THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

海南美蘭國際空港股份有限公司

Hainan Meilan International Airport Company Limited*

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

(Stock Code: 357)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION SUPPLEMENTAL INVESTMENT AND CONSTRUCTION AGREEMENT, MAJOR AND CONNECTED TRANSACTION THE 2020 PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT, PROPOSED NEW H SHARES ISSUE UNDER SPECIFIC MANDATE, PROPOSED CONSEQUENTIAL AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND NOTICES OF THE EGM AND THE CLASS MEETINGS

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

金融有限公司
OCTAL Capital Limited

A letter from the Board is set out on pages 6 to 36 of this circular. A letter from the Independent Board Committee is set out on pages 37 to 38 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 39 to 69 of this circular.

The notices for convening the EGM and the Class Meetings to be held at 10:00 a.m. on Friday, 18 September 2020 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC are set out on pages 162 to 176 of this circular. Whether or not you are able to attend the EGM or the Class Meetings, you are requested to complete and return the accompanying forms of proxy in accordance with the instructions printed thereon, and in both cases in any event not later than 24 hours before the time appointed for holding the meetings. Completion and return of the forms of proxy shall not preclude you from attending and voting at the meetings or any adjourned meetings should you so desire.

* *For identification purposes only*

20 August 2020

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

"2020 Parent Company Domestic Shares Subscription Agreement"	the subscription agreement dated 24 July 2020 entered into between the Company and the Parent Company in relation to the Parent Company Subscription
"Airport Project"	the airport project under the Investment and Construction Agreement and the Supplemental Investment and Construction Agreement
"Articles of Association"	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
"Board"	the board of Directors
"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 purposes of considering and, if thought fit, approving, among other things, (i) the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder; (ii) the proposed New H Shares Issue; and (iii) the proposed consequential amendments to the Articles of Association, including any adjournment in respect thereof
"Company"	Hainan Meilan International Airport Company Limited (海南美蘭國際空港股份有限公司), a joint stock company incorporated in the PRC with limited liability
"connected person(s)"	has the meaning as defined in the Listing Rules
"controlling shareholder(s)"	has the meaning as defined in the Listing Rules
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Date of Relevant Agreement"	the date on which: (a) the subscription agreement(s) in respect of the New H Shares Issue is entered into between the Company and the placee(s); and/or (b) the placing agreement(s) in respect of the New H Shares Issue is entered into between the Company with the placing agent(s)
"Director(s)"	the director(s) of the Company

"Domestic Share(s)"	the domestic ordinary share(s) with a nominal value of RMB1.00 each in the registered share capital of the Company, which is/are subscribed for in RMB
"Domestic Shareholder(s)"	holders of Domestic Shares
"Effective Date"	the effective date of the 2020 Parent Company Domestic Shares Subscription Agreement when all the relevant conditions precedent are fulfilled or waived
"EGM"	an extraordinary general meeting of the Company to be held at 10:00 a.m. on Friday, 18 September 2020 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC
"Feasibility Study Report"	the feasibility study report issued by a professional institution engaged by the Parent Company in relation to the construction of the Phase II Expansion Project
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign shares of RMB1.00 each in the share capital of the Company which are listed on the Stock Exchange and traded in Hong Kong dollars
"H Shareholder(s)"	holder(s) of H Shares
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee of the Company comprising of all the independent non-executive Directors to advise the Independent Shareholders on the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions 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 SFO, and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders who do not have any material interests in the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder or the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder and are not required to abstain from voting at the EGM and the Class Meetings pursuant to the Listing Rules
"Investment and Construction Agreement"	the investment and construction agreement dated 21 August 2015 entered into between the Company and the Parent Company in respect of the Airport Project
"Last Trading Day"	23 July 2020, being the last trading day in the H Shares immediately before the date on which the 2020 Parent Company Domestic Shares Subscription Agreement was signed
"Latest Practicable Date"	18 August 2020, 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
"Local Government Special Bonds"	the local government special bonds to be issued by relevant governmental authorities in Hainan Province, the proceeds of which will be used for the construction of the Airport Project
"Meilan Airport"	the civil airport known as Haikou Meilan International Airport (海口美蘭國際機場) located in Haikou City, Hainan Province, the PRC

"NDRC"	National Development and Reform Commission of the People's Republic of China (中華人民共和國國家發展和改革委員會)
"New H Shares"	the maximum number of 155,000,000 H Shares proposed to be issued upon the exercise of the Specific Mandate
"New H Shares Issue"	the issuance 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"	Haikou Meilan International Airport Co., Ltd. (海口美蘭國際機場有限責任公司), a limited liability company established in the PRC and the controlling shareholder of the Company
"Parent Company Subscription"	the subscription of the Subscription Shares by the Parent Company contemplated under the 2020 Parent Company Domestic Shares Subscription Agreement
"Past New H Shares Issue"	the issuance of the maximum number of 200,000,000 new H Shares by way of private placing, which has terminated
"Past New H Shares Subscription Agreement"	the Subscription Agreement as defined in the announcement of the Company dated 30 September 2019, which has terminated
"Past Parent Company Domestic Shares Subscription Agreements"	the Parent Company Domestic Shares Subscription Agreements as defined in the announcement of the Company dated 30 September 2019, which have terminated
"Past Parent Company Subscription"	the subscription of the 202,487,125 new Domestic Shares by the Parent Company contemplated under the Past Parent Company Domestic Shares Subscription Agreements, which has terminated
"Phase I Runway Assets"	the Phase I runway of Meilan Airport and other auxiliary facilities as more particularly described in the 2020 Parent Company Domestic Shares Subscription Agreement
"Phase II Expansion Project"	the phase II expansion project of Meilan Airport
"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

"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Shareholder(s)"	the Domestic Shareholders and the H Shareholders
"Shares"	Domestic Shares and H Shares
"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 155,000,000 New H Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Shares"	the maximum number of 140,741,000 new Domestic Shares proposed to be subscribed by the Parent Company pursuant to the 2020 Parent Company Domestic Shares Subscription Agreement
"Supplemental Investment and Construction Agreement"	the supplemental investment and construction agreement dated 11 May 2020 entered into between the Company and the Parent Company in respect of the Airport Project
"Syndicated Loan"	the loan in the principal amount of RMB7.8 billion granted by China Development Bank Limited (國家開發銀行股份有限公司), the Hainan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司海南省分行) and the Hainan Branch of Agricultural Bank of China Limited (中國農業銀行股份有限公司海南省分行) to the Company and the Parent Company on a joint and several basis for a period of 20 years
"%"	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$1.00 = RMB0.8958 has been used for currency translation, where applicable. Such exchange rate is for illustrative purpose only and does not constitute representations that any amount in HK$ or RMB has been, could have been or may be converted at such a rate.

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

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

(Stock Code: 357)

Executive Directors:
Wang Zhen *(Chairman, Authorised Representative)*
Wang Hong *(President)*
Wang Hexin
Yu Yan
Xing Zhoujin *(Authorised Representative)*

Non-executive Directors:
Chan Nap Kee, Joseph
Yan Xiang

Independent Non-executive Directors:
Deng Tianlin
Fung Ching, Simon
George F Meng
He Linji

Registered Office:
Office Building of Meilan Airport
Haikou City
Hainan Province
the PRC

Principal Place of Business in Hong Kong:
10th Floor, Everbright Centre
108 Gloucester Road
Wanchai, Hong Kong

To the Shareholders,

Dear Sir/Madam,

**VERY SUBSTANTIAL ACQUISITION
AND CONNECTED TRANSACTION
SUPPLEMENTAL INVESTMENT AND CONSTRUCTION AGREEMENT,
MAJOR AND CONNECTED TRANSACTION
THE 2020 PARENT COMPANY
DOMESTIC SHARES SUBSCRIPTION AGREEMENT,
PROPOSED NEW H SHARES ISSUE UNDER SPECIFIC MANDATE,
PROPOSED CONSEQUENTIAL AMENDMENTS
TO THE ARTICLES OF ASSOCIATION
AND
NOTICES OF THE EGM AND THE CLASS MEETINGS**

A. INTRODUCTION

References are made to the announcements of the Company dated 11 May 2020 and 24 July 2020. The purpose of this circular is to provide you with information regarding (i) the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder; (ii) the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder; (iii) the proposed New H Shares Issue; and (iv) the proposed consequential amendments to the Articles of Association, and to give you notices of the EGM and the Class Meetings to consider and, if thought fit, to approve the resolutions to be proposed at the EGM and the Class Meetings.

* *For identification purposes only*

B. BACKGROUND OF THE PHASE II EXPANSION PROJECT

Reference is made to the announcement of the Company dated 21 August 2015 and the circular of the Company dated 7 October 2015.

As disclosed in the aforesaid announcement and circular, on 2 June 2015, the NDRC approved the construction of the Phase II Expansion Project (NDRC Infrastructure [2015] No. 1215 (發改基礎[2015]1215號)), which means the Feasibility Study Report issued by a professional institution engaged by the Parent Company in relation to the construction of the Phase II Expansion Project which comprised three parts, i.e. the Airport Project, an air traffic control project and a fuel supply project, was approved. The Company confirms that the air traffic control project and the fuel supply project are independent from the Airport Project and the Company will not participate in these projects.

According to the Feasibility Study Report and the approval from NDRC, and leveraging the previous experience of the Parent Company in airport construction, the Parent Company acts as the project representative of the Airport Project, with an estimated aggregate investment amount of approximately RMB13.838 billion. Such estimated aggregate investment amount of approximately RMB13.838 billion of the Airport Project was the estimated amount determined with reference to the applicable national and regional construction fee standards, applicable rules for composing of civil aviation airport construction project budget and interest rate of long-term bank loan of approximately 6.55%.

The Airport Project comprised the terminal building project, parking building project, cargo handling service area project, ground handling service area, airport fire-fighting and rescue project, airport emergency respond and rescue project, and vehicles and equipment project (collectively as the "**Company Construction Project**"); and other projects including, without limitation, the airfield area project, visual navigation lighting equipment project, road and bridge project, aviation food and aviation supplies project, water supply project, electricity supply project, and cooling, heating and gas supply project (collectively as the "**Parent Company Construction Project**"). According to the Investment and Construction Agreement, the estimated investment amount of the Company Construction Project was approximately RMB7.158 billion and the estimated investment amount of the Parent Company Construction Project was approximately RMB6.680 billion.

According to the latest construction progress of the Airport Project, the construction of the main part of the terminal building project has been completed on 30 June 2020 and the standard for basic function has been met with water supply, electricity supply and cooling system equipped; the preparation works for test flight have been pushed forward in the airfield area project; the supporting ring-like road and bridge transportation system has been fully completed and will be opened to traffic gradually; the east access road has been officially opened to traffic; and the construction of west access road has commenced.

The project design and the estimated aggregate investment amount of the Airport Project in the Feasibility Study Report were amended mainly based on further project construction need or improvement of quality standards. For example, the estimated investment amount of the terminal building project increased by approximately RMB394.62 million as a result of, among others, the improvement of decoration standards, the adoption of LED lights and the adding of anti-seismic facilities, security equipment, elevators and escalators; the estimated investment amount of the airfield area project increased by approximately RMB387.09 million as a result of, among others, the adding of Yuwuxi dark culvert diversion project and slope project and the increase in the work amount of earthwork; the estimated investment amount of the electricity supply project increased by approximately RMB72.80 million as a result of, among others, the increase in the length of electricity supply network cable; the estimated investment amount of the ground handling service area increased by approximately RMB58.81 million as a result of, among others, the increase in the construction cost of special garages and the adding of certain equipment. Therefore, the estimated aggregate investment amount of the Airport Project will be adjusted from approximately RMB13.838 billion to approximately RMB14.830 billion. For more details of the adjustment of estimated investment amount of each project, please refer to the breakdown table on page 9. Such adjustments have been approved by relevant governmental authorities, including Development and Reform Commission of Hainan Province (海南省發展和改革委員會) and Central South Regional Administration of Civil Aviation Administration of China (中國民用航空中南地區管理局).

Considering the adjustment of the estimated aggregate investment amount of the Airport Project, on 11 May 2020 (after trading hours), the Company and the Parent Company entered into the Supplemental Investment and Construction Agreement to make certain amendments to the Investment and Construction Agreement in order to, among others, specify the allocation of investment amount between the Company and the Parent Company and arrange further financing for the Airport Project.

C. THE SUPPLEMENTAL INVESTMENT AND CONSTRUCTION AGREEMENT

The principal terms of the Supplemental Investment and Construction Agreement are set out as follows:

Date

11 May 2020

Parties

(i) the Company; and

(ii) the Parent Company

Subject matter

Pursuant to the Supplemental Investment and Construction Agreement, the Company and the Parent Company have agreed that, due to the adjustment of the estimated aggregate investment amount of the Airport Project, the Company shall provide funds, amounting to approximately RMB7.646 billion, to construct the Company Construction Project, and the Parent Company shall provide funds, amounting to approximately RMB7.184 billion, to construct the Parent Company Construction Project.

The breakdown of the estimated aggregate investment amount of the Airport Project will be adjusted as below:

Items to be constructed	**Estimated investment amount** *(RMB'000)*
The Company Construction Project *(Note 1)*	
Terminal building project	4,283,720
Parking building project	448,840
Cargo handling service area project	156,540
Ground handling service area	201,030
Airport fire-fighting and rescue project	79,150
Airport emergency respond and rescue project	1,820
Vehicles and equipment project	165,270
Other incidental expenses *(Note 2)*	2,309,980
Sub-total	**7,646,350**
The Parent Company Construction Project	
Airfield area project (including a runway, two sets of parallel taxiway and contact roads system, parking apron, Yuwuxi dark culvert diversion project and slope project)	2,162,260
Visual navigation lighting equipment project	392,730
Road and bridge project (including viaduct)	433,740
Aviation food and aviation supplies project	202,290
Security check building	15,290
Airport service area	16,670
Aviation maintenance area	94,600
Emergency and rescue warehouse and ancillary facilities	9,890
Electricity supply project	430,500
Water supply project	78,910
Rainwater, sewage and containment treatment	331,490
Cooling, heating and gas supply project	99,430
Communication, information, general design and security project	538,940
Other incidental expenses *(Note 3)*	2,376,860
Sub-total	**7,183,600**
Total	**14,829,950**

Notes:

1. The estimated investment amount of the Company Construction Project will be adjusted from RMB7.158 billion to RMB7.646 billion, among which, the estimated investment amount of the terminal building project will be adjusted from RMB3,889.10 million to RMB4,283.72 million, the estimated investment amount of the parking building project will be adjusted from RMB443.17 million to RMB448.84 million, the estimated investment amount of the cargo handling service area project will be adjusted from RMB120.80 million to RMB156.54 million, the estimated investment amount of the ground handling service area will be adjusted from RMB142.22 million to RMB201.03 million, the estimated investment amount of the airport fire-fighting and rescue project will be adjusted from RMB36.54 million to RMB79.15 million, the estimated investment amount of the airport emergency respond and rescue project will be adjusted from RMB1.03 million to RMB1.82 million, the estimated investment amount of the vehicles and equipment project will be adjusted from RMB157.53 million to RMB165.27 million, and the estimated other incidental expenses will be adjusted from RMB2,367.84 million to RMB2,309.98 million.

2. The estimated other incidental expenses include, without limitation to, land acquisition and settlement compensation of approximately RMB1,103 million, infrastructure preparation fee of approximately RMB291 million, loan interest of approximately RMB424 million, project design fee of approximately RMB124 million, etc.

3. The estimated other incidental expenses include, without limitation to, land acquisition and settlement compensation of approximately RMB1,290 million, infrastructure preparation fee of approximately RMB262 million, loan interest of approximately RMB382 million, project design fee of approximately RMB112 million, etc.

The final amount of funds that the Company shall provide for constructing the Company Construction Project shall be subject to the actual investment amount to be set out in the project completion and settlement report of the Airport Project to be approved (if required) by relevant authorities and the allocation of the assets of the Airport Project between the Company and the Parent Company upon completion and acceptance of the Airport Project. The Company and the Parent Company shall have the right to engage an independent third party to audit such project completion and settlement report of the Airport Project.

Details and progress of the Company Construction Project

For the estimated area of buildings and lands of the Company Construction Project, please refer to the circular of the Company dated 7 October 2015. There is no change in such area as at the signing date of the Supplemental Investment and Construction Agreement. The area of buildings and lands of the Company Construction Project is subject to adjustment based on the final design of the Airport Project. The estimated value of the land, the construction works in process and the equipment for the Company Construction Project is approximately RMB6.199 billion based on a valuation report issued by a professional third party valuer engaged by the Company, which is set out in Appendix IV to this circular.

According to the latest construction progress of the Company Construction Project, the construction of the main structure of the terminal building project and exterior wall has been completed with 95% of the entire construction finished; the construction of the main structure of the parking building project has been completed with 70% of the entire construction finished; 75% of the entire construction of cargo handling service area project has been completed; and the ground handling service area, airport fire-fighting and rescue project and airport emergency respond and rescue project are also pushed forward with every effort.

