (Unit: tons/year)**

<b>Year</b>	<b>Underestimate scenario</b>	<b>Base scenario</b>	<b>Overestimate scenario</b>
2015	135,100	135,100	135,100
2016	152,800	155,900	159,000
2017	172,100	179,200	186,500
2018	193,100	205,200	217,800
2019	216,700	235,000	254,400
2020	243,100	269,000	297,100
2025	303,000	349,900	403,200
2035	408,800	502,600	616,200
2045	456,000	577,500	729,200

**Annual average growth rate (%)**

2016-2020	12.5	14.8	17.1
2016-2025	8.4	10.0	11.6
2016-2035	5.7	6.8	7.9
2016-2045	4.1	5.0	5.8

**2. International cargo forecast**

According to the forecast, as for the base scenario, the international cargo throughput of Meilan International Airport will reach 11,000 tons in 2045 which is equivalent to an annual average growth rate of 14.2% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 9.1% and 19.3% in the upcoming thirty years respectively. For detail, please refer to table 11.

**Table 11 – International cargo throughput forecast (Unit: tons/year)**

<b>Year</b>	<b>Underestimate scenario</b>	<b>Base scenario</b>	<b>Overestimate scenario</b>
2015	200	200	200
2016	200	200	300
2017	300	300	400
2018	300	500	700
2019	400	700	1,000
2020	500	1,000	1,600
2025	1,300	3,500	8,900
2035	2,300	8,800	30,200
2045	2,700	10,700	39,500

**Annual average growth rate (%)**

2016-2020	20.4	38.3	51.9
2016-2025	20.7	33.3	46.3
2016-2035	13.1	20.9	28.6
2016-2045	9.1	14.2	19.3

**3. Regional cargo forecast**

According to the forecast, as for the base scenario, the regional cargo throughput of Meilan International Airport will reach 35,000 tons in 2045 which is equivalent to an annual average growth rate of 14.5% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 9.9% and 19.0% in the upcoming thirty years respectively. For detail, please refer to table 12.

**Table 12 – Regional cargo throughput forecast (Unit: tons/year)**

<b>Year</b>	<b>Underestimate scenario</b>	<b>Base scenario</b>	<b>Overestimate scenario</b>
2015	600	600	600
2016	800	900	1,000
2017	1,100	1,300	1,600
2018	1,500	2,000	2,700
2019	2,000	3,100	4,500
2020	2,800	4,700	7,600
2025	6,000	14,700	33,500
2035	9,400	30,300	91,000
2045	10,200	35,100	111,700

**Annual average growth rate (%)**

2016-2020	35.9	50.8	66.0
2016-2025	25.8	37.6	49.4
2016-2035	14.7	21.6	28.5
2016-2045	9.9	14.5	19.0

**4. Total cargo forecast**

According to the forecast, as for the base scenario, the total cargo throughput of Meilan International Airport will reach 620,000 tons in 2045 which is equivalent to an annual average growth rate of 5.2% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 4.2% and 6.4% in the upcoming thirty years respectively. For detail, please refer to table 13.

**Table 13 – Total cargo throughput forecast (Unit: tons/year)**

<b>Year</b>	<b>Underestimate scenario</b>	<b>Base scenario</b>	<b>Overestimate scenario</b>
2015	135,900	135,900	135,900
2016	153,900	157,100	160,300
2017	173,600	181,000	188,600
2018	195,000	207,800	221,300
2019	219,200	238,800	260,000
2020	246,500	274,800	306,300
2025	310,400	368,200	445,700
2035	420,600	541,700	737,400
2045	469,000	623,400	880,600

**Annual average growth rate (%)**

2016-2020	12.6	15.1	17.6
2016-2025	8.6	10.5	12.6
2016-2035	5.8	7.2	8.8
2016-2045	4.2	5.2	6.4

**C. AIRCRAFT MOVEMENT FORECAST****1. Domestic aircraft movement forecast**

According to the forecast, as for the base scenario, the total domestic aircraft movement of Meilan International Airport will reach 380,000 in 2045 which is equivalent to an annual average growth rate of 4.2% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 3.5% and 4.9% in the upcoming thirty years respectively. For detail, please refer to table 14.

**Table 14 – Domestic aircraft movement forecast (Unit: times/year)**

<b>Year</b>	<b>Underestimate scenario</b>	<b>Base scenario</b>	<b>Overestimate scenario</b>
2015	111,800	111,800	111,800
2016	123,300	125,300	127,300
2017	135,500	140,000	144,500
2018	148,400	155,900	163,500
2019	162,600	173,500	185,000
2020	178,100	193,200	209,300
2025	216,700	244,300	274,900
2035	279,900	332,700	394,700
2045	310,700	380,500	464,900



**Annual average growth rate (%)**

2016-2020	9.7	11.5	13.3
2016-2025	6.8	8.1	9.4
2016-2035	4.7	5.6	6.5
2016-2045	3.5	4.2	4.9

**2. International aircraft movement forecast**

According to the forecast, as for the base scenario, the total international aircraft movement of Meilan International Airport will reach 24,000 in 2045 which is equivalent to an annual average growth rate of 7.7% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 4.9% and 10.4% in the upcoming thirty years respectively. For detail, please refer to table 15.

**Table 15 – International aircraft movement forecast (Unit: times/year)**

<b>Year</b>	<b>Underestimate scenario</b>	<b>Base scenario</b>	<b>Overestimate scenario</b>
2015	2,500	2,500	2,500
2016	3,000	3,200	3,400
2017	3,400	4,000	4,600
2018	4,000	5,000	6,100
2019	4,600	6,200	8,200
2020	5,300	7,700	10,900
2025	6,800	11,400	18,500
2035	9,500	19,200	37,700
2045	10,800	23,500	49,500

**Annual average growth rate (%)**

2016-2020	15.7	24.7	33.7
2016-2025	10.3	16.1	21.9
2016-2035	6.8	10.6	14.4
2016-2045	4.9	7.7	10.4

**3. Regional aircraft movement forecast**

According to the forecast, as for the base scenario, the total regional aircraft movement of Meilan International Airport will reach 28,000 in 2045 which is equivalent to an annual average growth rate of 8.6% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 5.9% and 11.3% in the upcoming thirty years respectively. For detail, please refer to table 16.