Consideration and Payment

Pursuant to the Supplemental Investment and Construction Agreement, the Company will provide funds covering all the costs and expenses in the construction of the Company Construction Project of an estimated total amount of approximately RMB7.646 billion, comprising (i) construction costs of approximately RMB5.336 billion; (ii) other incidental expenditures of approximately RMB1.595 billion; (iii) preparation fee of approximately RMB291 million; and (iv) loan interest of approximately RMB424 million.

The estimated total investment amount of the Company Construction Project was determined with reference to the estimated construction costs as set out in the review reports regarding the preliminary design of the Phase II Expansion Project issued by China Civil Aviation Engineering Consulting Co., Ltd. (中國民航工程諮詢有限公司) and the approvals of the project design and estimated investment amount of the Phase II Expansion Project by Development and Reform Commission of Hainan Province (海南省發展和改革委員會) and Central South Regional Administration of Civil Aviation Administration of China (中國民用航空中南地區管理局). Such estimated construction costs were determined with reference to relevant public official documents in relation to construction cost and fees of Haikou City and the standard fees in civil aviation industry of the PRC.

For the cost relating to construction and installation projects (建築安裝工程), it was determined with reference to the relevant costs of construction and installation in Haikou City, which are specified under the Financing Quota of Construction Project in Hainan Province (海南省建築工程計價定額) (the "**Construction Project Quota**") and the Comprehensive Quota of Installation Project in Hainan Province (海南省安裝工程定額) (the "**Installation Project Quota**"). Construction Project Quota was published on 1 December 2011 and has taken effect from 1 July 2012 in Hainan Province. According to the official website of the Standard Quota Information of Engineering Construction in Hainan Province (海南省工程建設標準定額信息網), the Construction Project Quota is the basis of the estimated budget for design preparation, construction drawings, bidding offers, contract price, settlement price and project construction costs. The Installation Project Quota was published in 2008 and provides quota information of installation engineering relating to mechanical equipment, electrical equipment, industrial pipelines, ventilation and air conditioning and etc. Both the Construction Project Quota and the Installation Project Quota are publication in the PRC and are available to the general public.

For airport and runway project (機場跑道工程), it was determined with reference to the provision for budget of civil airports in the PRC under relevant PRC laws, e.g., the Budget Quota of Civil Airports Engineering (民用機場工程預算定額). The Budget Quota of Civil Airports Engineering was first published by CAAC in 1994 and has been updated from time to time. The budget of civil airports construction in the PRC is subject to review and approval of the relevant governmental authorities. The construction budget of the Phase II Expansion Project was firstly reviewed by China Civil Aviation Engineering Consultation Co., Ltd. (中國民航工程諮詢公司) in 2013 and then, as mentioned before, approved by the NDRC in 2015.

For other construction items, it was determined with reference to the Method for Preparation of the Budget for the Construction of Civil Airport (民航機場建設工程概算編製辦法) (the "**Method**"). The Method was issued by the Airport Department of the CAAC (民航局機場司) on 21 April 2008 and has been mainly applicable to civil airport construction projects invested by the PRC government directly or through capital injection. According to Chapter 7 of the Method, other construction costs are costs which shall be paid during the total investments of the construction projects but are not suitable for being included in the costs of construction, installation and equipment purchase. Details of other construction costs specified in the Method include costs relating to land expropriation and relocation, construction management, exploration and design, temporary facilities, bidding agency, staff training, furniture, trial flying, construction loans interests and etc. To calculate items under the other construction costs, taking temporary facilities costs of the expansion construction project for example, the costs will be mainly determined with reference to specific ratio of temporary facilities determined by the amount of the construction costs ranging from 0.4% to 1.2%.

The Directors confirm that the estimated aggregate amount of approximately RMB7.646 billion is the estimated maximum investment amount in relation to the construction of the Company Construction Project based on currently available information. Subject to the project completion and settlement report of the Airport Project to be approved (if required) by relevant authorities and the assets invested by and registered under the name of the Company upon completion and acceptance of the Airport Project, such estimated maximum investment amount shall be further adjusted. The Directors further confirm that the Company shall seek approval from the Shareholders and make additional disclosure pursuant to the applicable compliance requirements under the Listing Rules (if necessary) if and when the aggregate investment amount for the construction of the Company Construction Project is expected to exceed RMB7.646 billion due to any unforeseeable reasons that may be beyond the control of the Company.

Unless otherwise mutually agreed by the Company and the Parent Company during the process of construction of the Airport Project, the costs and expenses incurred for the Company Construction Project in relation to any project agreements to be entered into between the Company and the Parent Company, and any third parties shall be paid by the Company directly to such third parties, and in relation to any equipment supply agreements to be entered into between the Company and any suppliers directly to such suppliers. The selection of third party contractors and suppliers will be mainly through public tendering procedures. The Company will participate in such selection procedure and will take a leading role to determine which third party contractors and suppliers to use in relation to the Company Construction Project. With respect to other costs and expenses incurred in the process of the construction of the Company Construction Project, since the Company is not the project representative, it may not be a party of such contracts or the payer of such amounts, thus the above-mentioned amount (such as government-related fees) needs to be paid through the Parent Company. Such amount shall be paid to the Parent Company by the Company upon the Parent Company's request and provision of relevant supporting documents on a back-to-back basis.

As mutually agreed by the Company and the Parent Company during the process of construction of the Airport Project, all the costs and expenses incurred in the process of the construction of the Company Construction Project have been paid by the Company through the Parent Company. As at the Latest Practicable Date, the Company has paid approximately RMB4.8 billion to the Parent Company for the construction of the Company Construction Project. It is expected that the Company will pay approximately RMB1.2 billion during the period from July 2020 to December 2020 and pay the remaining approximately RMB1.6 billion in and after 2021.

The Company considers to provide the remaining funds required for the Company Construction Project by the followings (subject to future adjustment):

(i) The Syndicated Loan

As disclosed in the circular of the Company dated 6 March 2018, pursuant to the loan agreement dated 1 February 2018, China Development Bank Limited (國家開發銀行股份有限公司), the Hainan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司海南省分行) and the Hainan Branch of Agricultural Bank of China Limited (中國農業銀行股份有限公司海南省分行) agreed to grant the Syndicated Loan to the Company and the Parent Company on a joint and several basis in the principal amount of RMB7.8 billion for a period of 20 years, which shall be solely used for the construction of the Airport Project, and pursuant to the loan allocation agreement entered into between the Company and the Parent Company on 1 February 2018, the Company was allocated RMB3.9 billion (representing 50% of the Syndicated Loan). As at the Latest Practicable Date, the Company has drawn down RMB1.944 billion and the remaining of RMB1.956 billion will be utilized in the construction of the Company Construction Project;

(ii) The Local Government Special Bonds

The Local Government Special Bonds are expected to be issued by relevant governmental authorities in Hainan Province to support the construction of the Airport Project. It is expected that certain proportion of the proceeds from the Local Government Special Bonds will be allocated to the Company, which will be utilized in the construction of the Company Construction Project; and

(iii) Working capital

The Company will use part of its working capital generated from its operation activities to support the construction of the Company Construction Project.

The Phase II Expansion Project is a major landmark project of the construction of Hainan Free Trade Port, and will become an engine for Hainan's airport industry, headquarters economy and other core businesses and create various economic and social benefits for Hainan. Hainan government has listed the Phase II Expansion Project as one of its major works for the year 2020 in the government work report and is sparing no effort to promote the construction of the Phase II Expansion Project. With the strong support of Hainan government, the Company believes that it is able to raise funds through multiple channels for the Company Construction Project. Besides, with the accelerated construction of Hainan Free Trade Port and further loosening of the off-shore duty-free policy, the passenger throughput in Meilan Airport is expected to increase, which will bring more net cash inflow for the Company, therefore the Directors are of the view that the working capital of the Company will be sufficient in satisfying the Company's investment commitment on the Company Construction Project.

Further Financing Arrangement

In light of the construction schedule and funds requirement of the Airport Project, the Company and the Parent Company have agreed to raise funds for the construction of the Airport Project through the proceeds of the Local Government Special Bonds to be issued by such governmental authorities and to allocate the proceeds from the Local Government Special Bonds between the Company and the Parent Company. The proceeds from the Local Government Special Bonds shall be used by the Company and the Parent Company for the construction of the Airport Project, and the principal and interest of the Local Government Special Bonds shall be repaid by the Company and the Parent Company using the revenue to be generated from the operation of the Airport Project.

The Company confirms that as at the Latest Practicable Date, the terms and conditions of the Local Government Special Bonds have not been finalized by relevant governmental authorities in Hainan Province, and the issue plan of the Local Government Special Bonds, including the total principal amount, issue price and interest rate, will be finalized by such governmental authorities at a later stage based on a series of factors, such as the then market conditions. It is expected that the total principal amount of the Local Government Special Bonds will not exceed RMB2.4 billion (subject to adjustment). The proceeds from the Local Government Special Bonds shall be allocated between the Company and the Parent Company taking into consideration various factors such as their respective fund needs and the total investment amount incurred. The Company confirms that the interest to be paid by the Company and Parent Company will be based on the terms and conditions of the Local Government Special Bonds, which are applicable to both the Company and Parent Company.

For the purpose of issuance of the Local Government Special Bonds, the Company and the Parent Company have agreed that the revenue to be generated from the operation of the Airport Project (after deducting all necessary expenses, including but not limited to operating costs paid in cash, fees and taxes) shall be used to repay the principal and interest of the Local Government Special Bonds in priority and that the Company and the Parent Company shall issue relevant commitment letters or execute relevant legal documents separately or jointly (if necessary) in relation to the Local Government Special Bonds.

For the avoidance of doubts, the Company and the Parent Company have confirmed that although the principal and interest of the Local Government Special Bonds shall be repaid using the revenue to be generated from the operation of the Airport Project, each of the Company and the Parent Company shall be liable for repayment of the respective principal and interest in conformity with the actual amount of proceeds from the Local Government Special Bonds to be allocated to it. The distribution of revenue to be generated from the operation of the Airport Project between the Company and the Parent Company shall be subject to the agreement to be entered into between the Company and the Parent Company. The Company and the Parent Company shall distribute such revenue pursuant to the terms of such agreement after using such revenue to repay the principal and interest of the Local Government Special Bonds.

Taking into account that the Company and Parent Company will bear the same interest rate and the allocation of proceeds will be based on a series of factors such as the investment made by the Company and the Parent Company, the Directors are of the view that the above arrangement regarding the Local Government Special Bonds are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

D. REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL INVESTMENT AND CONSTRUCTION AGREEMENT

As the estimated aggregate investment amount of the Airport Project will be adjusted from approximately RMB13.838 billion to approximately RMB14.830 billion, the Company and the Parent Company have to further specify the allocation of investment amount after such adjustment. Currently, the construction of various projects of the Airport Project has entered the finalization stage. According to the latest schedule, the Airport Project aims to be put into use upon the completion and acceptance in this year. Therefore, in order to fully enjoy the economic benefits to be generated from the Airport Project upon putting into use and to ensure a smooth construction and assets operation of the Airport Project afterwards, the Company and the Parent Company entered into the Supplemental Investment and Construction Agreement, which specifies the allocation of investment amount between the Company and the Parent Company and arranges further financing for the Airport Project, in order to promote the construction of the Airport Project in a faster and better way, as well as the development of the Company and Meilan Airport in the long run.

The roles of the Company and the Parent Company in the construction of the Airport Project, the allocation of the Company Construction Project and the Parent Company Construction Project and the respective assets thereunder were mainly determined by taking into consideration of the following: (i) the financial challenges the Company may face for providing funds of approximately RMB14.830 billion for the construction of the whole Airport Project by itself; (ii) the current operation model of Meilan Airport between the Company and the Parent Company, details of which were set out in the paragraph headed "The Operation Plans of the Phase II Expansion Project of Meilan Airport" in the circular of the Company dated 7 October 2015; and (iii) the compliance with the existing non-competition agreement between the Company and the Parent Company by allocating the relevant assets in consistent with the current operation model of Meilan Airport.

The Phase II Expansion Project, as a major landmark project of the construction of Hainan Free Trade Port, not only undertakes the important mission of the civil aviation in Hainan to expand and upgrade and efficiently connect the world in the future, but also serves as a huge "engine" for the airport industry, headquarters economy and other core businesses of Hainan. The Company believes that entering into the Supplemental Investment and Construction Agreement is conducive to the Company and the Parent Company to push forward the construction of the Airport Project with concerted efforts, so that the Airport Project could be completed and put into use as soon as possible and achieve economic and social benefits. If the Supplemental Investment and Construction Agreement cannot be entered into, it will have negative impacts on the Airport Project, probably resulting in (among others) the delay in completion of the Airport Project, which will harm the interests of the Company and its Shareholders as a whole and is prejudice to the achievement of economic and social benefits of the Airport Project. If the Company is unable to enter into the Supplemental Investment and Construction Agreement for whatever reason, given the above-mentioned meanings of the Phase II Expansion Project, the Company plans to continue the construction of the Company Construction Project by using its working capital generated from its operation activities and other commercial loans available to the Company from time to time.

The Directors are satisfied that (i) the terms and conditions of the Supplemental Investment and Construction Agreement have been negotiated on an arm's length basis and are on normal commercial terms; (ii) the transactions contemplated under the Supplemental Investment and Construction Agreement will be conducted in the ordinary and usual course of business of the Company; and (iii) the terms of such transaction are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

E. FINANCIAL EFFECTS OF THE SUPPLEMENTAL INVESTMENT AND CONSTRUCTION AGREEMENT

Effects on Assets, Liabilities, and Net Assets

As disclosed in the annual report of the Company for the year ended 31 December 2019, as at 31 December 2019, the Group had total assets of RMB11,456,162,938 and the total liabilities of the Group were RMB6,303,572,204. It is the Group's present intention to pay the consideration of approximately RMB7.646 billion with the Group's cash at bank and through external financing activities.

As the fee payable by the Company to the Parent Company under the Supplemental Investment and Construction Agreement will form part of the consideration for the future acquisition of the Airport Project, the decrease in bank balance and cash of the Group and increase of other financings will be offset by the future increase of assets in relation to the Airport Project, the Board expects that there will be no significant impact on the net assets of the Group upon completion of the transactions contemplated under the Supplemental Investment and Construction Agreement.

Effect on Earnings

Upon completion of the transactions contemplated under the Supplemental Investment and Construction Agreement, the Directors do not expect such transactions will have any material impact on the earnings of the Group until the Airport Project is put into operation.

F. LISTING RULES IMPLICATIONS FOR THE SUPPLEMENTAL INVESTMENT AND CONSTRUCTION AGREEMENT

As of the Latest Practicable Date, the Parent Company holds 50.19% of the total issued Shares of the Company and is a substantial shareholder of the Company, and therefore constitutes a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Supplemental Investment and Construction Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratio (as defined under the Listing Rules) in respect the transactions contemplated under the Supplemental Investment and Construction Agreement are more than 100%, such transactions also constitute a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and therefore are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

Each of Mr. Wang Zhen, Mr. Wang Hong, Mr. Wang Hexin, Mr. Yu Yan and Mr. Xing Zhoujin is interested in the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder as they are nominated to the Board by the Parent Company, and therefore had abstained from voting on the relevant resolutions of the Board approving the same.

G. BACKGROUND OF THE PARENT COMPANY SUBSCRIPTION AND THE NEW H SHARES ISSUE

References are made to the circular of the Company dated 28 April 2017, the poll results announcement of the Company dated 26 June 2017 and the announcement of the Company dated 30 September 2019 in relation to, among other things, the Past Parent Company Subscription and the Past New H Shares Issue. References are also made to the circular of the Company dated 6 March 2018, the poll results announcement of the Company dated 20 March 2018, the circular of the Company dated 18 April 2019, the poll results announcement of the Company dated 3 June 2019, the circular of the Company dated 7 January 2020 and the poll results announcement of the Company dated 21 February 2020 in relation to, among other things, the extension of validity period of the Shareholders' resolutions and authorisation granted to the Board in relation to the Past Parent Company Subscription and the Past New H Shares Issue.

Pursuant to the Past Parent Company Subscription, the Parent Company agreed to subscribe for the new Domestic Shares, which included (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) 12,500,000 new Domestic Shares by cash at an aggregate subscription price of RMB100,000,000 (equivalent to approximately HK$111,632,061), at the subscription price of RMB8.00 (equivalent to approximately HK$8.93) per new Domestic Share. Pursuant to the Past New H Shares Issue, the Company may proceed to place not more than 200,000,000 new H Shares to qualified institutional, corporate and individual and other investors. The validity period of the Shareholders' resolutions and authorisation granted to the Board in relation to the Past Parent Company Subscription and the Past New H Shares Issue expired on 25 June 2020.