**Table 16 – Regional aircraft movement forecast (Unit: times/year)**

<b>Year</b>	<b>Underestimate scenario</b>	<b>Base scenario</b>	<b>Overestimate scenario</b>
2015	2,300	2,300	2,300
2016	2,800	3,000	3,200
2017	3,400	3,900	4,500
2018	4,100	5,100	6,300
2019	5,100	6,700	8,800
2020	6,200	8,800	12,300
2025	8,300	13,600	21,700
2035	11,900	23,700	45,600
2045	13,200	28,200	58,300

**Annual average growth rate (%)**

2016-2020	21.6	30.4	31.9
2016-2025	13.5	19.3	25.0
2016-2035	8.5	12.3	16.0
2016-2045	5.9	8.7	11.3

**4. Total aircraft movement forecast**

According to the forecast, as for the base scenario, the total aircraft movement of Meilan International Airport will reach 430,000 in 2045 which is equivalent to an annual average growth rate of 4.5% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 3.6% and 5.4% in the upcoming thirty years respectively. For detail, please refer to table 17.

**Table 17 – Total aircraft movement forecast (Unit: times/year)**

<b>Year</b>	<b>Underestimate scenario</b>	<b>Base scenario</b>	<b>Overestimate scenario</b>
2015	116,700	116,700	116,700
2016	129,200	131,600	134,100
2017	142,400	148,000	153,700
2018	156,700	166,100	176,000
2019	172,300	186,600	202,100
2020	189,700	209,800	232,700
2025	231,900	269,400	315,300
2035	301,400	375,700	478,000
2045	334,800	432,300	572,800

	Annual average growth rate (%)		
2016-2020	10.2	12.4	14.8
2016-2025	7.1	8.7	10.4
2016-2035	4.9	6.0	7.3
2016-2045	3.6	4.5	5.4

## 5. DESCRIPTION OF RESULTS

During the past ten years, Haikou Meilan International Airport has achieved huge growth in traffic. The annual passenger growth from 2005 to 2015 is 8.7%. Under certain momentums arising from new economic normalization, the active development of Hainan International Tourism Island, the huge development of PRC's air transportation industry as well as the growth of international (Entry-Exit) and domestic tourism industry, the growth in traffic is expected to continue. In short term, the overall trend of air transportation remains very optimistic. In long term, continuous economic growth and small-scale decrease in real air fares will continue to support the demand of civil aviation industry. In the overall forecast period (i.e. from 2015 to 2045), as for the base scenario, the annual average passenger growth rate is 4.9%.

In addition, we would like to emphasize that the forecast results in this report are based on historical information as well as certain foreseeable conditions precedent and assumptions. Any forecast relating to airport traffic has its uncertainties. The failure of achieving certain assumptions made in the forecast is unavoidable. Certain unexpected events or situations are possible to occur. Therefore, Chelbi Inc. will not provide guarantees in any form about the chance of occurrence of the forecasts mentioned in this report.

The following factors may lead to the deviation of expected actual throughput:

- Lower than assumed rates of economic growth in China and those countries expected to provide a significant source of inbound international air passengers;
- Shifts in Government policy which directly, or indirectly, suppress the traffic of Meilan International Airport, such as Sea Crossing Rail-Road Bridge of Qiongzhou Straits;
- Adverse impacts for Meilan International Airport associated with aviation industry consolidation;
- Significant changes in airline costs (e.g. a fuel price shock) which are passed onto customers by way of higher air fares;
- External factors including, but not limited to, natural disasters, political unrest, acts of terrorism and associated security concerns and labour disputes.

This report is provided for the exclusive use of HNA Infrastructure Company Limited. No third-party institution can quote the information in this report without the authorization of HNA Infrastructure or Chelbi Inc.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### Director's interest and short position

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interest or short 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 Securities and Futures Ordinance, the "SFO") which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules; or would be required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO.

As at the Latest Practicable Date, none of the Directors and their respective associates (as defined in Listing Rules) 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.

As at the Latest Practicable Date, none of the Directors has any material interest, directly or indirectly, in any asset which, since 31 December 2016, being the date to which the latest audited consolidated financial statements of the Group have been made up, had been acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

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

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 Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**Substantial Shareholders' Interests in Shares**

As at the Latest Practicable Date, so far as is known to the Directors, supervisors or chief executive of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) had, 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.

**Domestic Shares**

Name of Shareholder	Identity	Class of shares	Number of ordinary shares	Percentage to domestic shares issued	Percentage to total issued share capital
Haikou Meilan International Airport Company Limited (Note 1)	Beneficial owner	Corporate	237,500,000 (L)	96.43%	50.19%

**H Shares**

Name of Shareholders	Type of Interests	Number of ordinary shares	Percentage to H shares issued	Percentage to total issued share capital
Zhang Gaobo (Note 2)	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
Zhang Zhiping (Note 2)	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
Oriental Patron Financial Services Group Limited (Note 2)	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
Oriental Patron Financial Group Limited (Note 2)	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
Oriental Patron Resources Investment Limited (Note 2)	Beneficial interest	94,343,000 (L)	41.58%	19.94%
UBS Group AG (Note 3)	Security interest in shares and interest of controlled corporations	27,365,400 (L)	12.06%	5.78%