In view of the foregoing, the Company and the Parent Company entered into the 2020 Parent Company Domestic Shares Subscription Agreement, pursuant to which the Parent Company agreed to subscribe for the Subscription Shares, being not more than 140,741,000 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company. There is no other material change on the terms of the 2020 Parent Company Domestic Shares Subscription Agreement as compared to those of the Past Parent Company Domestic Shares Subscription Agreements, except for the adjustments on the subscription price, number and method for the Subscription Shares. Meanwhile, the Board has proposed the New H Shares Issue.

H. THE 2020 PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT

The principal terms of the 2020 Parent Company Domestic Shares Subscription Agreement are set out as follows:

Date

24 July 2020

Parties

(i) the Company; and

(ii) the Parent Company

Subscription Shares

Pursuant to the 2020 Parent Company Domestic Shares Subscription Agreement, the Parent Company agreed to subscribe for the Subscription Shares, being not more than 140,741,000 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company.

The total subscription price for the Subscription Shares is approximately RMB1.520 billion, being the consideration for the transfer of the Phase I Runway Assets, which is determined based on the aggregate appraised asset value of the Phase I Runway Assets as at 30 June 2020 (i.e. approximately RMB1.520 billion).

The Subscription Shares will be allotted and issued at a subscription price which is the highest of the followings:

(1) RMB10.80 (equivalent to approximately HK$12.06) per Subscription Share, being the audited net asset value per Share of the Company as at 31 December 2019; or

(2) the audited net asset value per Share of the Company as at the end of the financial year preceding the Effective Date; or

(3) 90% of the highest among the followings:

(i) the closing price of H Share as quoted on the Stock Exchange at the Effective Date;

(ii) the average closing price of H Shares as quoted on the Stock Exchange over the last five (5) trading days prior to the Effective Date;

(iii) the average closing price of H Shares as quoted on the Stock Exchange over the last ten (10) trading days prior to the Effective Date; 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 Effective Date.

Such pricing mechanism of the subscription price was determined after arm's length negotiation between the Company and the Parent Company after taking into account the conditions of the civil aviation industry, the business pattern, the operation status and prospects and the asset quality of the Company, and with reference to the net asset value per Share of the Company, the market price of the H Shares and the market conditions at the Effective Date. The applicable exchange rate of Renminbi to Hong Kong dollars shall be the exchange rate of Renminbi to Hong Kong dollars promulgated by the People's Bank of China on the Effective Date.

Solely for illustration purposes, the minimum subscription price of RMB10.80 (equivalent to approximately HK$12.06) per Subscription Share represents:

(a) a discount of approximately 73.23% of the closing price of HK$45.05 per H Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 69.67% of the average closing price of HK$39.76 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 discount of approximately 67.06% of the average closing price of HK$36.61 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 discount of approximately 73.95% of the closing price of HK$46.30 per H Share as quoted on the Stock Exchange on the Lastest Practicable Date.

The final amount of the Subscription Shares is to be calculated by dividing the total subscription price for the Subscription Shares by the final subscription price per Subscription Share.

Solely for illustration purposes, assuming a subscription price of RMB10.80 (equivalent to approximately HK$12.06) per Subscription Share, the amount of the Subscription Shares is approximately 140,740,741 and the nominal value of the Subscription Shares is approximately RMB140,740,741.

The issuance proposal of the Subscription Shares is subject to the approval of relevant securities regulatory authorities and an announcement will be made by the Company if such approval is obtained. If there is any material difference between the final issuance proposal approved by the relevant securities regulatory authorities and the current issuance proposal, the Company will re-comply with the requirements under the Listing Rules (if necessary).

The Directors consider that the transactions contemplated under the 2020 Parent Company Domestic Shares Subscription Agreement will be conducted in the ordinary and usual course of business of the Company, and the terms and conditions of the 2020 Parent Company Domestic Shares Subscription Agreement have been negotiated on an arm's length basis, and are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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. 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 24.22 million passengers in 2019. The original cost of the construction of the Phase I Runway Assets of the Parent Company was approximately RMB592,255,000.

Prior to the acquisition of the Phase I Runway Assets under the 2020 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.

Conditions precedent

Effectiveness of the 2020 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 EGM and the Class Meetings in accordance with the Articles of Association and the Listing Rules approving, among others, the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder;

(b) the passing of resolutions by the general meeting of the Parent Company approving the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder; and

(c) the obtaining of approvals from relevant competent departments and/or regulatory authorities, including but not limited to the CSRC, the Stock Exchange (where applicable) and the SFC (where applicable), in relation to the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder.

The Company currently expects that it will take approximately seven (7) months for the Company to obtain the CSRC approval for the Parent Company Subscription and five (5) months to complete the closing work of the Parent Company Subscription. Accordingly, the Company expects to complete the Parent Company Subscription within twelve (12) months following the passing of the relevant resolutions at the EGM and the Class Meetings and the resolutions relating to the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder to be set out in the notices of the EGM and the Class Meetings will be valid for an initial term of twelve (12) months, commencing from the date of passing of the relevant resolutions at the EGM and the Class Meetings.

If any of the above conditions precedent is not fulfilled or waived within the initial term of twelve (12) months, the Parent Company Subscription will terminate and the Company will re-comply with the requirements under the Listing Rules, including re-obtaining the approval of the Shareholders.

Authorisation to the Board

The Board will seek the Shareholders' authorisation at each of the EGM and the Class Meetings to authorise the Board and the persons delegated by the Board to deal with all the matters in relation to the issuance of the Subscription Shares with full authority for an initial term of twelve (12) months following the passing of the relevant resolution(s) at the EGM and the Class Meetings. Such matters include but are not limited to:

(1) within the issuance proposal of the Subscription Shares to be considered and approved at the EGM and the Class Meetings, make amendments to and improvement in the issuance proposal subject to the provisions of laws and regulations in the PRC and overseas, review opinions of relevant securities regulatory authorities and the actual needs of the Company (other than those matters that must be re-voted by the general meeting and class meeting pursuant to the relevant laws and regulations and the Articles of Association);

(2) determine the final price and number of issuance of the Subscription Shares, and negotiate with the Parent Company to amend, supplement, enter into and execute all agreements and any supplementary agreements or other documents (if any) in relation to the issuance of the Subscription Shares;

(3) decide with discretion the timing for issuance of the Subscription Shares;

(4) carry out review, registration, filing, approval and consent procedures with the relevant PRC and overseas regulatory departments or authorities and the Stock Exchange in connection with the issuance of the Subscription Shares;

(5) decide the engagement of relevant intermediaries and related issues;

(6) approve and authorise the Company to carry out registration procedures for Domestic Shares in relation to the issuance of the Subscription Shares with China Securities Depository and Clearing Corporation Limited;

(7) make consequential amendments to the Articles of Association as it thinks fit according to the actual status of issuance of the Subscription Shares and/or the requirements of regulatory authorities within and outside the PRC (if any), and carry out corresponding procedures for approval and industrial and commercial registration of change in connection to the increase in registered capital, and take other actions as necessary;

(8) adjust or waive in time any one of the conditions precedent for the 2020 Parent Company Domestic Shares Subscription Agreement becoming effective based on the actual conditions; and

(9) take all necessary actions to deal with the matters in relation to the issuance of the Subscription Shares.

Upon the authorisation by the Shareholders at the EGM and the Class Meetings as mentioned above, the Board will delegate such authorisation to Mr. Wang Zhen (王貞先生) and Mr. Yu Yan (遇言先生), both being executive Directors, severally or jointly, or any senior management of the Company designated by either of them, to exercise with full discretion the authorisation granted by the Shareholders to the Board as mentioned above.

I. LISTING RULES IMPLICATIONS FOR THE 2020 PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT

As of the Latest Practicable Date, the Parent Company holds 50.19% of the total issued Shares of the Company and is a substantial shareholder of the Company, and therefore constitutes a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the 2020 Parent Company Domestic Shares Subscription Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As certain applicable percentage ratios (as defined under the Listing Rules) in respect the transactions contemplated under the 2020 Parent Company Domestic Shares Subscription Agreement are more than 25% but less than 100%, such transactions also constitute major transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

Each of Mr. Wang Zhen, Mr. Wang Hong, Mr. Wang Hexin, Mr. Yu Yan and Mr. Xing Zhoujin is interested in the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder as they are nominated to the Board by the Parent Company, and therefore had abstained from voting on the relevant resolutions of the Board approving the same.

J. PROPOSED NEW H SHARES ISSUE UNDER SPECIFIC MANDATE

Introduction

On 29 September 2019, the Company entered into the Past New H Shares Subscription Agreement. However, as the relevant conditions precedent have not been fulfilled or waived on or before the long stop date, being 25 June 2020, the Past New H Shares Subscription Agreement has automatically terminated. The validity period of the Shareholders' resolutions and authorisation granted to the Board in relation to the Past New H Shares Issue also expired on 25 June 2020.

In order to further promote the issuance of the New H Shares, 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 155,000,000 New H Shares, representing not more than 32.75% of the total share capital of the Company before the Parent Company Subscription and the New H Shares Issue, and approximately 20.16% of total share capital of the Company as enlarged by the Parent Company Subscription (assuming the maximum of 140,741,000 Subscription Shares are subscribed by the Parent Company) and the New H Shares Issue; and representing not more than 68.31% of share capital of H Shares of the Company before the New H Shares Issue, and 40.59% of share capital of H Shares of the Company as enlarged by the New H Shares Issue.

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.

(c) Size of issuance

The New H Shares to be issued shall not exceed 155,000,000 Shares, representing not more than 32.75% of the total share capital of the Company before the Parent Company Subscription and the New H Shares Issue, and approximately 20.16% of total share capital of the Company as enlarged by the Parent Company Subscription (assuming the maximum of 140,741,000 Subscription Shares are subscribed by the Parent Company) and the New H Shares Issue; and representing not more than 68.31% of share capital of H Shares of the Company before the New H Shares Issue, and 40.59% of share capital of H Shares of the Company as enlarged by 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 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 placee(s)

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 shareholder of the Company or any of its subsidiaries or any of their respective associates.

If any investor of the New H Shares becomes a substantial shareholder (as defined in the Listing Rules) of the Company as a result of the completion of the New H Shares Issue, the Company will ensure compliance with the public float requirement under Rule 8.08(1) of the Listing Rules upon completion of the New H Shares Issue. If the number of the placee(s) is less than six (6), the Company will comply with the disclosure requirements under Rule 13.28(7) of the Listing Rules.

(h) Pricing mechanism

The New H Shares will be issued at an issue price which is the highest of the followings:

(1) RMB10.80 (equivalent to approximately HK$12.06) per Subscription Share, being the audited net asset value per Share of the Company as at 31 December 2019; or

(2) the audited net asset value per Share of the Company as at the end of the financial year preceding the Date of Relevant Agreement; or

(3) 90% of the highest among the followings:

  (i) the closing price of H Share as quoted on the Stock Exchange at the Date of Relevant Agreement;

  (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 Relevant Agreement;

  (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 Relevant Agreement; 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 Relevant Agreement.

Such pricing mechanism of the issue price was determined by the Board after taking into account the interests of existing Shareholders, investors' capabilities, the potential issuance risks, the market practice and applicable regulatory requirements, as well as the conditions of the civil aviation industry, the business pattern, the operation status and prospects and the asset quality of the Company and with reference to the net asset value per Share of the Company, the market price of the H Shares and the market conditions at the Date of Relevant Agreement. The applicable exchange rate of Renminbi to Hong Kong dollars shall be the exchange rate of Renminbi to Hong Kong dollars promulgated by the People's Bank of China on the Date of Relevant Agreement.

(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 subscription agreement(s) to be entered into between the Company and the placee(s) and/or the placing agreement(s) 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 "N. Use of Proceeds" in this circular for details.

(l) Validity period of the resolutions

The resolutions relating to the Specific Mandate to be set out in the notices of the EGM and the Class Meetings will be valid for an initial term of twelve (12) months, commencing from the date of passing of the relevant resolutions at the EGM and the Class Meetings.

There is no other material change on the proposal of the New H Shares Issue as compared to that of the Past New H Shares Issue, except for the adjustments on the size of issuance, the pricing mechanism and the use of proceeds.

Proposed Specific Mandate to Issue the New H Shares

The Board will seek the Shareholders' authorisation at each of the EGM and the Class Meetings to authorise 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 twelve (12) months following the passing of the relevant resolution(s) at the EGM and the Class Meetings. Such matters include but are not limited to:

(1) 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;

(2) 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;

(3) negotiate and enter into subscription agreement(s) with the placee(s) and/or the placing agreement(s) with the placing agent(s) in relation to the proposed New H Shares Issue, and approving any revision or amendments to such agreement(s);

(4) deal with all the matters in relation to obtaining all the approvals and permissions from the relevant authorities including but not limited to CSRC, the Stock Exchange and/or any other relevant PRC and overseas authorities in relation to the proposed New H Shares Issue;

(5) 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;

(6) 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;

(7) execute, implement, amend and complete any document and do any act as necessary and appropriate in relation to the proposed New H Shares Issue;

(8) approve the publication of relevant announcement(s), circular(s) and notice(s) in relation to the proposed New H Shares Issue on the websites of the Stock Exchange and the Company, respectively, and the submission of relevant forms, files or other documents to the Stock Exchange;

(9) 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;

(10) adjust or waive in time any one of the conditions precedent for the proposed New H shares Issue based on the actual conditions; and

(11) take all necessary actions to deal with the matters in relation to the proposed New H Shares Issue.

Upon the authorisation by the Shareholders at the EGM and the Class Meetings as mentioned above, the Board will delegate such authorisation to Mr. Wang Zhen (王貞先生) and Mr. Yu Yan (遇言先生), both being executive Directors, severally or jointly, or any senior management of the Company designated by either of them, to exercise with full discretion the authorisation granted by the Shareholders to the Board as mentioned above.

Conditions Precedent

The New H Shares Issue is subject to (i) the approval of relevant resolutions to be proposed at the EGM; (ii) the approval of relevant resolutions to be proposed at the Class Meetings; (iii) the approvals from the relevant competent departments and/or regulatory authorities, including but not limited to the CSRC, the Stock Exchange (where applicable) and SFC (where applicable); (iv) the 2020 Parent Company Domestic Shares Subscription Agreement becoming effective and the Parent Company Subscription is completed; (v) the entering into of the subscription agreement(s) between the Company and the placee(s) and/or the placing agreement(s) between the Company and the placing agent(s) in relation to the proposed New H Shares Issue and such agreement(s) 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.

If any of the above conditions precedent is not fulfilled or waived within the initial term of twelve (12) months, the New H Shares Issue will terminate and the Company will re-comply with the requirements under the Listing Rules, including re-obtaining the approval of the Shareholders.

The Company will submit new application documents 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.

K. POSSIBLE CHANGES 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 in full; (iii) all conditions for the proposed New H Shares Issue have been satisfied or waived; (iv) the maximum of 155,000,000 New H Shares are issued pursuant to the proposed Specific Mandate; (v) the 2020 Parent Company Domestic Shares Subscription Agreement become effective; and (vi) the maximum of 140,741,000 Subscription Shares are subscribed by the Parent Company pursuant to the Parent Company Subscription, the possible changes in the share capital and shareholding structure of the Company will be as follows:

	As at the Latest Practicable Date		Immediately after issuance of the Subscription Shares and the New H Shares	
Class of Shares	**No. of Shares**	**Percentage of total issued Shares** *(%)*	**No. of Shares** *(maximum)*	**Percentage of total issued Shares** *(%)*
Domestic Share				
Parent Company	237,500,000	50.19	378,241,000	49.19
Hainan Airlines Holding Co., Ltd.* (海南航空控股股份有限公司)	5,287,500	1.12	5,287,500	0.69
HNA Group Co., Ltd.* (海航集團有限公司)	3,512,500	0.74	3,512,500	0.46
H Shares				
H Shares in issue				
Soaring Eagle Industrial Limited[1]	49,130,650	10.38	49,130,650	6.39
Other public Shareholders	177,782,350	37.57	177,782,350	23.12
New H Shares	0	0	155,000,000	20.16
Total Number of Issued Shares	473,213,000	100	768,954,000	100

Note 1: As at the Latest Practicable Date, Soaring Eagle Industrial Limited holds approximately 10.38% of the total issued Shares and therefore constitutes a connected person of the Company. However, immediately after issuance of the Subscription Shares and the New H Shares, its shareholding will be diluted to 6.39% 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.

As indicated above, the public float of the Company in such scenario will be at least 29.51%.