Name of Shareholders	Type of Interests	Number of ordinary shares	Percentage to H shares issued	Percentage to total issued share capital
UBS AG <i>(Note 4)</i>	Beneficial owner, security interests in shares and interests of controlled corporations	27,174,400 (L) 15,000 (S)	11.98% 0.01%	5.74% 0.00%
ARC Capital Holdings Limited <i>(Note 5)</i>	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%
ARC Capital Partners Limited <i>(Note 5)</i>	Investment manager	32,788,500 (L)	14.45%	6.93%
Pacific Alliance Asia Opportunity Fund L.P. <i>(Note 5)</i>	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%
Pacific Alliance Equity Partners Limited <i>(Note 5)</i>	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%
Pacific Alliance Group Asset Management Limited <i>(Note 5)</i>	Investment manager	32,788,500 (L)	14.45%	6.93%
PAG Holdings Limited <i>(Note 5)</i>	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%
Pacific Alliance Group Limited <i>(Note 5)</i>	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%
Pacific Alliance Investment Management Limited <i>(Note 5)</i>	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%
Walden Ventures Limited <i>(Note 5)</i>	Beneficial owner	32,788,500 (L)	14.45%	6.93%
JPMorgan Chase & Co. <i>(Note 6)</i>	Beneficial owner and custodian corporation/approved lending agent	13,607,488 (L)	5.99%	2.88%
Greenwoods Asset Management Limited <i>(Note 7)</i>	Investment manager	13,549,000 (L)	5.97%	2.86%
Unique Element Corp. <i>(Note 7)</i>	Interest of controlled corporations	13,549,000 (L)	5.97%	2.86%
Jiang Jinzhi <i>(Note 7)</i>	Interest of controlled corporations	13,549,000 (L)	5.97%	2.86%

Name of Shareholders	Type of Interests	Number of ordinary shares	Percentage	Percentage
			to H shares issued	to total issued share capital
Greenwoods Assets Management Holdings Limited ( <i>Note 7</i> )	Interest of controlled corporations	13,549,000 (L)	5.97%	2.86%
Svenska Handelsbanken AB Publ. ( <i>Note 8</i> )	Investment manager	11,387,747 (L)	5.02%	2.41%

*Notes:*

- Haikou Meilan International Airport Company Limited is a company established in the PRC and is the controlling shareholder of the Company.
- Zhang Gaobo and Zhang Zhiping held 49% and 51% interests in Oriental Patron Financial Group Limited, respectively. Oriental Patron Financial Group Limited held 95% interests in Oriental Patron Financial Services Group Limited. 100% interests of Oriental Patron Resources Investment Limited was wholly-owned by Oriental Patron Financial Services Group Limited.
- According to the disclosure of interest filed by UBS Group AG on the website of the Stock Exchange, UBS Group AG was deemed to hold 8,896,000 shares through its security interest and hold 18,469,400 shares through its interest in a controlled corporation. UBS AG, UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Singapore) Ltd, UBS Fund Management (Luxembourg) S.A. and UBS Fund Management (Switzerland) AG were wholly-owned by UBS Group AG. UBS Group AG was deemed to hold interests in the Company through owning the above-mentioned companies pursuant to Part XV of the SFO and were beneficially holding 56,000 shares, 601,000 shares, 790,300 shares, 17,018,100 shares and 4,000 shares in the Company, respectively.
- According to the disclosure of interest filed by UBS AG on the website of the Stock Exchange, among the 27,174,400 shares in the Company, UBS AG was deemed to hold 8,896,000 shares through security interest, and 18,263,400 shares through interests of a controlled corporation and 15,000 long position shares and 15,000 short position shares as beneficial owner. UBS Fund Services (Luxembourg) SA, UBS Global Asset Management (Hong Kong) Ltd and UBS Global Asset Management (Singapore) Ltd were wholly-owned by UBS AG. UBS AG was deemed hold interests in the Company through owning the above-mentioned companies pursuant to Part XV of the SFO and were beneficially holding 14,194,100 shares, 1,905,000 shares, and 2,164,300 shares in the Company, respectively.
- PAG Holdings Limited held 99.17% interest in Pacific Alliance Group Limited, which in turn held 90% interest in Pacific Alliance Investment Management Limited. Pacific Alliance Investment Management Limited held 52.53% interest in Pacific Alliance Equity Partners Limited. Pacific Alliance Equity Partners Limited held 100% interest in ARC Capital Partners Limited. ARC Capital Partners Limited was deemed to be interested in 32,788,500 shares in its capacity as investment manager. ARC Capital Holdings Limited is a corporation controlled by ARC Capital Partners Limited pursuant to Part XV of the SFO. ARC Capital Holdings Limited was holding 46.67% interest in Walden Ventures Limited which in turn held 14.45% interests in H shares of the Company. Pacific Alliance Investment Management Limited held 100% interest in Pacific Alliance Group Asset Management Limited. Pacific Alliance Group Asset Management Limited was deemed to be interested in 32,788,500 shares in its capacity as investment manager. Pacific Alliance Asia Opportunity Fund L.P. is a corporation controlled by Pacific Alliance Group Asset Management Limited pursuant to Part XV of the SFO. Pacific Alliance Asia Opportunity Fund L.P. held 36.67% interest in Walden Ventures Limited which was in turn held 14.45% interests in H shares of the Company.
- Among the 13,607,488 shares in the Company, JPMorgan Chase & Co. was deemed to hold 12,963,588 shares as custodian corporation/approved lending agent and held 643,900 shares as beneficial owner.

7. Greenwood Asset Management Limited was wholly owned by Greenwood Asset Management Holdings Limited. 81% interest in Greenwood Assets Management Holdings Limited was owned by Unique Element Corp. which was wholly owned by Jiang Jinzhi. Greenwood Asset Management Limited holds 13,549,000 in the capacity of investment manager.
8. Svenska Handelsbanken AB Publ. held 11,387,747 shares in the Company by virtue of its capacity as investment manager.
9. (L) and (S) represent long position and short position respectively.

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.

### **3. SERVICE CONTRACTS**

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

### **4. MATERIAL ADVERSE CHANGES**

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2016, the date to which the latest audited financial statements of the Group were made up.

### **5. LITIGATION**

As at the Latest Practicable Date, 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.



## 6. EXPERTS AND CONSENT

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

<b>Name</b>	<b>Qualifications</b>
Octal Capital Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Vigers Appraisal & Consulting Limited (“ <b>Vigers</b> ”)	Professional surveyors and valuers
CHELBI Engineering Consultants Inc. (華傑工程諮詢有限公司) (“ <b>CHELBI</b> ”)	Independent traffic study report consultant

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

As at the Latest Practicable Date, each of Octal Capital, Vigers and CHELBI is not beneficially interested in the share capital of any member of the Group nor does it has 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 has 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.

## 7. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Xing Zhoujin. Mr. Xing Zhoujin, aged 51, an economist, has engaged in corporate governance of listed companies for years and participated in relevant trainings provided by securities regulatory authorities at home and abroad.
- (b) The registered address of the Company is at Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC.
- (c) The Hong Kong Branch Share Registrar and Transfer Office of the Company is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.
- (d) The English text of this circular and form of proxy shall prevail over the Chinese text.

**8. MATERIAL CONTRACTS**

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

- (a) the Parent Company Domestic Shares Subscription Agreement;
- (b) the Supplemental Parent Company Domestic Shares Subscription Agreement;
- (c) the Hainan HNA Domestic Shares Subscription Agreement;
- (d) the Supplemental Hainan HNA Domestic Shares Subscription Agreement;
- (e) the loan agreement entered into between the Company and Haimian Haikou Meilan Airport Duty-Free Shop Co., Ltd.\* (海免海口美蘭機場免稅店有限公司) on 5 September 2016;
- (f) the financial services agreement entered into between the Company and HNA Group Finance Co., Ltd.\* (海航集團財務有限公司) on 25 August 2016; and
- (g) the equity transfer agreement entered into between the Parent Company and the Company on 13 November 2015.

**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 Suites 5811-5814, 58/F, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong for a period of 14 days from the date of this circular:

- (a) the Articles of Association;
- (b) the Parent Company Domestic Shares Subscription Agreement;
- (c) the Supplemental Parent Company Domestic Shares Subscription Agreement;
- (d) the Hainan HNA Domestic Shares Subscription Agreement;
- (e) the Supplemental Hainan HNA Domestic Shares Subscription Agreement;
- (f) the loan agreement entered into between the Company and Haimian Haikou Meilan Airport Duty-Free Shop Co., Ltd.\* (海免海口美蘭機場免稅店有限公司) on 5 September 2016;
- (g) the financial services agreement entered into between the Company and HNA Group Finance Co., Ltd.\* (海航集團財務有限公司) on 25 August 2016;
- (h) the equity transfer agreement entered into between the Parent Company and the Company on 13 November 2015;

- (i) the letter from the Board, the text of which is set out on pages 6 to 27 of this circular;
- (j) the letter from the Independent Board Committee to the Independent Shareholders;
- (k) the letter from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders;
- (l) the annual reports of the Company for each of the three financial years ended 31 December 2014, 2015 and 2016;
- (m) the property valuation report from Vigers Appraisal & Consulting Limited, the text of which is set out in Appendix II to this circular;
- (n) the traffic study report from CHELBI, the text of which is set out in Appendix III to this circular;
- (o) the written consents referred to in the paragraph headed “Experts and Consent” in this Appendix; and
- (p) this circular.

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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



### 海航基礎股份有限公司 HNA Infrastructure Company Limited\*

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

#### NOTICE OF THE EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of HNA Infrastructure Company Limited (the “**Company**”) will be held at 10:00 am on Monday, 26 June 2017 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the People’s Republic of China (the “**PRC**”) for the purpose of considering and, if thought fit, passing the following resolutions. Unless the context otherwise requires, expressions used in this notice shall have the same meaning set out in the announcements of the Company dated 30 December 2016 and 27 April 2017 (the “**Announcements**”).

#### BY WAY OF SPECIAL RESOLUTIONS

1. To consider and approve the agreement dated 30 December 2016 and its supplemental agreement dated 27 April 2017 entered into between the Company and Haikou Meilan International Airport Co., Ltd.\* (海口美蘭國際機場有限責任公司) in relation to the subscription of: (i) 189,987,125 new Domestic Shares as consideration for the transfer of Phase I Runway Assets by the Parent Company to the Company; and (ii) 250,000,000 new Domestic Shares by cash, at an aggregate subscription price of RMB2,000,000,000 (equivalent to approximately HK\$2,232,641,214.56) and to authorize the Board and the persons delegated by the Board to deal with and complete all transactions contemplated thereunder within a term of nine months following the passing of the relevant resolution(s) at the EGM and/or the Class Meetings;
2. To consider and approve the agreement dated 30 December 2016 and its supplemental agreement dated 27 April 2017 entered into between the Company and Hainan HNA Infrastructure Investment Group Company Limited\* (海南海航基礎設施投資集團股份有限公司) in relation to the subscription of 50,000,000 new Domestic Shares by cash at an aggregate subscription price of RMB400,000,000 (equivalent to approximately HK\$446,528,242.91) and to authorize the Board and the persons delegated by the Board to deal with and complete all transactions contemplated thereunder within a term of nine months following the passing of the relevant resolution(s) at the EGM and/or the Class Meetings;

\* For identification purposes only

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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3. To consider and approve following resolutions on the Specific Mandate for the proposed New H Shares Issue and listing of New H Shares on the Stock Exchange (relevant details of the resolutions are set out in the section headed “*Proposed New H Shares Issue under Specific Mandate*” in the Announcements):

**“THAT:**

The New H Shares Issue and the following items of the New H Shares Issue be and are hereby approved:

- 3.1. Class of Shares to be issued;
- 3.2. Time of issuance;
- 3.3. Size of issuance;
- 3.4. Ranking of New H Shares;
- 3.5. Listing;
- 3.6. Method of issuance;
- 3.7. Target places;
- 3.8. Pricing mechanism;
- 3.9. Method of subscription;
- 3.10. Accumulated profits;
- 3.11. Use of proceeds;
- 3.12. Validity period of the resolutions;
- 3.13. Other authorization to the Board and the persons delegated by the Board to deal with and complete all the matters in relation to the New H Share Issue with full authority for a term of nine months following the passing of the relevant resolution(s) at the EGM and/or the Class Meetings. Such matters include but are not limited to:
  - (a) execute and submit all the relevant applications, reports and other documents to the relevant PRC and overseas departments or authorities and deal with all the relevant approvals, registration, filing, sanction and permission;