Assuming that the Company fails to issue any New H Shares and the maximum of 140,741,000 Subscription Shares are subscribed by the Parent Company pursuant to the Parent Company 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 No. of Shares	As at the Latest Practicable Date Percentage of total issued Shares (%)	Immediately after issuance of the Subscription Shares No. of Shares (maximum)	Immediately after issuance of the Subscription Shares Percentage of total issued Shares (%)
Domestic Share				
Parent Company	237,500,000	50.19	378,241,000	61.61
Hainan Airlines Holding Co., Ltd.* (海南航空控股股份有限公司)	5,287,500	1.12	5,287,500	0.86
HNA Group Co., Ltd.* (海航集團有限公司)	3,512,500	0.74	3,512,500	0.57
H Shares				
H Shares in issue				
Soaring Eagle Industrial Limited[1]	49,130,650	10.38	49,130,650	8.00
Other public Shareholders	177,782,350	37.57	177,782,350	28.96
New H Shares	0	0	0	0
Total Number of Issued Shares	473,213,000	100	613,954,000	100

Note 1: As at the Latest Practicable Date, Soaring Eagle Industrial Limited holds approximately 10.38% of the total issued Shares and therefore constitutes a connected person of the Company. However, immediately after issuance of the Subscription Shares, its shareholding will be diluted to 8.00% 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.

As indicated above, the public float of the Company in such scenario will be 36.96%.

Therefore, the Company is able to comply with the minimum public float requirement in the above two scenarios after the completion of the Parent Company Subscription and the New H Shares Issue.

The Company would undertake to comply with the public float requirement under Rule 8.08(1) of the Listing Rules after completion of the Parent Company Subscription and the New H Shares Issue.

The Company confirms that it will comply with Rule 7.27B of the Listing Rules in respect of the Parent Company Subscription and New H Shares Issue.

The Company confirms that the acquisition of the Phase I Runway Assets, the Parent Company Subscription and the New H Shares Issue will not result in a change of control of the Company after the completion of such transactions.

L. PROPOSED CONSEQUENTIAL AMENDMENTS TO THE ARTICLES OF ASSOCIATION

On 24 July 2020, 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 issuance of the Subscription Shares and the New H Shares.

M. REASONS FOR AND BENEFITS OF ENTERING INTO THE 2020 PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT AND THE PROPOSED NEW H SHARES ISSUE

The validity period of the Shareholders' resolutions and authorisation granted to the Board in relation to the Past Parent Company Subscription and the Past New H Shares Issue expired on 25 June 2020. Besides, as the relevant conditions precedent have not been fulfilled or waived on or before the long stop date, being 25 June 2020, the Past New H Shares Subscription Agreement has automatically terminated.

In order to further promote the issuance of the new Domestic Shares and the New H Shares, the Company entered into the 2020 Parent Company Domestic Shares Subscription Agreement with the Parent Company and proposes the New H Shares Issue after considering, among others, the following reasons:

1. Acquisition of the Phase I Runway Assets

Prior to the acquisition of the Phase I Runway Assets under the 2020 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 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.

To ensure the timely completion of the Parent Company Subscription and avoid the possible adverse impact of the tightening of local property transfer policies by the government of Haikou City, as agreed by both parties, as at the Latest Practicable Date, the Parent Company has cooperated with the Company to complete the transfer and registration procedures of part of the Phase I Runway Assets in advance. Before the completion of the Parent Company Subscription, the Parent Company will still has the ownership and operation right of such part of the Phase I Runway Assets.

2. Equity fundraising to improve working capital

As an important transportation hub for the construction of Hainan Free Trade Port, Meilan Airport is well positioned to capture opportunities in connection with the Hainan Free Trade Port. The Company believes that 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 issuance of the New H Shares to the investors to replenish its working capital to equip the Group to carry out the renovation and expansion of infrastructure and the intelligent upgrade of the airport and to fund any operational needs of the Company (including the repayment of debts).

N. USE OF PROCEEDS

Solely for illustration purposes, assuming the New H Shares are fully placed at the price of RMB10.80 (equivalent to approximately HK$12.06), the gross proceeds from the proposed New H Shares Issue will be approximately RMB1,674,000,000 (equivalent to approximately HK$1,868,721,000) and the net proceeds (after deducting all applicable costs and expenses, including commission and levies) will be approximately RMB1,651,000,000 (equivalent to approximately HK$1,843,045,000).

The net proceeds from the proposed New H Shares Issue, after deducting relevant expenses, will be used as follows:

1. Approximately 40% shall be used for expansions, upgrades, improvements and maintenance of existing terminal buildings and other areas of Meilan Airport

The terminal buildings of Meilan Airport have been in use for over twenty (20) years. In order to consolidate existing operation level of Meilan Airport and to improve safety operation of Meilan Airport, it is expected that the Company will invest approximately 40% of the net proceeds in the upgrades, improvements and maintenance of the terminal buildings of Meilan Airport in 2020.

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

2. Approximately 35% shall be used to repay the loans and replenish the working capital of the Company

To guarantee the smooth operation and to reduce the financing cost of the Company, approximately 35% of the net proceeds shall be used to repay the loans and 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).

3. Approximately 25% shall be used for introducing innovative technology and upgrading Meilan Airport to a "smart airport"

Since 2013, the Company has launched the "smart airport" project with remarkable achievements. The Company expects to invest approximately 25% of the net proceeds in construction projects in relation to "smart airport" including but not limited to the basic cloud platform (基礎雲平台), 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.

O. EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE (12) MONTHS

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

P. FINANCIAL EFFECTS OF THE ACQUISITION OF THE PHASE I RUNWAY ASSETS

Effects on Assets, Liabilities, and Net Assets

As disclosed in the annual report of the Company for the year ended 31 December 2019, as at 31 December 2019, the Group had total assets of RMB11,456,162,938 and the total liabilities of the Group were RMB6,303,572,204. Upon the completion of the acquisition of the Phase I Runway Assets, it is expected that the total assets of the Group will increase. The acquisition of the Phase I Runway Assets will not have any impact on the liabilities of the Group.

Effects on Earnings

As disclosed in the annual report of the Group for the year ended 31 December 2019, the Group recorded a net profit attributable to Shareholders of approximately RMB575,412,545 for the year ended 31 December 2019. Upon the completion of the acquisition of the Phase I Runway Assets, it is expected that the net profit of the Group will increase.

Q. GENERAL INFORMATION

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

The Parent Company is principally engaged in ancillary airport service business in the PRC. As at the Latest Practicable Date, the Parent Company is owned as to 59.54% by certain PRC state-owned or state-controlled enterprises, including Hainan Development Holdings Co., Ltd. (海南省發展控股有限公司) as to 29.98% (directly and indirectly), a company owned by Hainan government, CDB Development Fund Co., Ltd. (國開發展基金有限公司) as to 19.92%, a subsidiary of China Development Bank which is controlled by the PRC government, Hainan Airlines Holding Co., Ltd. (海南航空控股股份有限公司) as to 5.77%, China Southern Airlines Co., Ltd. (中國南方航空股份有限公司) as to 2.35% and China National Aviation Fuel Co., Ltd. (中國航空油料有限責任公司) as to 1.52%, a company controlled by State-owned Assets Supervision and Administration Commission . HNA Group Co., Ltd. (海航集團有限公司), a company controlled by Hainan Cihang Charity Foundation (海南省慈航公益基金會), holds 29.50% of equity interest in the Parent Company through its relevant subsidiaries. The remaining 10.96% of equity interest of the Parent Company is held by Hainan Hanghui Agricultural Development Co., Ltd. (海南航輝農業開發有限公司), a company owned by Feng Chao (馮超) and Wang Yuanyuan (王媛媛). Hainan Development Holdings Co., Ltd. (海南省發展控股有限公司) is the largest shareholder of the Parent Company and is an investment holding company focusing on infrastructure and equity investments in Hainan Province. CDB Development Fund Co., Ltd. (國開發展基金有限公司) is a policy-oriented investment company focusing on investment in national key projects. Hainan Airlines Holding Co., Ltd. (海南航空控股股份有限公司) is a company listed on the Shanghai Stock Exchange (stock code: 600221. SH), principally engaged in air transport business, air tour business and other air transport-related businesses. China Southern Airlines Co., Ltd. (中國南方航空股份有限公司) is a company listed on the Shanghai Stock Exchange (stock code: 600029. SH), mainly providing air transport service, general aviation service, aircraft maintenance service and other aviation-related services. China National Aviation Fuel Co., Ltd. (中國航空油料有限責任公司) is principally engaged in the wholesale of gasoline, kerosene and diesel oil in the civil aviation system of the PRC. HNA Group Co., Ltd. (海航集團有限公司) is principally engaged in the air transport business and investment and management of airports, hotels and golf courses. Hainan Cihang Charity Foundation (海南省慈航公益基金會) is a non-public foundation officially registered with the Bureau of Civil Affairs of Hainan (海南省民政廳) in 2010, which is a non-profit charity organization and carries out various charity projects both at home and abroad, including education assistance, poverty relief, earthquake rescue and disaster relief, culture promotion, medical aid, environmental protection, scientific innovation and others. Hainan Hanghui Agricultural Development Co., Ltd. (海南航輝農業開發有限公司) is principally engaged in the agricultural development and investment and operation of ecological and environmental protection projects, landscape gardening projects and water conservancy projects.

R. EGM AND THE CLASS MEETINGS

The EGM and the Class Meetings will be convened to consider and, if thought fit, approve, among other things, (i) the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder; (ii) the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder; (iii) the proposed New H Shares Issue; and (iv) the proposed consequential amendments to the Articles of Association. The Parent Company, which controls over the voting right in respect of its Shares in the Company, will abstain from voting on the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder at the EGM and the Domestic Shareholders Class Meeting.

Save as disclosed above, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no other Shareholder has a material interest in the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder, the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder, the proposed New H Shares Issue, or the proposed consequential amendments to the Articles of Association, and no other Shareholder is required to abstain from voting on the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder, the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder, the proposed New H Shares Issue, or the proposed consequential amendments to the Articles of Association at the EGM and the Class Meetings.

The 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 Supplemental Investment and Construction Agreement and the transactions contemplated thereunder or the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder, has been established to advise the Independent Shareholders in relation to their voting on the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder.

Octal Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder.

Set out on pages 162 to 176 of this circular are the notices convening the EGM and the Class Meetings to be held at 10:00 a.m. on Friday, 18 September 2020 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC.

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

Forms of proxy for use at the EGM and the Class Meetings are accompanied with this circular. Whether or not you are able to attend the EGM or the Class Meetings, you are requested to complete and return the accompanying forms of proxy in accordance with the instructions printed thereon, and in both cases in any event not later than 24 hours before the time appointed for holding the EGM and the Class Meetings. Completion and return of the forms of proxy shall not preclude you from attending and voting at the EGM and the Class Meetings or any adjourned meetings should you so desire.

S. BOOK CLOSURE

The Company's register of members will be closed from Saturday, 29 August 2020 to Friday, 18 September 2020 (both days inclusive), during which no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM and the Class Meetings, Shareholders must deliver their transfer documents, accompanied by the relevant share certificates and forms of transfer, to the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 28 August 2020.

T. RECOMMENDATIONS

The Board, including the Independent Board Committee, is of the view that the Supplemental Investment and Construction Agreement and the 2020 Parent Company Domestic Shares Subscription Agreement were entered into after arm's length negotiations between the Company and the Parent Company on normal commercial terms, and the terms of the Supplemental Investment and Construction Agreement and the 2020 Parent Company Domestic Shares Subscription Agreement are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board, including the Independent Board Committee, recommends that the Independent Shareholders vote in favour of the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder.

The Directors also believe that 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.

U. 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 Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder, and the letter from Octal Capital containing, among other things, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder, details of which are set out on pages 39 to 69 of this circular. None of the members of the

Independent Board Committee has any material interest relating to the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder or the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder.

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

As the Parent Company 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
Hainan Meilan International Airport Company Limited*
Wang Zhen
Chairman

Hainan, the PRC
20 August 2020

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

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

(Stock Code: 357)

20 August 2020

To the Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION SUPPLEMENTAL INVESTMENT AND CONSTRUCTION AGREEMENT AND MAJOR AND CONNECTED TRANSACTION THE 2020 PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder that are subject to the Independent Shareholders' approval, details of which are set out in the letter from the Board in the circular to the Shareholders dated 20 August 2020 (the "**Circular**"), of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

Octal Capital has been appointed as the Independent Financial Adviser to advise us regarding the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder. We wish to draw your attention to the letter from Octal Capital which contains advice to us in relation to the terms and conditions of Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder, 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 the Circular.

* *For identification purposes only*

Having taken into account the advice of, and the principal factors and reasons considered by Octal Capital in relation thereto as stated in its letter, we consider the terms and conditions of the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. We therefore recommend you to vote in favour of the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Deng Tianlin	**Fung Ching, Simon**	**George F Meng**	**He Linji**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter of advice from Octal Capital Limited to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.

八方金融有限公司
OCTAL Capital Limited

801–805, 8/F, Nan Fung Tower,
88 Connaught Road Central,
Hong Kong

20 August 2020

To the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION
AND CONNECTED TRANSACTION
SUPPLEMENTAL INVESTMENT AND CONSTRUCTION AGREEMENT
AND
MAJOR AND CONNECTED TRANSACTION
THE 2020 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 (i) Supplemental Investment and Construction Agreement and the transactions contemplated thereunder; and (ii) the Parent Company Subscription (which involves the proposed acquisition of the Phase I Runway Assets (the "**Runway Acquisition**"), pursuant to the 2020 Parent Company Domestic Shares Subscription Agreement, particulars of which are set out in the letter from the Board (the "**Letter from the Board**") of this circular dated 20 August 2020 (the "**Circular**") to the Shareholders, of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

(i) The Supplemental Investment and Construction Agreement

Reference is made to the announcement of the Company dated 21 August 2015 and the circular of the Company dated 7 October 2015 in relation to, among others, the Investment and Construction Agreement, pursuant to which the Company and the Parent Company agreed to construct the Airport Project with an estimated aggregate investment amount of approximately RMB13.838 billion, and the Company agreed to provide funds, amounting to approximately RMB7.158 billion, to construct the Company Construction Project, while the Parent Company agreed to provide funds, amounting to approximately RMB6.680 billion, to construct the Parent Company Construction Project.

On 11 May 2020 (after trading hours), the Company and the Parent Company entered into the Supplemental Investment and Construction Agreement to make certain amendments to the Investment and Construction Agreement in order to, among others, specify the allocation of investment amount between the Company and the Parent Company and arrange further financing for completing the construction of the Airport Project.

As of the Latest Practicable Date, the Parent Company holds 50.19% of the total issued Shares of the Company and is a controlling shareholder of the Company, and therefore constitutes a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated thereunder the Supplemental Investment and Construction Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Further, as certain applicable percentage ratio (as defined under the Listing Rules) in respect of the transaction contemplated under the Supplemental Investment and Construction Agreement are more than 100%, such transactions constitute a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and therefore are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

(ii) The 2020 Parent Company Domestic Shares Subscription Agreement

According to the Letter from the Board, on 24 July 2020, the Company and the Parent Company entered into the 2020 Parent Company Domestic Shares Subscription Agreement, pursuant to which the Parent Company agreed to subscribe for Subscription Shares, being not more than 140,741,000 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company.

The consideration for the transfer of the Phase I Runway Assets is approximately RMB1.520 billion, which is determined based on the aggregate appraised asset value of the Phase I Runway Assets as at 30 June 2020 (i.e. RMB1,520,275,150).

On 24 July 2020, the Board resolved to convene the EGM and the Class Meeting for the grant of the proposed Specific Mandate to the Board to issue not more than 155,000,000 New H Shares, representing not more than 32.75% of total share capital of the Company before the Parent Company Subscription and the proposed New H Shares Issue, and approximately 20.16% of total share capital of the Company as enlarged by the Parent Company Subscription (assuming the maximum of 140,741,000 Subscription Shares are subscribed by the Parent Company) and the New H Shares Issue; and representing not more than 68.31% of share capital of H Shares of the Company before the New H Shares Issue and 40.59% of share capital of H Shares of the Company as enlarged by the New H Shares Issue.

As at the Latest Practicable Date, the Parent Company holds 50.19% of the total issued Shares of the Company and is a substantial shareholder of the Company, and therefore constitutes a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the 2020 Parent Company Domestic Shares Subscription Agreement constitute connected transaction of the Company under Chapter 14A of the Listing Rules. As certain applicable percentage ratios (as defined under the Listing Rules) in respect of the transactions contemplated under the 2020 Parent Company Domestic Shares Subscription Agreement are more than 25% but less than 100%, such transactions also constitute major transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the 2020

Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The 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 (i) the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and (ii) the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder, has been established to advise the Independent Shareholders in relation to their voting on (i) the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and (ii) the 2020 Parent Company Domestic Shares Subscription Agreement (which included the Runway Acquisition) and the transactions contemplated.