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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- (b) determine the terms of the proposed New H Shares Issue, including the determination of the actual size, issue price (including the price range and final price), timing, method and target placee(s) of the proposed New H Shares Issue, the execution, implementation, modification and termination of any agreement, contract or other documents in relation to the exercise of the Specific Mandate to issue the New H Shares, making adjustment to the use of proceeds of the proposed New H Shares Issue, and any other relevant matter;
- (c) negotiate and enter into subscription agreements with the placing agreement with the placing agent(s) in relation to the proposed New H Shares Issue, and approving any revision or amendments to such placing agreement;
- (d) deal with all the matters in relation to obtaining all the approvals and permissions from the relevant authorities including but not limited to the CSRC, the Stock Exchange and/or any other relevant PRC and overseas authorities in relation to the proposed New H Shares Issue;
- (e) depending on the requirements at the time of the issuance, engage and appoint financial advisor, the placing agent(s), PRC and overseas legal advisers and other relevant agencies in relation to the proposed New H Shares Issue and enter into engagement or appointment letters and other relevant legal documents;
- (f) make appropriate amendments to the terms of the proposed New H Shares Issue in light of the specific circumstances and pursuant to the approval(s) by the relevant regulatory authorities;
- (g) execute, implement, amend and complete any document and do any act as necessary and appropriate in relation to the proposed New H Shares Issue;
- (h) approve the publication of relevant announcement(s), circular(s) and notice(s) in relation to the proposed New H Shares Issue on the website of the Stock Exchange and the Company, respectively, and the submission of relevant forms, files or other documents to the Stock Exchange; and
- (i) obtain the approval from the Stock Exchange for listing of and permission to deal in all of the New H Shares to be issued and allotted pursuant to the New H Shares Issue on the Main Board of the Stock Exchange.”

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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4. To consider and approve the authorization of the consequential amendments to the Articles of Association as the Board thinks fit to reflect the latest registered capital structure of the Company as a result of each of the issue of Subscription Shares I, Subscription Shares II and the proposed New H Shares Issue; and
5. To consider and approve the proposals (if any) put forward at such meeting by any shareholder(s) holding five per cent or more of the shares carrying right to vote at such meeting.

By the order of the Board  
**HNA Infrastructure Company Limited\***  
**Wang Zhen**  
*Chairman*

Hainan Province, the PRC  
28 April 2017

*As at the date of this notice, the Board comprises of (i) four executive directors, namely Mr. Wang Zhen, Mr. Yang Xiaobin, Mr. Zhou Feng and Mr. Liu Shanbin; (ii) three non-executive directors, namely Mr. Hu Wentai, Mr. Chan Nap Kee, Joseph and Mr. Yan Xiang; and (iii) four independent non-executive directors, namely Mr. Deng Tianlin, Mr. Fung Ching, Simon, Mr. George F Meng and Mr. He Linji.*

\* *For identification purposes only*

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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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*Notes:*

- (A) A circular containing, among other things, information relating to (i) the Parent Company Subscription, the Hainan HNA Subscription, the proposed New H Shares Issue and the proposed consequential amendments to the Articles of Association; (ii) a letter of advice from the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder; and (iv) notices convening the EGM and Class Meetings, will be despatched to the Shareholders as soon as practicable and currently expected to be on or before 28 April 2017 as the Company would require additional time to prepare and finalise certain information to be included in the circular.
- (B) The Company's register of members will be closed from Wednesday, 24 May 2017 to Monday, 26 June 2017 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for attending and voting at the EGM, shareholders must deliver their transfer documents, accompanied by the relevant share certificates and forms of transfer, to the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, located at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 23 May 2017.
- (C) Holders of the overseas listed foreign shares (in the form of H shares) of the Company whose names appear on the Company's register of members maintained by Computershare Hong Kong Investor Services Limited at the close of business on Tuesday, 23 May 2017 are entitled to attend and vote at the EGM after complying with the necessary registration procedures.
- (D) 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 not later than 20 days before the date of the EGM, i.e. no later than Tuesday, 6 June 2017. 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 are as follows:

Office Building of Meilan Airport  
Haikou City  
Hainan Province  
the PRC  
Tel: (86-898) 6996 6999  
Fax: (86-898) 6996 8999

- (E) 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.
- (F) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign, or other documents of authorization, 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 or by its authorized attorney. To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.
- (G) Each holder of domestic shares of the Company is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the EGM. Notes (E) and (F) also apply 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, the address of which is set out in Note (D) 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.



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## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

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- (H) 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 authorized representative, which specifies the date of its issuance. If the legal representative of the holder of legal person share(s) attends the EGM, such legal representative should produce his ID card and valid documents evidencing his capacity as such legal representative. If a holder of legal person share(s) appoints a representative of a company other than its legal representative to attend the EGM, such representative should produce his ID card and an authorization instrument affixed with the seal of the holder of the legal person shares and duly signed by its legal representative.
- (I) 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.
- (J) Pursuant to Rule 13.39 (4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by way of poll. Accordingly, the chairman of the EGM will demand a poll in relation to all the proposed resolutions at the EGM.

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## NOTICE OF THE DOMESTIC SHAREHOLDERS CLASS MEETING

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



### 海航基礎股份有限公司 HNA Infrastructure Company Limited\*

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

**(Stock code: 357)**

#### NOTICE OF DOMESTIC SHAREHOLDERS CLASS MEETING

**NOTICE IS HEREBY GIVEN** that the domestic shareholders class meeting of (the “**Domestic Shareholders Class Meeting**”) of HNA Infrastructure Company Limited (the “**Company**”) will be held at 10:00 am on Monday, 26 June 2017 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the People’s Republic of China (the “**PRC**”) for the purpose of considering and, if thought fit, passing the following resolutions. Unless the context otherwise requires, expressions used in this notice shall have the same meaning set out in the announcements of the Company dated 30 December 2016 and 27 April 2017 (the “**Announcements**”).