We, Octal Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and (ii) the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder in this regard. We are not connected with the Directors, chief executive and substantial shareholders of the Company or the Parent Company or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, we were engaged by the Company as an independent financial adviser to the Company in respect of (i) the major and connected transaction in relation to the supplemental agreement and extension of validity period of shareholders' resolutions and authorisation granted to the Board in relation to the Past Parent Company Subscription (details can be referred to the circular of the Company dated 18 April 2019), and (ii) the extension of validity period of shareholder's resolutions and authorisation granted to the Board in relation to the Past Parent Company Subscription (details can be referred to the circular of the Company dated 7 January 2020) (the "**Previous Engagements**"). Under the Previous Engagements, we were required to express our opinion on and give recommendations to the Independent Board Committee and Independent Shareholders in respect of the transactions. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Company or the Parent Company or any of its subsidiaries or their respective associates. Despite the Previous Engagement, we consider our independence is unaffected due to the facts that (i) under Previous Engagements, we were entitled to receive normal professional fees that are comparable to market rates and the fees do not form a significant portion to our overall income; (ii) we have discharged our responsibilities with due care and skill and performed our duties with impartiality in respect of each of our engagements with the Company; and (iii) each of the engagement was handled independently as an individual task. Therefore, we consider ourselves eligible to act as the independent financial adviser to the Company under the requirements of the Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company regarding the Group and Parent Company, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry.

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 Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder; (ii) researched the relevant market and other conditions and trends relevant to the pricing of the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder; (iii) reviewed the fairness, reasonableness and completeness of any assumptions relevant to the Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder; and (iv) reviewed the opinion and valuation relevant to the Runway Acquisition provided by the expert, being Vigers Appraisal & Consulting Limited, 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 given by the expert's report provided by the Independent Valuer as at the valuation date on 30 June 2020 as set out in Appendix V 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 Supplemental Investment and Construction Agreement and the transactions contemplated thereunder and the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Parent Company and their respective subsidiaries or associates nor have we carried out any independent verification of the information supplied.

A. THE SUPPLEMENTAL INVESTMENT AND CONSTRUCTION AGREEMENT

PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE SUPPLEMENTAL INVESTMENT AND CONSTRUCTION AGREEMENT

In arriving at our recommendation in relation to the entering into of the Supplemental Investment and Construction Agreement and the transaction contemplated thereunder, we have considered the following principal factors and reasons:

- **Background of the Company**

The Group is principally engaged in aeronautical and non-aeronautical businesses at Meilan Airport in Hainan Province, the PRC. Its aeronautical business mainly consists of provision of terminal facilities, ground handling services and passenger services, and its non-aeronautical business mainly includes leasing of the commercial and retail outlets at Meilan Airport, franchising of the airport-related business, leasing of the advertising spaces and parking lots, provision of cargo handling services and sales of consumable goods.

- **Background of the Parent Company**

The Parent Company is a state-owned enterprise established in the PRC with limited liability and is the controlling Shareholder and the ultimate holding company of the Company which is principally engaged in ancillary airport service business in the PRC.

- **Background of the Phase II Expansion Project**

On 2 June 2015, the NDRC approved the construction of the Phase II Expansion Project (NDRC Infrastructure [2015] No. 1215 (發改基礎[2015]1215號)), which means the Feasibility Study Report issued by a professional institution engaged by the Parent Company in relation to the construction of the Phase II Expansion Project which comprised three parts, i.e. the Airport Project, an air traffic control project and a fuel supply project, was approved. The Company confirms that the air traffic control project and the fuel supply project are independent from the Airport Project and the Company will not participate in these projects.

According to the Feasibility Study Report and the approval from NDRC, and leveraging the previous experience of the Parent Company in airport construction, the Parent Company acts as the project representative of the Airport Project, with an estimated aggregate investment amount of approximately RMB13.838 billion. The said investment amount of approximately RMB13.838 billion of the Airport Project was the estimated amount determined with reference to the applicable national and regional construction fee standards, applicable rules for composing of civil aviation airport construction project budget and interest rate of long-term bank loan of approximately 6.55%.

The Airport Project comprised the terminal building project, parking building project, cargo handling service area project, ground handling service area, airport fire-fighting and rescue project, airport emergency respond and rescue project and vehicles and equipment project (collectively as the "**Company Construction Project**"); and other projects including, without limitation, the airfield area project, visual navigation lighting equipment project, road and bridge project, aviation food and aviation supplies project, water supply project, electricity supply project, and cooling, heating and gas supply project (collectively as the "**Parent Company Construction Project**").

The project design and the estimated aggregate investment amount of the Airport Project in the Feasibility Study Report were amended mainly based on further project construction need or improvement of quality standards. Such adjustments have been approved by relevant governmental authorities, including Development and Reform Commission of Hainan Province (海南省發展和改革委員會) and Central South Regional Administration of Civil Aviation Administration of China (中國民用航空中南地區管理局).

According to the latest construction progress of the Airport Project, the construction of the main part of the terminal building project has been completed on 30 June 2020 and the standard for basic function has been met with water supply, electricity supply and cooling system equipped; the preparation works for test flight have been pushed forward in the airfield area project; the supporting ring-like road and bridge transportation system has been fully completed and will be opened to traffic gradually; the east access road has been officially opened to traffic; and the construction of west access road has commenced.

Other than the reasons for and benefits of the entering into of the Supplemental Investment and Construction Agreement as disclosed below, the roles of the Company and the Parent Company in the construction of the Airport Project, the allocation of the investment amounts on the Company Construction Project and the Parent Company Construction Project and the respective assets thereunder were mainly determined by taking into consideration of the following: (i) the financial challenges the Company may face for providing funds of approximately RMB14.830 billion for the construction of the whole Airport Project by itself; (ii) the current operation model of Meilan Airport between the Company and the Parent Company, details of which were set out in the paragraph headed "The Operation Plans of the Phase II Expansion Project of Meilan Airport" in the circular dated 7 October 2015; and (iii) the compliance with the existing non-competition agreement between the Company and the Parent Company by allocating the relevant assets in consistent with the current operation model of Meilan Airport. As the Supplemental Investment and Construction Agreement specifies the allocation of investment amount between the Company and the Parent Company and arranges further financing for the Airport Project, the Company will be available to fully enjoy the economic benefits to be generated from the Airport Project upon putting into use and to ensure a smooth construction and assets operation of the Airport Project afterwards.

1. Reasons for and benefit of the Supplemental Investment and Construction Agreement

According to the actual situation of the Airport Project, the aggregate investment amount increased as a result of the amendment of project design mainly based on further project construction need or improvement of quality standards. Therefore, in order to specify the allocation of the investment amount after such adjustment, the Company and the Parent Company entered into the Supplemental Investment and Construction Agreement. The signing of the Supplemental Investment and Construction Agreement will further define the corresponding rights and obligations of the Company and the Parent Company in relation to the construction of the Airport Project, which is conducive to constructing the Airport Project in a faster and better way, as well as the development of the Company and Meilan Airport in the long run.

According to the operation data published in the official website of Meilan Airport, the summary of historical passenger throughput, historical cargo throughput and aircraft movement from 1 January 2016 to 31 December 2019 is shown in the table below.

Year	**Historical passenger throughput** *(Unit: million people)*	**Historical cargo throughput** *(Unit: 1,000 ton)*	**Aircraft movement** *(Unit: 1,000 time)*
2016	18.80	274.53	132.90
2017	22.58	299.18	156.07
2018	24.12	324.70	164.09
2019	24.22	322.36	163.96
Annual average growth rate (2016–2019)	9.1%	5.6%	7.5%
Annual average growth rate (2006–2015)	8.7%	8.4%	7.7%

According to the appendix headed "Appendix III – Traffic Study Report" of the circular of the Company dated 28 April 2017 regarding 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. As indicated in the above table, the demand of Meilan Airport has been on an increasing trend, with the passenger throughput at approximately 18.80 million, 22.58 million, 24.12 million and 24.22 million for 2016, 2017, 2018 and 2019, respectively, with a cumulative annual growth rate of 9.1%; whilst the cargo throughput was approximately 274,530 tonnes, 299,180 tonnes, 324,700 tonnes and 322,360 tonnes for 2016, 2017, 2018 and 2019, respectively, with a cumulative annual growth rate of 8.8%; and the aircraft movement was approximately 132,900 times, 156,070 times, 164,090 times and 163,960 times for 2016, 2017, 2018 and 2019, respectively, with a cumulative annual growth rate of 11.3%. Based on the above information for the increasing demand of Meilan Airport, it is expected that the prospect of the Airport Project and the respective assets thereunder has been improved and no less favourable than that of the time when the Company first proposed the entering into the Investment and Construction Agreement. Thus, we are of the view that the Airport Project remains fair and reasonable as the Company first proposed.

As described by the management of the Company in the annual report of the Company for the year ended 31 December 2019 ("**2019 Annual Report**"), the current development strategy of the Company is to focus on building a regional hub airport and serving the nation's "One Belt, One Road (一帶一路)" initiatives, and adhering to the deployment of key tasks such as enhancing the internationalization of Hainan International Tourism Island, the Group sized up the trend of events, expanded the coverage of route network and enhanced accessibility, which made the international aviation market show a sound development momentum. The management expected that the Phase II Expansion Project will help to build the Group into a global leading integrated service provider in airport investment, operation and management.

Since the outbreak of pneumonia epidemic (the "**Epidemic**") caused by the coronavirus in January 2020, various emergency public health measures and other actions have been taken in the PRC and all around the world to contain the spread of the Epidemic, including having certain control on crowd movement and transportation, and implementing restriction on the date of returning to work after the Chinese Lunar New Year vacation. The airline industry has also been severely affected by the Epidemic, there was a significant decline in the business volume of Meilan Airport in the short term. According to the 2019 Annual Report, the Company plans to formulate supportive measures, including a preferential scheme for the take-off and landing fees of airlines and a reduction of rents for commercial tenants, to mitigate the operational pressure of the Epidemic on airlines and commercial tenants. Refer to the financial information of the Group set out in Appendix I to the Circular, in July 2020, the operation of Meilan Airport presented a good situation with accelerated recovery growth. At present, the average number of domestic flights per day of Meilan Airport amounts to 340 times with domestic passenger throughput amounting to 46 thousand, representing a year-on-year recovery to around 85% and 80%, respectively. The Company expects that the impact of the Epidemic to the Group will be limited and will not constitute a material adverse change of the Group.

Apart from the uncertainties arisen from the Epidemic, we are of the view that the Airport Project, as a part of the Phase II Expansion Project, 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, it is necessary and in the interests of the Company and its Shareholder as a whole to propose the Supplemental Investment and Construction Agreement in order to continue the Airport Project. Currently, the construction of various projects of the Airport Project has entered the finalization stage. According to the latest schedule, the Airport Project aims to be put into use upon the completion and acceptance in this year. As discussed with the management of the Company, in order to arranges further financing for the Airport Project, it is the appropriate timing for the Company and the Parent Company entered into the Supplemental Investment and Construction Agreement, which specifies the allocation of investment amount between the Company and the Parent Company.

Having considered the above analysis and factors, we are of the view that the entering into of the Supplemental Investment and Construction Agreement is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Supplemental Investment and Construction Agreement

Details of the Company Construction Project

Pursuant to the Investment and Construction Agreement, the Company has agreed to provide funds, amounting to approximately RMB7.158 billion, to construction the Company Construction Project. Having considered the adjustments made to the made to the Airport Project, the new estimated aggregate investment amount for the Company Construction Project would amount to RMB7.646 billion as set out in the Supplemental Investment and Construction Agreement with an increment of approximately RMB488.1 million. Set out below is the comparison of the estimated aggregate investment amount of the Company Construction Project agreed in the Investment and Construction Agreement and the Supplemental Investment and Construction Agreement:

Items to be constructed	**Estimated investment amount according to**			
	Investment and Construction Agreement	**Supplemental Investment and Construction Agreement**	**Amount changed**	**Change**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(%)*
Terminal building project	3,889,100	4,283,720	394,620	10.1%
Parking building project	443,170	448,840	5,670	1.3%
Cargo handling service area project	120,800	156,540	35,740	29.6%
Ground handling service area	142,200	201,030	58,830	41.4%
Airport fire-fighting and rescue project	36,540	79,150	42,610	116.6%
Airport emergency respond and rescue project	1,030	1,820	790	76.7%
Vehicles and equipment project	157,530	165,270	7,740	4.9%
Other incidental expenses	2,367,840	2,309,980	-57,860	-2.4%
	7,158,230	7,646,350	488,120	6.8%

The estimated investment amount to be borne by the Company under the Supplemental Investment and Construction Agreement was determined with reference to the review reports regarding the preliminary design of the Phase II Expansion Project (the "**Review Reports**") issued by China Civil Aviation Engineering Consulting Co., Ltd. (中國民航工程諮詢有限公司) (the "**CAEC**") sub-ordinated to the Civil Aviation Administration of China (中國民用航空局), which was engaged by the Parent Company in relation to the preliminary design of terminal and supporting facilities of the Phase II Expansion Project. CAEC is a state-owned enterprise and is a subsidiary of China Airport Construction Group Corporation (中國民航機場建設集團公司). CAEC provides all range of services needed for civil airport design and construction and obtained

Grade-A certificates in project consultation (甲級工程諮詢) and project costing consultation (甲級工程造價咨詢). The scope of work of CAEC in the Review Reports was to review and verify the calculation of the estimated construction costs borne by the Company and Parent Company.

In addition, the project design and the estimated investment amount of the Phase II Expansion Project had been approved by the Development and Reform Commission of Hainan Province (海南省發展和改革委員會) and Central South Regional Administration of Civil Aviation Administration of China (中國民用航空中南地區管理局).

Such estimated investment amount was determined with reference to relevant public official documents in relation to construction cost and fees of Haikou City and the standard fees in civil aviation industry of the PRC.

As mentioned in the Letter from the Board, the calculation of estimated investment amount of the Phase II Expansion Project mainly comprised of three factors, which are (i) the cost relating to construction and installation projects; (ii) the cost relating to the airport runway project; and (iii) the cost relating to other construction items. For the cost relating to construction and installation projects, it was determined with determined with reference to the relevant costs of construction and installation in Haikou City, which are specified under the Financing Quota of Construction Project in Hainan Province (海南省建築工程計價定額) (the "**Construction Project Quota**") and the Comprehensive Quota of Installation Project in Hainan Province (海南省安裝工程定額) (the "**Installation Project Quota**"). For airport and runway project (機場跑道工程), it was determined with reference to the provision for budget of civil airports in the PRC under relevant PRC laws, e.g., the Budget Quota of Civil Airports Engineering (民用機場工程預算定額). For other construction items, it was determined with reference to the Method for Preparation of the Budget for the Construction of Civil Airport (民航機場建設工程概算編製辦法) (the "**Method**"). We noted that All of these calculations were relied on public rules or standards issued by government. We have randomly selected five samples of construction items of terminal building project to review the calculation of the estimated investment amount, we noted that the selected samples are calculated with reference to the public rules or standards as abovementioned.

The new estimated aggregate investment amount for the Company Construction Project amounted to approximately RMB7.646 billion under the Supplemental Investment and Construction Agreement with an increment of approximately RMB488.1 million. The major amendments in the preliminary construction designs as compared to the design in the Feasibility Study Report are related to the constructions of (i) terminal building project and (ii) ground handling service area which leaded to approximately RMB453.4 million increment to the overall estimated investment amount. According to the Review Reports, the reasons for the amendment of design were mainly due to (i) the additional renovation cost amounted to approximately RMB247.3 million in order to achieve the fiver-star airport standard and three-star green building standard; and (ii) the additional seismic support construction amounted to approximately RMB128.1 million in order to improve the loading ability of the terminal building.

The Directors confirm that the estimated investment amount of approximately RMB7.646 billion as set out in the Supplemental Investment and Construction Agreement is the estimated maximum investment amount in relation to the construction of the Company Construction Project based on currently available information. Subject to the project completion and settlement report of the Airport Project to be approved (if required) by relevant authorities and the assets invested by and registered under the name of the Company upon completion and acceptance of the Airport Project, such estimated maximum investment amount shall be further adjusted. The Directors further confirm that the Company shall seek approval from the Shareholders and make additional disclosure pursuant to the applicable compliance requirements under the Listing Rules if and when the aggregate investment amount for the construction of the Company Construction Project is expected to exceed RMB7.646 billion due to any unforeseeable reasons that may be beyond the control of the Company.

We have reviewed the Review Reports prepared by CAEC and conducted an interview with the responsible project manager of CAEC to understand the bases, assumptions and methodologies adopted to assess the estimated investment amount to be borne by the Company under the Supplemental Investment and Construction Agreement. We noted that bases, assumptions and methodologies are consistent with the Method for Preparation of the Budget for the Construction of Civil Airport (民航機場建設工程概算編製辦法) issued by the Airport Office of the Civil Aviation Administration of China (中國民用航空局機場公司). Although the Review Reports were prepared and issued by CAEC in 2016, we have confirmed with CAEC that the bases, assumptions and methodologies remained the same after the date of the Review Reports and up to the date of Supplemental Investment and Construction Agreement. Based on the above, we consider that the basis of determination of the estimated aggregate investment amount of the Airport Project is reasonable and is in line with the relevant regulations.

Furthermore, as advised by the Company, the Company will participate in the selection of third party contractors and suppliers by public tendering and has established its internal control measures to monitor the tendering process. We noted that the Company would appoint an independent tendering service company to assist it in carrying out the tendering process. The Company and the tendering service company will publish the tendering announcement to invite third party contractors or suppliers to provide their tendering quotation and other terms of service in their tendering applications. After collecting the tendering application from the service providers or contractors, the Company will form a project evaluation committee to evaluate and select the tendering applications. The project evaluation committee is delegated by the Board which comprises different specialists of the Company without conflict of interest with the vendors or contractors to evaluate and select the tendering applications. The project evaluation committee would evaluate the tendering application by considering (i) the relevant qualification and experiences of the applicants; (ii) the construction design proposed by the applicants and (iii) quoted service fee and terms of service. If a tendering application was selected, the draft contract with the vendor or contractor will be reviewed and approved by the Board. We have obtained and reviewed the Company's internal policy of tendering process, and we confirmed that the above-mentioned tendering process was already stipulated in the Company's internal policy and which is comply with the Bidding Law of the PRC (中華人民共和國招標投標法) and the Regulation on the Implementation of the Bidding Law of the PRC (中華人民共和國招標投標法實施條例). Also, we have obtained this list of completed construction projects that involved the selection of third party contractors in the year ended 31 December 2019. Based on the size of the contract sum and the different types of services or products that are subject to the tendering process, we selected (i) the largest contract sum construction project in 2019 and (ii) among different type of services or products, we have selected two samples from the project list on a random basis and reviewed the documentation of the tendering process, including (i) tendering announcement published by the tendering service company and the respective tender applications submitted by the contractors or service providers; (ii) the evidence of review of the tendering application by the project evaluation committee and the approvals by management of the Group; (iii) the final contracts entered into of the respective construction projects, we noted that the tendering process were executed in accordance with the Company's internal policy. Based on the above, we concur with the management that there is a sound and effective internal control to ensure the tendering process is properly followed by the Company.

For the payment arrangement, with respect to other costs and expenses incurred in the process of the construction of the Company Construction Project, since the Company is not the project representative, it may not be a party of such contracts or the payer of such amounts, thus such costs and expenses needs to be paid through the Parent Company. Such amount shall be paid to the Parent Company by the Company upon the Parent Company's request and provision of relevant supporting documents on a back-to-back basis. As mutually agreed by the Company and the Parent Company during the process of construction of the Airport Project, all the costs and expenses incurred in the process of the construction of the Company Construction Project have been paid by the Company through the Parent Company. As it does not require additional cost or working capital to fulfil this payment arrangement, we considered that the payment term set out in the Supplemental Investment and Construction Agreement is no less favourable than those available from the independent third parties.

In addition, we noted that the Company shall bear its own costs to be incurred for, and only that part attributable to, the construction work of the terminal building project and their ancillary facilities in relation to the Company Construction Project; while the Parent Company acts as the representative for the project to assist the Group in undertaking the construction work under the Company Construction Project until the Project Completion without taking or levying the Company any advantage, remuneration and/or compensation in return for the Parent Company's assistance to be provided during the construction period. Besides, the Company has the right to appoint an independent third party to audit such project completion and settlement report upon Project Completion, if it considers necessary. Based on all of the above, we are of the view that the basis of determining the estimated investment amount of Company Construction Project and the relevant payment arrangement, 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.

Funding sources for the Company Construction Project

According to the latest construction progress of the Airport Project, the construction of the main structure of the terminal building project and exterior wall has been completed with 95% of the entire construction finished; the construction of the main structure of the parking building project has been completed with 70% of the entire construction finished; 75% of the entire construction of cargo handling service area project has been completed; and the ground handling service area, airport fire-fighting and rescue project and airport emergency respond and rescue project are also pushed forward with every effort. According to the management of the Company, assuming that there will no further adjustment on the estimated aggregate investment amount, the estimated remaining amount required for the Company Construction Project will be not more than RMB3.3 billion. The Company intends to fund the Company Construction Project by the followings:

(i) The Syndicated Loan

As disclosed in the circular of the Company dated 6 March 2018, pursuant to the loan agreement dated 1 February 2018, China Development Bank Limited (國家開發銀行股份有限公司), the Hainan Branch of Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司海南省分行) and the Hainan Branch of Agricultural Bank of China Limited (中國農業銀行股份有限公司海南省分行) agreed to grant the Syndicated Loan to the Company and the Parent Company on a joint and several basis in the principal amount of RMB7.8 billion for a period of 20 years, which shall be solely used for the construction of the Airport Project, and pursuant to the loan allocation agreement entered into between the Company and the Parent Company on 1 February 2018, the Company was allocated RMB3.9 billion (representing 50% of the Syndicated Loan). As at the Latest Practicable Date, the Company has drawn down RMB1.944 billion and the remaining of RMB1.956 billion will be utilized in the construction of the Company Construction Project;

(ii) The Local Government Special Bonds

The Local Government Special Bonds are expected to be issued by relevant government authorities in Hainan Province to support the construction of the Airport Project. It is expected that certain proportion of the proceeds from the Local Government Special Bonds will be allocated to the Company, which will be utilized in the construction of the Company Construction Project; and

(iii) Working Capital

The Company will use part of its working capital generated from its operation activities to support the construction of the Company Construction Project.

As mentioned in the Letter from the Board, the Phase II Expansion Project is a major landmark project of the construction of Hainan Free Trade Port, and will become an engine for Hainan's airport industry, headquarters economy and other core businesses and create various economic and social benefits for Hainan. Hainan government has listed the Phase II Expansion Project as one of its major works for the year 2020 in the government work report and is sparing no effort to promote the construction of the Phase II Expansion Project. With the strong support of Hainan government, the Company believes that it is able to raise funds through multiple channels for the Company Construction Project. Besides, with the accelerated construction of Hainan Free Trade Port and further loosening of the off-shore duty-free policy, the passenger throughput in Meilan Airport is expected to increase, which will bring more net cash inflow for the Company, therefore the Directors are of the view that the working capital of the Company will be sufficient in satisfying the Company's investment commitment on the Company Construction Project.

Possible financial effects on the Supplemental Investment and Construction Agreement to the Group

Earnings

Upon the Project Completion, there is no immediate material impact on earnings of the Group, while the Directors expect that the Phase II Expansion Project will enhance the operating capability of the existing Meilan Airport and business development of the Group, and then further contribute to its earnings base in the long run, but the quantification of such impact will depend on the future operating performance of the Group after commencement of the full scale of operation attributable to the terminal building project and the ancillary facilities under the Company Construction Project.

Working capital

Based on the 2019 Annual Report, the Group's deficiency of working capital (i.e. total current assets of approximately RMB2.034 billion, less total current liabilities of approximately RMB5.147 billion) and cash at banks and on hand as at 31 December 2019 amounted to approximately RMB3.113 billion and RMB1.512 billion, respectively, representing a current ratio of approximately 0.40 time. This showed that the Group's working capital position was relatively tighter at that time. As the Company Construction Project has no material change and has already been commenced, there will be no additional burden to the working capital upon entering into the Supplemental Investment and Construction Agreement. However, the Company intends to use debt-financing as the funding source for the Company Construction Project, the working capital may be improved by new debt-financing source.

Net asset value

According to the 2019 Annual Report, the Group had consolidated net asset value of approximately RMB5.153 billion as at 31 December 2019. It is currently expected that there will not be any significant impact of the net assets of the Group following the Project Completion, as the increase in the value of the fixed and intangible assets under the Company Construction Project will be offset by the (i) decrease in cash at banks and on hand; and (ii) increase in the long-term liabilities as the new funding sources mentioned above.

There will also be no material impact on the income statement and reserves of the Group. Based on the Unaudited Pro Forma Financial Information of the Group set out in Appendix II, it could be inferred that the Group's consolidated net asset value would not adversely change upon the Project Completion.

Gearing position

As at 31 December 2019, the Group's the interest-bearing debts of the Group mainly include bank loans, finance lease payable and entrusted loans payable (the "**Total Borrowings**"), amounting to approximately RMB2.939 billion. The gearing ratio (total borrowings/total equity) of the Group was 21.69% as at 31 December 2019 (31 December 2018: 32.57%). The gearing level is considered as moderate and the leverage level was low. As the Company intends to use debt-financing as the funding source for the Company Construction Project, the gearing ratio of the Company will increase along with the leverage amount.

RECOMMENDATION

Having considered the above principal factors, we are of the opinion that the Supplemental Investment and Construction Agreement are on normal commercial terms and in the ordinary and usual course of business of the Company, and are fair and reasonable so far as the Independent Shareholders are concerned as well as is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favor of the Supplemental Investment and Construction Agreement to be proposed at the EGM.

B. THE 2020 PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT

PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE 2020 PARENT COMPANY DOMESTIC SHARES SUBSCRIPTION AGREEMENT

In arriving at our recommendation in relation to the Parent Company Subscription (which included the Runway Acquisition) pursuant to the 2020 Parent Company Domestic Shares Subscription Agreement (including the grant of the Specific Mandate), we have considered the following principal factors and reasons:

1. Background of entering into, among others, the 2020 Parent Company Domestic Shares Subscription Agreement

- ***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. It can satisfy the full-weight takeoff and landing requirements of large aircrafts, such as Boeing 747-400 and handled more than 24.22 million passengers in 2019. The original cost of the construction of the Phase I Runway Assets of the Parent Company was approximately RMB592,255,000.

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 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 30 June 2020 was RMB1,520,275,150.

- ***The 2020 Parent Company Domestic Shares Subscription Agreement***

Reference is made to the announcement of the Company dated 24 July 2020 in relation to, among other things, the 2020 Parent Company Domestic Shares Subscription Agreement, pursuant to which the Parent Company agreed to subscribe for the Subscription Shares, being not more than 140,741,000 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company.

2. Reasons for and benefit of entering into the 2020 Parent Company Domestic Shares Subscription Agreement

Acquisition of the Phase I Runway Assets

Prior to the Runway Acquisition, the Phase I Runway Assets were previously owned and operated by the Parent Company, and the 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 Runway Acquisition will enable the Company to better run its operational assets consistent with the "High Standard, Strict Compliance (高標準，嚴要求)" standards in the civil aviation industry, and as a result of the Runway Acquisition, will strengthen the revenue stream and competitiveness of the Company.

Meanwhile, 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 Parent Company Subscription and the proposed New H Shares Issue will improve capital structure, strengthen the financial risk resilience, enhance the solvency and expand financial base of the Company.

Refer to above section in this letter headed "1. Reasons for and benefit of the Supplemental Investment and Construction Agreement" for the operation data published in the official website of Meilan Airport, (i) the summary of historical passenger throughput, historical cargo throughput, aircraft movement from 1 January 2016 to 31 December 2019; and (ii) the development strategy of the Company disclosed in 2019 Annual Report. Based on such information for the increasing demand of Meilan Airport, it is expected that the prospect of Phase I Runway Assets has been improved and no less favourable than that of the time when Company first proposed the Runway Acquisition. Thus, we are of the view that the Runway Acquisition remains fair and reasonable as the Company first proposed.

Based on 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, it is necessary and in the interests of the Company and its Shareholder as a whole to propose the Parent Company Subscription in order to complete the Runway Acquisition.

3. Principal terms of the 2020 Parent Company Domestic Shares Subscription Agreement

Pursuant to the 2020 Parent Company Domestic Shares Subscription Agreement, the Parent Company agreed to subscribe for the Subscription Shares, being not more than 140,741,000 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company.

The total subscription price for the Subscription Shares is approximately RMB1,520,000,000, being the consideration for the transfer of the Phase I Runway Assets, which is determined based on the aggregate appraised asset value of the Phase I Runway Assets as at 30 June 2020 (i.e. approximately RMB1,520,000,000).

According to the Valuation Report, the aggregate appraised asset value of the Phase I Runway Assets as at 30 June 2020 was RMB1,520,275,150. The original cost of the construction of the Phase I Runway Assets of the Parent Company was approximately RMB592,255,000.

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 30 June 2020 as set out in the Appendix V 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 order 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 market approach for the valuation of the Equipment and the properties; and has adopted a combination of the market and depreciated replacement cost approach 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 current cost of replacement (reproduction) of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

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 sales evidence in the similar locality, including three cases of land sale conducted from October 2019 to March 2020, had been obtained for making a meaningful comparison according to the requirement of respective valuation standard, the Independent Valuer considered that such comparables are fair and representative samples 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 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 deprecation 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 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 and established secondhand market based on comparable sales.

Hence, the combination of the two 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 market approach as well as depreciated replacement cost approach 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 V 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. market approach and depreciated replacement cost approach, as the case may be) 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. Upon enquiry with the Independent Valuer, we understand that due to inadequate information which could be obtained to be used in (i) standard land price approach and (ii) the income or earnings approach, no other methodology has been used to cross-check the Valuation. For instance, since the latest data in respect of standard price land was only available up to the year 2017, the Independent Valuer considered that such outdated data could not reflect the current market situation, thus, the standard land price approach was not an appropriate methodology to be applied to cross check the Valuation. On the other hand, since the allocation of the forecast income and expenses of the Phase I Runway Assets attributable to each specific piece of asset is not readily available and such allocation may not accurately reflect the value of the Phase I Runway Assets, thus, the income or earnings approach was also not applied to cross check the Valuation neither. Based on the foregoing, we considered the Valuation Report 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.

Since the total consideration for the Runway Acquisition is equivalent to the amount of the valuation of the Phase I Runway Assets as at 30 June 2020, being approximately one month immediately preceding the entering into of the 2020 Parent Company Domestic Share Subscription Agreement at RMB1,520,275,150 (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 2020 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

As can be seen from the settlement terms above, the Consideration for the Runway Acquisition shall be settled by allotment and issue of the Subscription Shares to the Parent Company after obtaining, among others, (i) the approval of the 2020 Parent Company Domestic Shares Subscription Agreement at the EGM and the Class Meetings; (ii) the approval of the 2020 Parent Company Domestic Shares Subscription Agreement at the general meeting of the Parent Company; and (iii) approvals from relevant competent departments and/or regulatory authorities, including but not limited to the CSRC, the Stock Exchange (where applicable) and the SFC (where applicable), in relation to the 2020 Parent Company Domestic Shares Subscription Agreement and the transactions contemplated thereunder. In view of the above, we consider that the payment schedule by allotment and issue of the Subscription 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.

Subscription price of the Parent Company Subscription

The Subscription Shares will be allotted and issued at a subscription price which is the highest of the followings:

(a) RMB10.80 (equivalent to approximately HK$12.06) per Subscription Share, being the audited net asset value per Share of the Company as at 31 December 2019; or

(b) the audited net asset value per Share of the Company as at the end of the financial year preceding the Effective Date;

(c) 90% of the highest among the followings:

(i) the closing price of H Share as quoted on the Stock Exchange at the Effective Date;

(ii) the average closing price of H Shares as quoted on the Stock Exchange over the last five (5) trading days prior to the Effective Date;

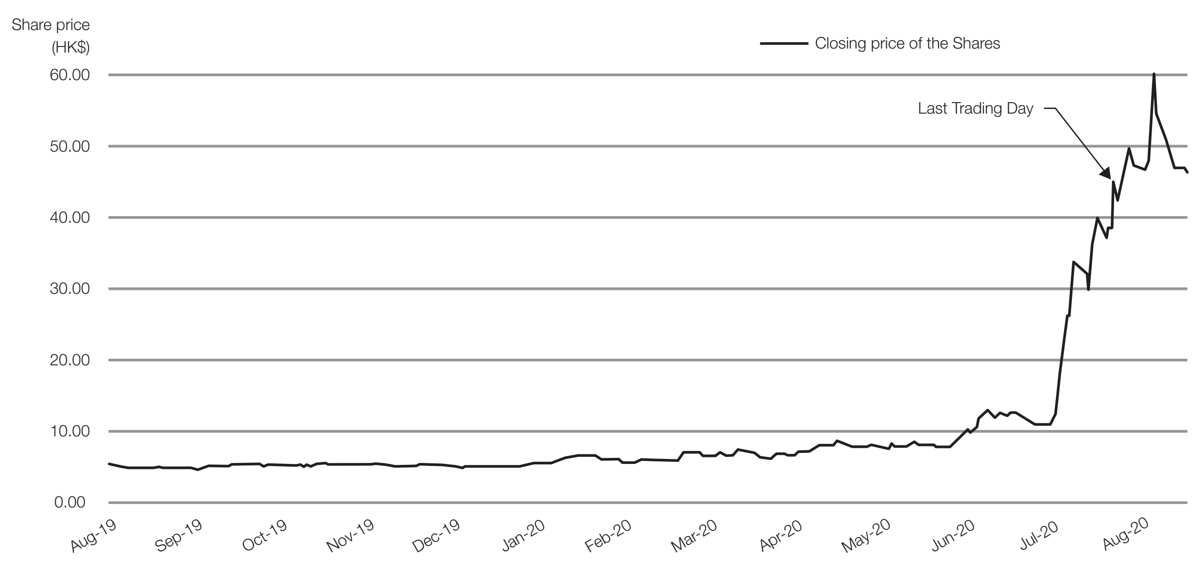
(iii) the average closing price of H Shares as quoted on the Stock Exchange over the last ten (10) trading days prior to the Effective Date; and

(iv) the average closing price of H Shares as quoted on the Stock Exchange over the last twenty (20) trading days prior to the Effective Date.