#### BY WAY OF SPECIAL RESOLUTIONS

1. To consider and approve the agreement dated 30 December 2016 and its supplemental agreement dated 27 April 2017 entered into between the Company and Haikou Meilan International Airport Co., Ltd.\* (海口美蘭國際機場有限責任公司) in relation to the subscription of: (i) 189,987,125 new Domestic Shares as consideration for the transfer of Phase I Runway Assets by the Parent Company to the Company; and (ii) 250,000,000 new Domestic Shares by cash, at an aggregate subscription price of RMB2,000,000,000 (equivalent to approximately HK\$2,232,641,214.56) and to authorize the Board and the persons delegated by the Board to deal with and complete all transactions contemplated thereunder within a term of nine months following the passing of the relevant resolution(s) at the EGM and/or the Class Meetings;
2. To consider and approve the agreement dated 30 December 2016 and its supplemental agreement dated 27 April 2017 entered into between the Company and Hainan HNA Infrastructure Investment Group Company Limited\* (海南海航基礎設施投資集團股份有限公司) in relation to the subscription of 50,000,000 new Domestic Shares by cash at a subscription price of RMB400,000,000 (equivalent to approximately HK\$446,528,242.91) and to authorize the Board and the persons delegated by the Board to deal with and complete all transactions contemplated thereunder within a term of nine months following the passing of the relevant resolution(s) at the EGM and/or the Class Meetings;

\* For identification purposes only

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## NOTICE OF THE DOMESTIC SHAREHOLDERS CLASS MEETING

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3. To consider and approve following resolutions on the Specific Mandate for the proposed New H Shares Issue and listing of New H Shares on the Stock Exchange (relevant details of the resolutions are set out in the section headed “*Proposed New H Shares Issue under Specific Mandate*” in the Announcements):

**“THAT:**

The New H Shares Issue and the following items of the New H Shares Issue be and are hereby approved:

- 3.1. Class of Shares to be issued;
- 3.2. Time of issuance;
- 3.3. Size of issuance;
- 3.4. Ranking of New H Shares;
- 3.5. Listing;
- 3.6. Method of issuance;
- 3.7. Target placees;
- 3.8. Pricing mechanism;
- 3.9. Method of subscription;
- 3.10. Accumulated profits;
- 3.11. Use of proceeds;
- 3.12. Validity period of the resolutions;
- 3.13. Other authorization to the Board and the persons delegated by the Board to deal with and complete all the matters in relation to the New H Share Issue with full authority for a term of nine months following the passing of the relevant resolution(s) at the EGM and/or the Class Meetings. Such matters include but are not limited to:
  - (a) execute and submit all the relevant applications, reports and other documents to the relevant PRC and overseas departments or authorities and deal with all the relevant approvals, registration, filing, sanction and permission;

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## NOTICE OF THE DOMESTIC SHAREHOLDERS CLASS MEETING

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- (b) determine the terms of the proposed New H Shares Issue, including the determination of the actual size, issue price (including the price range and final price), timing, method and target placee(s) of the proposed New H Shares Issue, the execution, implementation, modification and termination of any agreement, contract or other documents in relation to the exercise of the Specific Mandate to issue the New H Shares, making adjustment to the use of proceeds of the proposed New H Shares Issue, and any other relevant matter;
- (c) negotiate and enter into subscription agreements with the placing agreement with the placing agent(s) in relation to the proposed New H Shares Issue, and approving any revision or amendments to such placing agreement;
- (d) deal with all the matters in relation to obtaining all the approvals and permissions from the relevant authorities including but not limited to the CSRC, the Stock Exchange and/or any other relevant PRC and overseas authorities in relation to the proposed New H Shares Issue;
- (e) depending on the requirements at the time of the issuance, engage and appoint financial advisor, the placing agent(s), PRC and overseas legal advisers and other relevant agencies in relation to the proposed New H Shares Issue and enter into engagement or appointment letters and other relevant legal documents;
- (f) make appropriate amendments to the terms of the proposed New H Shares Issue in light of the specific circumstances and pursuant to the approval(s) by the relevant regulatory authorities;
- (g) execute, implement, amend and complete any document and do any act as necessary and appropriate in relation to the proposed New H Shares Issue;
- (h) approve the publication of relevant announcement(s), circular(s) and notice(s) in relation to the proposed New H Shares Issue on the website of the Stock Exchange and the Company, respectively, and the submission of relevant forms, files or other documents to the Stock Exchange; and
- (i) obtain the approval from the Stock Exchange for listing of and permission to deal in all of the New H Shares to be issued and allotted pursuant to the New H Shares Issue on the Main Board of the Stock Exchange.”

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## NOTICE OF THE DOMESTIC SHAREHOLDERS CLASS MEETING

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4. To consider and approve the authorization of the consequential amendments to the Articles of Association as the Board thinks fit to reflect the latest registered capital structure of the Company as a result of each of the issue of Subscription Shares I, Subscription Shares II and the proposed New H Shares Issue; and
5. To consider and approve the proposals (if any) put forward at such meeting by any shareholder(s) holding five per cent or more of the shares carrying right to vote at such meeting.

By the order of the Board  
**HNA Infrastructure Company Limited\***  
**Wang Zhen**  
*Chairman*

Hainan Province, the PRC  
28 April 2017

*As at the date of this notice, the Board comprises of (i) four executive directors, namely Mr. Wang Zhen, Mr. Yang Xiaobin, Mr. Zhou Feng and Mr. Liu Shanbin; (ii) three non-executive directors, namely Mr. Hu Wentai, Mr. Chan Nap Kee, Joseph and Mr. Yan Xiang; and (iii) four independent non-executive directors, namely Mr. Deng Tianlin, Mr. Fung Ching, Simon, Mr. George F Meng and Mr. He Linji.*

\* *For identification purposes only*

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## NOTICE OF THE DOMESTIC SHAREHOLDERS CLASS MEETING

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*Notes:*

- (A) A circular containing, among other things, information relating to (i) the Parent Company Subscription, the Hainan HNA Subscription, the proposed New H Shares Issue and the proposed consequential amendments to the Articles of Association; (ii) a letter of advice from the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder; and (iv) notices convening the EGM and Class Meetings, will be despatched to the Shareholders as soon as practicable and currently expected to be on or before 28 April 2017 as the Company would require additional time to prepare and finalise certain information to be included in the circular.
- (B) The Company's register of members will be closed from Wednesday, 24 May 2017 to Monday, 26 June 2017 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for attending and voting at the Domestic Shareholders Class Meeting, shareholders must deliver their transfer documents, accompanied by the relevant share certificates and forms of transfer, to the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, located at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 23 May 2017.
- (C) Holders of domestic shares of the Company whose names appear on the Company's register of members maintained by Computershare Hong Kong Investor Services Limited at the close of business on Tuesday, 23 May 2017 are entitled to attend and vote at the Domestic Shareholders Class Meeting after complying with the necessary registration procedures.
- (D) Holders of domestic shares of the Company, who intend to attend the Domestic Shareholders Class Meeting, must complete and return the reply slips for attending the Domestic Shareholders Class Meeting to the Secretary Office to the Board not later than 20 days before the date of the Domestic Shareholders Class Meeting, i.e. no later than Tuesday, 6 June 2017. Holders of 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 are as follows:

Office Building of Meilan Airport  
Haikou City  
Hainan Province  
the PRC  
Tel: (86-898) 6996 6999  
Fax: (86-898) 6996 8999

- (E) Each holder of domestic shares who has the right to attend and vote at the Domestic Shareholders Class Meeting (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 Domestic Shareholders Class Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll.
- (F) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign, or other documents of authorization, must be notarially certified. The instrument appointing a proxy of any holder of domestic shares (being a body corporate) must be affixed with the corporate seal of such holder of domestic shares or duly signed by the chairman of its Board or by its authorized attorney. To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's domestic shares share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the Domestic Shareholders Class Meeting or any adjournment thereof in order for such documents to be valid.

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## NOTICE OF THE DOMESTIC SHAREHOLDERS CLASS MEETING

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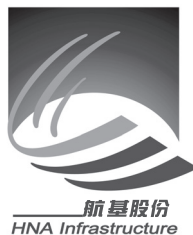
- (G) If a proxy attends the Domestic Shareholders Class Meeting on behalf of a shareholder, he should produce his ID card and the instrument signed by the proxy or his authorized representative, which specifies the date of its issuance. If the legal representative of the holder of legal person share(s) attends the Domestic Shareholders Class Meeting, such legal representative should produce his ID card and valid documents evidencing his capacity as such legal representative. If a holder of legal person share(s) appoints a representative of a company other than its legal representative to attend the Domestic Shareholders Class Meeting, such representative should produce his ID card and an authorization instrument affixed with the seal of the holder of the legal person shares and duly signed by its legal representative.
- (H) The Domestic Shareholders Class Meeting is expected to last not more than one day. Shareholders or proxies attending the Domestic Shareholders Class Meeting are responsible for their own transportation and accommodation expenses.
- (I) Pursuant to Rule 13.39 (4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by way of poll. Accordingly, the chairman of the Domestic Shareholders Class Meeting will demand a poll in relation to all the proposed resolutions at the Domestic Shareholders Class Meeting.

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## NOTICE OF THE H SHAREHOLDERS CLASS MEETING

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



### 海航基礎股份有限公司 HNA Infrastructure Company Limited\*

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

#### NOTICE OF THE H SHAREHOLDERS CLASS MEETING

**NOTICE IS HEREBY GIVEN** that the H Shareholders Class Meeting (the “**H Shareholders Class Meeting**”) of HNA Infrastructure Company Limited (the “**Company**”) will be held at 10:00 am on Monday, 26 June 2017 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the People’s Republic of China (the “**PRC**”) for the purpose of considering and, if thought fit, passing the following resolutions. Unless the context otherwise requires, expressions used in this notice shall have the same meaning set out in the announcements of the Company dated 30 December 2016 and 27 April 2017 (the “**Announcements**”).

#### BY WAY OF SPECIAL RESOLUTIONS

1. To consider and approve the agreement dated 30 December 2016 and its supplemental agreement dated 27 April 2017 entered into between the Company and Haikou Meilan International Airport Co., Ltd.\* (海口美蘭國際機場有限責任公司) in relation to the subscription of: (i) 189,987,125 new Domestic Shares as consideration for the transfer of Phase I Runway Assets by the Parent Company to the Company; and (ii) 250,000,000 new Domestic Shares by cash, at an aggregate subscription price of RMB2,000,000,000 (equivalent to approximately HK\$2,232,641,214.56) and to authorize the Board and the persons delegated by the Board to deal with and complete all transactions contemplated thereunder within a term of nine months following the passing of the relevant resolution(s) at the EGM and/or the Class Meetings;
2. To consider and approve the agreement dated 30 December 2016 and its supplemental agreement dated 27 April 2017 entered into between the Company and Hainan HNA Infrastructure Investment Group Company Limited\* (海南海航基礎設施投資集團股份有限公司) in relation to the subscription of 50,000,000 new Domestic Shares by cash at an aggregate subscription price of RMB400,000,000 (equivalent to approximately HK\$446,528,242.91) and to authorize the Board and the persons delegated by the Board to deal with and complete all transactions contemplated thereunder within a term of nine months following the passing of the relevant resolution(s) at the EGM and/or the Class Meetings;

\* For identification purposes only



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## NOTICE OF THE H SHAREHOLDERS CLASS MEETING

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3. To consider and approve following resolutions on the Specific Mandate for the proposed New H Shares Issue and listing of New H Shares on the Stock Exchange (relevant details of the resolutions are set out in the section headed “*Proposed New H Shares Issue under Specific Mandate*” in the Announcements):

**“THAT:**

The New H Shares Issue and the following items of the New H Shares Issue be and are hereby approved:

- 3.1. Class of Shares to be issued;
- 3.2. Time of issuance;
- 3.3. Size of issuance;
- 3.4. Ranking of New H Shares;
- 3.5. Listing;
- 3.6. Method of issuance;
- 3.7. Target places;
- 3.8. Pricing mechanism;
- 3.9. Method of subscription;
- 3.10. Accumulated profits;
- 3.11. Use of proceeds;
- 3.12. Validity period of the resolutions;
- 3.13. Other authorization to the Board and the persons delegated by the Board to deal with and complete all the matters in relation to the New H Shareholders Issue with full authority for a term of nine months following the passing of the relevant resolution(s) at the EGM and/or the Class Meetings. Such matters include but are not limited to:
  - (a) execute and submit all the relevant applications, reports and other documents to the relevant PRC and overseas departments or authorities and deal with all the relevant approvals, registration, filing, sanction and permission;