According to the Letter from the Board, the pricing mechanism of the subscription price of the Parent Company Subscription was determined after arm's length negotiation between the Company and the Parent Company after taking account the conditions of the civil aviation industry, the business pattern, status and prospects of the Company and the asset conditions of the Company, and with reference to the net asset value per Share of the Company, the market price of the H Shares and the market conditions at the Effective Date.

(i) Review on H Share price performance

The following is the share price chart illustrates 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 period commencing from 1 August 2019 up to and including the Latest Practicable Date (the "**Review Period**"):



Source: www.hkex.com.hk

During most of the Review Period, the monthly average daily closing price of the H Shares had been fluctuating and ranged from HK$4.81 to HK$22.10 per H Share (the "**Price Range**"), and the overall average daily closing of the H Shares for the Review Period was approximately 6.73%. The lowest closing price of the H Shares at approximately HK$4.59 per H Share was recorded in September 2019. The subscription price of the Subscription Shares at RMB10.80 (equivalents to HK$12.06 as at the Latest Practicable Date) is higher than the monthly average daily closing price for each month within the Price Range, except for June 2020 and July 2020. The historical market price of the H Shares increased moderately, and it surged to the highest closing price of the H Shares at approximately HK$48.95 per H Share on 29 July 2020.

Assuming that the Share price of the H Share will remain at the current level up to the Effective Date, which is the highest level since 2019, the maximum subscription price calculated under this pricing mechanism will be higher than that of the net asset value per share of the Company as at 31 December 2019 and the average historical price in the past 10 years. Meanwhile, the minimum subscription price under this pricing mechanism would be equal to RMB10.80 (equivalent to approximately HK$12.06) per Share, which is the audited net assets value per Share of the Company as at 31 December 2019. We considered that the price arisen from such pricing mechanism is no less favourable to the Independent Shareholders and the Company as a whole.

Given the facts that (i) the pricing mechanism adopted by the Company for setting the subscription price of the Subscription Shares at minimum RMB10.80 (equivalents to approximately HK$12.06) had been higher than the overall average daily closing price for the Review Period and which is within the Price Range; (ii) the subscription price of the Subscription Shares is also higher than the prevailing closing price of H Shares except for June 2020 and July 2020, and thus fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The minimum subscription price of RMB10.80 (equivalent to approximately HK$12.06) per Subscription Share represents:

(i.) a discount of approximately 73.23% of the closing price of HK$45.05 per H Share as quoted on the Stock Exchange on Last Trading Day;

(ii.) a discount of approximately 69.67% of the closing price of HK$39.76 per H Share as quoted on the Stock Exchange for the last five (5) consecutive trading day up to and including the Last Trading Day;

(iii.) a discount of approximately 67.06% of the closing price of HK$36.61 per H Share as quoted on the Stock Exchange for the last ten (10) consecutive trading day up to and including the Last Trading Day;

(iv.) a discount of approximately 73.95% of the closing price of HK$46.30 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;

(v.) a discount of approximately 73.30% of the closing price of HK$47.19 per H Share as quoted on the Stock Exchange for the last five (5) consecutive trading day up to and including the Latest Practicable Date; and (vi.) a discount of approximately 74.84% of the closing price of HK$50.08 per H Share as quoted on the Stock Exchange for the last ten (10) consecutive trading day up to and including the Latest Practicable Date.

As indicated above, the minimum subscription price of RMB10.80 (equivalent to approximately HK$12.06) per Subscription Share represents discount as compared to the historical H Share closing price on and prior to the Last Trading Day, the Announcement Day and the Latest Practicable Date. Meanwhile, with reference to the Subscription allotted to the Investor who is not connected to the Group, the subscription price represents discount to recent H Share closing price on and prior to the date of the Subscription Agreement. However, according to the abovementioned pricing mechanism, the minimum subscription price of RMB10.80 (equivalent to approximately HK$12.06) will only be effective if (i) the 90% of recent closing price of H Share preceding the Effective Date fall below RMB10.80 (equivalent to approximately HK$12.06), represents that the H Share price falls below HK$14.00; and (ii) the audited net asset valuer per share of the Company as at the end of the financial year preceding the Effective Date fall below RMB10.80. The minimum subscription price of RMB10.80 (equivalent to approximately HK$12.06) per Subscription Share provides a safeguard for the downward price fluctuation of H Share as well as the audited net assets value which is in favor of the Company and the Independent Shareholders. Also, with reference to the current high price level of the H Share, it is remote for the H Share drop below HK$14.00 per Share and adopt the minimum subscription price of RMB10.80 (equivalent to approximately HK$12.06) under this pricing mechanism. Meanwhile, when the closing price and the average price on or preceding to the Effective Date is above HK$14.00 per Share, the discount would not be more than 10% to the prevailing market price of the H Shares. We are of the view that the pricing mechanism is fair and reasonable and is in the interest of the Company and the Independent Shareholders as a whole.

(ii) Comparison with industry comparables

To assess the fairness and reasonableness of the subscription price per Subscription Shares, we have also endeavoured to identify all listed companies in Hong Kong which are principally engaged in the same industry with similar business operation of the Company which provides airport management and operation services in the PRC and recorded net profit in the latest financial year of 2019 and examined the price to net asset value multiple (the "**P/B Ratio**") as well as price to earnings multiple (the "**P/E Ratio**") using the closing prices of such companies as quoted on the Announcement Day. We have identified one company whose H shares are 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. Based on our selection criteria, we considered the industry comparable company of Beijing Capital to be exhaustive.

Assuming that the final subscription price of the Subscription Shares will be determined at RMB10.80 (equivalent to approximately HK$12.06), which is the minimum price under the pricing mechanism, such P/B Ratio and P/E Ratio are approximately 1.00 times and 8.99 times. Assuming that the final subscription price of the Subscription Shares will be based on 90% of the prevailing market price on or prior to the Effective Date (which is unknown as at the Latest Practicable Date, thus we adopted the 90% of the closing price of H Share as quoted on the Stock Exchange on the Last Trading Day), such P/B Ratio and P/E Ratio are approximately 3.36 times and 30.24 times.

We have noted from our independent analysis that the P/B Ratio and P/E Ratio of Beijing Capital accounted for approximately 0.89 times and 9.20 times, which were (i) close to that of the Company implied by the minimum subscription price of the Subscription Shares of RMB10.80 (equivalent to approximately HK$12.06) at approximately 1.00 times and 8.99 times, respectively, as at the Last Trading Day; (ii) lower than that of the Company implied by the 90% of the closing price of H Share as quoted on the Stock Exchange on the Last Trading Day of approximately RMB36.31 (equivalent to HK$40.55 per Share) at approximately 3.36 times and 30.24 times.

For our further analysis, we endeavoured to identify all listed companies in the PRC which are principally engaged in the same industry with similar business operation of the Company which provides airport management and operation services in the PRC and recorded net profit in the latest financial year of 2019 from the official websites of Shanghai Stock Exchange and Shenzhen Stock Exchange. We have identified an exhaustive list of four listed companies in the PRC which are principally engaged in the airport management and operation services in the PRC on the official websites of Shanghai Stock Exchange and Shenzhen Stock Exchange, and we have summarised the Beijing Capital together with these four PRC listed companies (the "**Industry Comparable(s)**") for the purpose of P/E Ratio analysis and P/B Ratio analysis. Summarised below are our relevant findings:

Company name	**Principal business**	**Market capitalisation as at the Last Trading Day** *(HK$' million)*	**P/E Ratio as at the Last Trading Day** *(times)*	**P/B Ratio as at the Last Trading Day** *(times)*
Beijing Airport (694.HK)	Principally engaged in the operation and management of Beijing Capital Airport and the provision of related services in China.	24,864,941,845	9.20	0.89
Guangzhou Baiyun International Airport Co. Ltd. (600004.SH)	Principally engaged in airport support services in Guangzhou Baiyun International Airport.	33,367,103,289	31.72	1.83
Shanghai International Airport Co., Ltd. (600009.SH)	Principally engaged in provision of full range of services including air traffic control, terminal management, cargo handling, advertising, space rental, and other related services.	153,141,486,083	27.51	4.29
Xiamen International Airport Co., Ltd (SH600897)	Principally engaged in aviation businesses, leasing and franchising businesses, cargo business, as well as parking business	6,015,910,905	10.94	1.44

Company name	Principal business	Market capitalisation as at the Last Trading Day *(HK$' million)*	P/E Ratio as at the Last Trading Day *(times)*	P/B Ratio as at the Last Trading Day *(times)*
Shenzhen Airport Co., Ltd (89.SZ)	Principally engaged in provision of airport terminal ground passenger transportation and cargo delivery services.	20,770,540,355	30.02	4.08
		Maximum	31.72	4.29
		Minimum	9.20	0.89
		Average	21.88	2.51
		Median	24.70	2.53
Company			30.24 *Note 1* 8.99 *Note 2*	3.36 *Note 1* 1.00*Note 2*

Source: www.hkex.com.hk, www.sse.com.cn and www.szse.cn

Notes:

1 The relevant ratio was calculated based on the 90% of the closing price of the H Shares as quoted on the Stock Exchange on the Last Trading Date (i.e. HK$40.55).

2 The relevant ratio was calculated based on the minimum subscription price as reference to the audited net asset value per Share of the Company as at 31 December 2019 (i.e. HK$12.06).

We noted that the P/E Ratio of the Industry Comparables on the Last Trading Day ranged from approximately 9.2 times to approximately 31.72 times and have an average of approximately 21.88 times and a median of approximately 24.70 times. The P/E Ratio of the of the Company based on the 90% of the closing price on the Last Trading Day (i.e. HK$40.55) was approximately 30.24 times, and upon comparison, we noted that the 90% of the closing price on the Last Trading Day was (i) within the range of the P/E Ratio of the Industry Comparables; and (ii) higher than the average of P/E Ratio of the Industry Comparables and the median of the P/E Ratio of the Industry Comparables.

We noted that the P/B Ratio of the Industry Comparables on the Last Trading Day ranged from approximately 0.89 times to approximately 4.29 times and have an average of approximately 2.51 times and a median of approximately 2.53 times. The P/E Ratio of the of the Company based on the 90% of the closing price on the Last Trading Day (i.e. HK$40.55) was approximately 3.36 times, and upon comparison, we noted that the 90% of the closing price on the Last Trading Day was (i) within the range of the P/B Ratio of the Industry Comparables; and (ii) higher than the average of P/B Ratio of the Industry Comparables and the median of the P/B Ratio of the Industry Comparables.

(iii) Comparison with other subscription exercises

As an alternative way for making meaningful analyses, we have tried to identify those domestic share subscription agreements entered into with fixed subscription/issue price starting from 1 January 2018 up to the Announcement Day, being a period of approximately two complete calendar years, comprising the date of the relevant agreement as announced by companies listed on the Stock Exchange (the "**Comparable Issue(s)**"). We consider that the period over two calendar years being a reasonable period to provide a general overview of the recent domestic share subscription exercises which are reflective of the latest market conditions and sentiments. To the best of our knowledge and belief, we have identified nine transactions which we considered to be eligible and sufficient for us to make a meaningful comparison and analysis. Based on the aforesaid selection criteria, we consider that the list of the Comparable Issues is an exhaustive list and details of which are as follows:

Company name (stock code)	**Date of announcement**	**Subscription/ issue price**	**Premium/ (Discount) of subscription/issue price over/(to) the closing price of H shares as at the Announcement Day/last trading days immediately before the date on which the subscription agreement was signed**	**Premium/ (Discount) of subscription/ issue price over/ (to) the average closing price of H shares for the last five trading days up to and including the Announcement Day/last trading days immediately before the date on which the subscription agreement was signed**
		RMB'	%	%
Xi'an Haitian Antenna Technologies Company Limited (8227)	2/8/2019	0.21	(93.77)	(93.78)
China Evergrande Group (3333)	20/6/2019	6.00	37.18	31.12
Beijing Capital International Airport Company Limited (694)	30/4/2019	6.1784	3.15	3.36
Shaanxi Northwest New Technology Industry Company Limited (8258)	27/12/2018	0.122	(17.26)	(17.26)
Shanghai Fudan Microelectronics Group Company Limited (1385)	13/12/2018	5.73	(19.73)	(19.91)
Xinte Energy Company Limited (1799)	13/11/2018	7.78	11.96	16.71
Sinopharm Group Company Limited (1099)	11/7/2018	24.97	(5.61)	(3.05)

Company name (stock code)	Date of announcement	Subscription/ issue price	Premium/ (Discount) of subscription/issue price over/(to) the closing price of H shares as at the Announcement Day/last trading days immediately before the date on which the subscription agreement was signed	Premium/ (Discount) of subscription/ issue price over/ (to) the average closing price of H shares for the last five trading days up to and including the Announcement Day/last trading days immediately before the date on which the subscription agreement was signed
		RMB'	%	%
Jiangsu Nandasoft Technology Company Limited (8045)	11/4/2018	0.147	0.00	8.11
Lingbao Gold Group Company Ltd. (3330)	4/1/2018	0.912	(19.99)	(17.83)
Nine Comparable Issues	**Maximum**		**37.18**	**31.12**
	Minimum		**(93.77)**	**(93.78)**
	Average		**(11.56)**	**(10.28)**
	Median		**(5.61)**	**(3.05)**
Eight Comparable Issues	**Maximum**		**37.18**	**31.12**
	Minimum		**(19.99)**	**(19.91)**
	Average		**(1.28)**	**0.16**
	Median		**(2.81)**	**0.16**
The Company (357)		**10.80** *Note 1*	**(73.23)**	**(69.67)**
		36.31 *Note 2*	**(9.99)**	**19.87**

Source: www.hkex.com.hk and the respective announcements containing details of the Comparable Issues

Notes:

1 Equivalent to HK$12.06, being the minimum subscription price as reference to the audited net asset value per Share of the Company as at 31 December 2019

2 Equivalent to HK$40.55, being the 90% of closing price of H Share as quoted on the Stock Exchange on the Last Trading Day

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

(i) the discount of approximately 73.23% and 9.99% represented by the minimum subscription price of the Subscription Shares of RMB10.80 (approximately HK$12.06) and 90% of the closing price of H Share as quoted on the Stock Exchange on the Last Trading Day, respectively, to the closing price on the Last Trading Day respectively lie within the range of premiums/discounts represented by the Comparable Issues on the relevant last trading day immediately before the date on which the subscription agreement was signed and below the average discount of approximately 11.56% thereof, which ranges very widely from a discount of approximately 93.77% to a premium of approximately 37.18%;

(ii) the discount of approximately 69.67% represented by the minimum subscription price of the Subscription Shares of RMB10.80 (approximately HK$12.06) over 5-day average closing price for the last five trading days up to the Last Trading Day and including the Last Trading Day lie within the range of premiums/discounts represented by 5-day average closing prices of the Comparable Issues on the relevant last five consecutive trading days immediately before the date on which the subscription agreement was signed but lie above the average discount of approximately 10.28% of the Comparable Issues, which also ranges very widely from a discount of approximately 93.78% to a premium of approximately 31.12%;

(iii) the considerable premiums of approximately 19.87% represented by 90% of the closing price of H Share as quoted on the Stock Exchange on the Last Trading Day over 5-day average closing price for the last five trading days up to the Last Trading Day and including the Last Trading Day lie above the range of premiums/discounts represented by 5-day average closing prices of the Comparable Issues on the relevant last five consecutive trading days immediately before the date on which the subscription agreement was signed and lie above the average discount of approximately 10.28% of the Comparable Issues, which also ranges very widely from a discount of approximately 93.78% to a premium of approximately 31.12%; and

(iv) among the nine Comparable Issues indicated in the above table, five out of nine companies in the Comparable Issues issued their domestic shares at a discount of the domestic subscription price over the prevailing market price, which is represented by (i) the closing price of the H Share as at the last trading day immediately before the date on which the subscription agreement was signed and (ii) the average closing price of H shares for the last five consecutive trading days immediately before the date on which the subscription agreement was signed, respectively. Based on this observation, it is common for a company to issue its domestic shares at a discount of the domestic subscription price over the prevailing market price.