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## NOTICE OF THE H SHAREHOLDERS CLASS MEETING

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- (b) determine the terms of the proposed New H Shares Issue, including the determination of the actual size, issue price (including the price range and final price), timing, method and target placee(s) of the proposed New H Shares Issue, the execution, implementation, modification and termination of any agreement, contract or other documents in relation to the exercise of the Specific Mandate to issue the New H Shares, making adjustment to the use of proceeds of the proposed New H Shares Issue, and any other relevant matter;
- (c) negotiate and enter into subscription agreements with the placing agreement with the placing agent(s) in relation to the proposed New H Shares Issue, and approving any revision or amendments to such placing agreement;
- (d) deal with all the matters in relation to obtaining all the approvals and permissions from the relevant authorities including but not limited to the CSRC, the Stock Exchange and/or any other relevant PRC and overseas authorities in relation to the proposed New H Shares Issue;
- (e) depending on the requirements at the time of the issuance, engage and appoint financial advisor, the placing agent(s), PRC and overseas legal advisers and other relevant agencies in relation to the proposed New H Shares Issue and enter into engagement or appointment letters and other relevant legal documents;
- (f) make appropriate amendments to the terms of the proposed New H Shares Issue in light of the specific circumstances and pursuant to the approval(s) by the relevant regulatory authorities;
- (g) execute, implement, amend and complete any document and do any act as necessary and appropriate in relation to the proposed New H Shares Issue;
- (h) approve the publication of relevant announcement(s), circular(s) and notice(s) in relation to the proposed New H Shares Issue on the website of the Stock Exchange and the Company, respectively, and the submission of relevant forms, files or other documents to the Stock Exchange; and
- (i) obtain the approval from the Stock Exchange for listing of and permission to deal in all of the New H Shares to be issued and allotted pursuant to the New H Shares Issue on the Main Board of the Stock Exchange.”

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## NOTICE OF THE H SHAREHOLDERS CLASS MEETING

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4. To consider and approve the authorization of the consequential amendments to the Articles of Association as the Board thinks fit to reflect the latest registered capital structure of the Company as a result of each of the issue of Subscription Shares I, Subscription Shares II and the proposed New H Shares Issue; and
5. To consider and approve the proposals (if any) put forward at such meeting by any shareholder(s) holding five per cent or more of the shares carrying right to vote at such meeting.

By the order of the Board  
**HNA Infrastructure Company Limited\***  
**Wang Zhen**  
*Chairman*

Hainan Province, the PRC  
28 April 2017

*As at the date of this notice, the Board comprises of (i) four executive directors, namely Mr. Wang Zhen, Mr. Yang Xiaobin, Mr. Zhou Feng and Mr. Liu Shanbin; (ii) three non-executive directors, namely Mr. Hu Wentai, Mr. Chan Nap Kee, Joseph and Mr. Yan Xiang; and (iii) four independent non-executive directors, namely Mr. Deng Tianlin, Mr. Fung Ching, Simon, Mr. George F Meng and Mr. He Linji.*

\* *For identification purposes only*

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## NOTICE OF THE H SHAREHOLDERS CLASS MEETING

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*Notes:*

- (A) A circular containing, among other things, information relating to (i) the Parent Company Subscription, the Hainan HNA Subscription, the proposed New H Shares Issue and the proposed consequential amendments to the Articles of Association; (ii) a letter of advice from the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the Parent Company Domestic Shares Subscription Agreement, the Supplemental Parent Company Domestic Shares Subscription Agreement and the Parent Company Subscription contemplated thereunder; and (iv) notices convening the EGM and Class Meetings, will be despatched to the Shareholders as soon as practicable and currently expected to be on or before 28 April 2017 as the Company would require additional time to prepare and finalise certain information to be included in the circular.
- (B) The Company's register of members will be closed from Wednesday, 24 May 2017 to Monday, 26 June 2017 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for attending and voting at the H Shareholders Class Meeting, shareholders must deliver their transfer documents, accompanied by the relevant share certificates and forms of transfer, to the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, located at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 23 May 2017.
- (C) Holders of the overseas listed foreign shares (in the form of H shares) of the Company whose names appear on the Company's register of members maintained by Computershare Hong Kong Investor Services Limited at the close of business on Tuesday, 23 May 2017 are entitled to attend and vote at the H Shareholders Class Meeting after complying with the necessary registration procedures.
- (D) Holders of H shares of the Company, who intend to attend the H Shareholders Class Meeting, must complete and return the reply slips for attending the H Shareholders Class Meeting to the Secretary Office to the Board not later than 20 days before the date of the H Shareholders Class Meeting, i.e. no later than Tuesday, 6 June 2017. Holders of H shares of the Company can deliver the reply slips by hand, by post or by facsimile.

Details of the Secretary Office to the Board are as follows:

Office Building of Meilan Airport  
Haikou City  
Hainan Province  
the PRC  
Tel: (86-898) 6996 6999  
Fax: (86-898) 6996 8999

- (E) Each holder of H shares who has the right to attend and vote at the H Shareholders Class Meeting (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 H Shareholders Class Meeting. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll.
- (F) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign, or other documents of authorization, 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 or by its authorized attorney. To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the H Shareholders Class Meeting or any adjournment thereof in order for such documents to be valid.

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## NOTICE OF THE H SHAREHOLDERS CLASS MEETING

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- (G) If a proxy attends the H Shareholders Class Meeting on behalf of an H Shareholders shareholder, he should produce his ID card and the instrument signed by the proxy or his authorized representative, which specifies the date of its issuance. If the legal representative of the holder of legal person share(s) attends the H Shareholders Class Meeting, such legal representative should produce his ID card and valid documents evidencing his capacity as such legal representative. If a holder of legal person share(s) appoints a representative of a company other than its legal representative to attend the H Shareholders Class Meeting, such representative should produce his ID card and an authorization instrument affixed with the seal of the holder of the legal person shares and duly signed by its legal representative.
- (H) The H Shareholders Class Meeting is expected to last not more than one day. Shareholders or proxies attending the H Shareholders Class Meeting are responsible for their own transportation and accommodation expenses.
- (I) Pursuant to Rule 13.39 (4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by way of poll. Accordingly, the chairman of the H Shareholders Class Meeting will demand a poll in relation to all the proposed resolutions at the H Shareholders Class Meeting.