However, we noted that one of the Comparable Issues reported the largest discount to the closing price on the last trading day immediately before the date on which the subscription agreement was signed, namely Xi'an Haitian Antenna Technologies Company Limited (stock code: 8227) ("**Haitian Antenna**"). In order to understand such extremity noted among the Comparable Issues, we investigated the financial performance of Haitian Antenna with reference to the relevant announcement and circular. It is noted that before the Comparable Issue of Haitian Antenna, Haitian Antenna continuously recorded net losses, net current liabilities and substantial decrease in net assets for the past two financial years. In view of the adverse financial position and lack of source of funding, the management of Haitian Antenna decided to undergo the relevant Comparable Issue with a large discount in order to complete a new 5G antenna business acquisition. We also reviewed the financial performance of the other four Comparable Issues with discount and we did not notice of any critical financial issue of the listed companies causing the discount of the respective Comparable Issues. We considered that the Comparable Issue of Haitian Antenna is an extreme case among the remaining eight Comparable Issues which is different from the case of the Parent Company Subscription. Thus, we performed a further comparison analysis by excluding the Haitian Antenna. Based on the analysis on the remaining eight Comparable Issues, the discount of 9.99% represented by 90% of the closing price of H Share as quoted on the Stock Exchange on the Last Trading Day is still within the range of the remaining eight Comparable Issues and close to the average discount of these remaining eight Comparable Issues.

As mentioned above, under the pricing mechanism, the subscription price of the Subscription Share will be set at a level not lower than the most recent net asset value per Share which provides a floor on the issue price of the Parent Company Subscription. In the event that the prevailing trading price of the H Shares on the Effective Date is higher than HK$14.00, the final price of the Subscription Share will be set at 90% of the prevailing trading price of the H Shares, representing not more than 10% discount to the prevailing trading price on or preceding the Effective Date. Under the pricing mechanism of the Parent Company Subscription, the issue price of the Subscription Shares would be issued at not more than 10% discount to the prevailing market price of the H Shares, such issue price would be within the range of discount of the subscription price over the closing price of the Comparable Issues as well as below the average discount of the respective subscription price of the Comparable Issues. In forming our opinion, we have considered the result of the above comparison and analysis together with all other factors stated in this letter as a whole.

Based on the above, we are of the view that the pricing mechanism of the Parent Company Subscription and the terms under the 2020 Parent Company Domestic Shares Subscription Agreement are 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.

4. Possible financial effects on the Parent Company Subscription to the Group

Earnings

Reference is made to the prospectus of the Company dated 6 November 2002 (the "**Prospectus**"), the Company and the Parent Company entered into the Runway Agreement in respect of the operation and maintenance of the runway at Meilan Airport and other integrated services provided to airline customers in consideration for a right to 25% of certain of the aircraft fees, passenger charges and basic ground handling service fees. The parties had confirmed in the Runway Agreement that the Service Fees comprising the aircraft movement fees (for domestic, Hong Kong, Macau and foreign airlines), the passengers 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 acquisition of Phase I Runway Assets), there is no immediate material impact on the 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. It is expected that as a result of completion of the acquisition of Phase I Runway Assets, the current 25% share of Service Fees by the Parent Company would be greatly reduced in the future, which could 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 acquisition of Phase I Runway Assets.

Working capital

Based on the 2019 Annual Report, the Group's deficiency of working capital (i.e. total current assets of approximately RMB2,033.9 million, less total current liabilities of approximately RMB5,147.2 million) as at 31 December 2019 amounted to approximately RMB3,113.3 million, representing a current ratio of approximately 40%. This showed that the Group's working capital position was relatively tighter at that time.

As the total consideration for the acquisition of Phase I Runway Assets will be fully settled by allotment and issue of the Subscription Shares to the Parent Company, it would not exert any considerable immediate pressure on the working capital of the Group. Immediately after 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 the completion of the Parent Company Subscription, as the increase in the value of the non-current assets attributable to the Phase I Runway Assets will be funded by the allotment and issue of new Domestic Shares as the consideration for the Runway Acquisition, whilst the Parent Company Subscription would generate meaningful cash resources and enhance the net asset value of the Group.

According to the 2019 Annual Report, the Group had consolidated net asset value (excluding non-controlling interests) of approximately RMB5,152.6 million as at 31 December 2019, representing a net asset value per Share of approximately RMB10.80 (equivalent to approximately HK$12.06). Based on the minimum subscription price of RMB10.80 per Subscription Share which would be the same as the audited consolidated net asset value per Share attributable to the Shareholders as at 31 December 2019, it is anticipated that the total net asset value of the Group would increase immediately after the completion of the Parent Company Subscription.

Gearing position

As at 31 December 2019, the Group's interest-bearing borrowings and net asset value amounted to approximately RMB2,938.6 million and RMB5,152.6 million, respectively, and hence a relatively moderate 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 21.69%. As the 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.

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.

5. Potential dilution effect on the interests of other public Shareholders

Based on the shareholding structure of the Company as at the Latest Practicable Date as set out in the Letter from the Board, 175,992,350 H Shares were held by public Shareholders which represent approximately 37.19% of the issued share capital of the Company. Immediately after the Parent Company Subscription and assuming the Company fails to issue any New H Shares, the corresponding shareholding of public Shareholders will be diluted by approximately 8.52% to approximately 28.67%. In view of such scenario, the dilution of shareholding appears to be pretty material, while such dilution is inevitable on the grounds that the Company 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. The abovementioned dilution effect does not represent the theoretical dilution effect as defined under Rule 7.27B of the Listing Rules. For details of the possible changes in share capital and shareholding structure, please refer to the Letter from the Board in this circular.

However, the Independent Shareholders should note that dilution of the earnings per Share and shareholding is inevitable for the allotment and issue of new Domestic Shares and New H Shares. Having considered (i) the benefit of the Runway Acquisition, (ii) the possible enhancement and broadening of shareholders' capital base of the Company upon completion of the Subscription and the Parent Company Subscription and (iii) the expected increase in the total net asset value of the Group upon completion of the Subscription and the Parent Company Subscription, we consider that the dilution of the shareholding will outweigh the dilution impact to the Independent Shareholders and is fair and reasonable, so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above principal factors, we are of the opinion that the 2020 Parent Company Domestic Shares Subscription Agreement were entered into after arm's length negotiations between the Company and the Parent Company on normal commercial terms and in the normal course of business of the Company, and the terms of the 2020 Parent Company Domestic Shares Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned as well as in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favor of the Parent Company Subscription to be proposed at the EGM and the Class Meeting.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung
Managing Director

Louis Chan
Director

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 28 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 18 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 2017, 2018 and 2019 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 2017 published on 18 April 2018 (pages 141 to 268) (http://www.hkexnews.hk/listedco/listconews/sehk/2018/0418/ltn20180418381.pdf);
- annual report of the Company for the year ended 31 December 2018 published on 18 April 2019 (pages 156 to 264) (https://www.hkexnews.hk/listedco/listconews/sehk/2019/0418/ltn20190418428.pdf); and
- annual report of the Company for the year ended 31 December 2019 published on 22 April 2020 (pages 172 to 284) (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0422/2020042200577.pdf).

2. INDEBTEDNESS

As at the close of business on 30 June 2020, 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:

	RMB'000
Bank borrowings	
Short-term borrowings – guaranteed and secured borrowings (a)	379,450
Syndicated Loan – guaranteed and secured borrowings (b)	1,944,000
Sub-total of bank borrowings	2,323,450
Other borrowings	
Short-term borrowings – guaranteed and secured borrowings (c)	530,963
Total borrowings	**2,854,413**
Other indebtedness:	
Interests on borrowings payable	68,011
Lease liabilities (d)	77,466
Entrusted loan with guarantee (e)	28,172
Amounts due to related parties without guarantee (f)	868,133
Total indebtedness	**3,896,195**

(a) On 24 October 2019, the Company entered into a working capital loan agreement with Haikou Branch of Nanyang Commercial Bank (China) Limited, whereby the Company obtained secured borrowing of RMB379,450,000, which was guaranteed by land security by Parent Company, with fixed interest rate of 6% per annum.

(b) On 5 December 2019, the Company has drawn down principal amounting to RMB1,944,000,000 from borrowings under the syndicated loan arrangement, which was presented as non-current liabilities due within one year. The borrowings bear interest rate of 4.9% per annum. For detailed syndicated loan arrangement, please refer to the following disclosures in relation to the co-borrowing.

(c) On 23 August 2019, the Company entered into a non-guaranteed borrowing agreement with Aero Infrastructure Investment Company Limited, whereby the Company obtained borrowing of US$75,000,000 (equivalent to approximately RMB530,962,500 as at 30 June 2020). The Company repaid the principal and interest in one lump sum on 8 July 2020.

(d) Lease liabilities represent the minimum lease payments of the Group after deducting unrecognised finance charges. As at 30 June 2020, the unrecognised financing charge amounted to RMB2,278,225. As at 30 June 2020, the lease liabilities amounted to RMB77,465,533, RMB69,711,596 of which would be due within one year.

(e) Payables for entrusted loan with guarantee represent the minimum payment of entrusted loan provided by Dongyin Financial Leasing (Tianjin) Co., Ltd.* (東銀融資租賃(天津)有限公司) to the Group less unrecognized finance charges. As at 30 June 2020, the balance of entrusted loans was RMB28,172,227, and such amounts are due within one year. Such loan was guaranteed by the Parent Company.

(f) Amounts due to related parties without guarantee include other payables to HNA Group Co., Ltd.* (海航集團有限公司) and the Parent Company. As at 30 June 2020, the balance of amounts due to related parties was RMB868,133,098, and such amounts have no agreed fixed repayment period and were presented as current liabilities.

Co-borrowing

In relation to the construction of the Phase II Expansion Project, in February 2018, the Parent Company (as the borrower) and the Company (as the co-borrower) has entered into the RMB Syndicated Loan Agreement for the Phase II Expansion Project (the "**Syndicated Loan Agreement**") with China Development Bank (as the leading bank), Industrial and Commercial Bank of China Limited and Agricultural Bank of China Limited (as participating banks) with a total loan facility of RMB7.8 billion (the "**Syndicated Loan**"), which shall be specially used for the Phase II Expansion Project. The term of the Syndicated Loan is 20 years. Pursuant to the Syndicated Loan Agreement, the Company as the co-borrower shares the rights, obligations and responsibilities with the Parent Company, and is jointly liable for the repayment under the Syndicated Loan Agreement. The restrictions, e.g. statement of guarantee, draw-down and repayments, default and liabilities of default, set out in the Syndicated Loan Agreement on the Parent Company are all applicable to the Company.

On 1 February 2018, the Parent Company and the Company have entered into an agreement in respect of the allocation of total loan facilities of RMB7.8 billion under the Syndicated Loan Agreement, pursuant to which the facilities were allocated to the Parent Company and the Company at RMB3.9 billion each. The airport land and the buildings of the Company were pledged as collateral for the Syndicated Loan. Meanwhile, the Company agreed to pledge the land and aboveground buildings of the Phase II Expansion Project and the assets of the Phase II Expansion Project (including but not limited to land and buildings above ground) formed after completion of its construction as the collateral for the Syndicated Loan.

As at 30 June 2020, the Parent Company has drawn down an amount of RMB3.23 billion and the Company has drawn down an amount of RMB1.94 billion from the Syndicated Loan. During the year ended 31 December 2019, the overdue of debts of the Parent Company has constituted a default event as defined in the Syndicated Loan Agreement, resulting in the loan syndicate has the right to take one or more measures, including but not limited to (i) suspending loan offering to the Company; (ii) cancelling all or part of the total promised loan amount granted to the Company; (iii) announcing the acceleration of maturity of the loan used by the Company while requesting the Company to repay the principal and interest of the loan granted within a time limit. In addition, the loan syndicate has the right to request the Company at any time to undertake the joint repayment liabilities as a co-borrower to repay the principal and interest of the loan which has been drawn down by the Parent Company.

Up to the Latest Practicable Date, the Company and the Parent Company have not obtained the written waiver from the loan syndicate, nor have they received any notice from the loan syndicate to request early repayment. The Company has drawn down principal totalling RMB1.94 billion from the Syndicated Loan, which was presented as non-current liabilities due within one year. In respect of the Syndicated Loan of RMB3.23 billion drawn down by the Parent Company and have been defaulted which the Company is jointly liable as the co-borrower, the Company considered the probability of payment is not high and thus has not recognised this loan commitment.

As mentioned above, though the Company and the Parent Company have not obtained the written waiver from the loan syndicate for the overdue of debts of the Parent Company, they have not received any notice from the loan syndicate to request early repayment and the Hainan government is actively assisting in coordinating the release of the Syndicated Loan, therefore the Company believes that there will be no adverse impact on the Airport Project. If such waiver is not obtained subsequently, the Company will raise funds through multiple channels, including but not limited to the channels mentioned in (ii) to (iii) on pages 13 to 14 of this circular. The Company confirms that the Parent Company's default on the Syndicated Loan will not have any material adverse impact on the Parent Company Subscription and the New H Shares Issue.

At the close of business on 30 June 2020, other than the loan undertaking to the Parent Company under the above co-borrowing arrangement, Group had no other 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 30 June 2020, 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 30 June 2020.

3. WORKING CAPITAL

As at 30 June 2020, the Group recorded net current liabilities of approximately RMB5.33 billion (31 December 2019: net current liabilities of approximately RMB3.11 billion), including short-term borrowings of approximately RMB0.91 billion, amounts due to related parties of approximately RMB0.87 billion and other non-current liabilities due within one year of approximately RMB2.04 billion.

The Company and the Parent Company are jointly constructing the Phase II Expansion Project. The Parent Company (as the borrower) and the Company (as the coborrower) have obtained the Syndicated Loan specific for the construction of the Phase II Expansion Project with total facility of RMB7.8 billion and maturity of 20 years. Pursuant to the Syndicated Loan Agreement, the Company and the Parent Company are jointly liable for repayment of the Syndicated Loan. During 2019, the overdue of debts of the Parent Company has constituted a default event as defined in the Syndicated Loan Agreement, resulting in the loan syndicate has the right to suspend loan offering to the Company and request the Company to early repay the Syndicated Loan drawn down by the Company amounting to RMB1.95 billion as at 30 June 2020 and the Syndicated Loan drawn down by the Parent Company amounting to RMB3.23 billion as at 30 June 2020 which the Company is jointly liable for repayment as the co-borrower. Up to the date of this circular, the Company and the Parent Company have not obtained the written waiver from the loan syndicate, nor have they received any notice from the loan syndicate to take any measures mentioned above.

The capital expenditure of the Phase II Expansion Project which the Company being responsible for is estimated to be approximately RMB7.65 billion. As at 30 June 2020, the construction fee payable of the Company relating to the Phase II Expansion Project amounted to approximately RMB0.94 billion which is to be paid in the coming twelve months, the Company's capital expenditure commitment relating to the Phase II Expansion Project amounted to approximately RMB1.47 billion, of which approximately RMB0.8 billion is expected to be paid in the coming twelve months according to the construction plan of the project.

Following the outbreak of pneumonia epidemic (the "**Epidemic**") caused by the novel coronavirus in January 2020, a series of strict control measures including alert of emergency public health event and travel restrictions have been implemented by China and other countries in the world in response to the spread of the virus, which would be of an adverse impact to Group's revenue and operating cash inflow for 2020.

The above events or circumstances indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Given the above-mentioned, the Directors of the Company have cautiously taken into account the Group's future working capital, operation results and available sources of financing to assess whether the Group has sufficient working capital to meet its current requirement and continue as a going concern for at least of 12 months from the date of this circular. The Group and the Parent Company is trying to take certain measures to relieve the liquidity pressure, including but not limited to:

1) The Parent Company and the Company are in negotiation with the loan syndicate to obtain written confirmation from the loan syndicate for not exercising its right to require the Parent Company and the Company to repay the principal and interest of their respective Syndicated Loan within a time limit or to require the Company, as a co-borrower, to repay the Syndicated Loan drawn down by the Parent Company;

2) The Parent Company and the Company continue to coordinate with the government of Hainan Province, the Parent Company's shareholders and the loan syndicate to seek continuance funding of the Phase II Expansion Project, including but not limited to issuance of local government bonds. The Company has drawn down the Syndicated Loan of approximately RMB1.944 billion in December 2019, and continue to seek loan syndicate's agreement to release the facilities according to the Syndicated Loan Agreement;

3) The Company proposed the Parent Company Subscription and the New H Shares Issue to obtain financing of no less than approximately RMB1.674 billion. Currently, the Parent Company Subscription and the New H Shares Issue, which are expected to be completed in 2021, are subject to the approval of the EGM and the Class Meetings and the relevant authorities and/or regulatory agencies;

4) In respect of the loans other than the Syndicated Loan, the Company will negotiate with relevant banks or lenders to renew or extend loan contracts before the maturity. In addition, the Company will continue to seek other external funding such as bond issuance; and

5) The Group has taken a number of measures to mitigate the adverse impact of the Epidemic, including but not limited to a) implement staff rotation and working schedule adjustments to reduce the utilities expenses and labor costs; b) benefit from the accelerated construction of Hainan Free Trade Port, further loosening of the off-shore duty-free policy and the Epidemic basically under control in all parts of China, the routes of Meilan Airport have been largely restored. In July 2020, the Group has recorded a 85% and 80% recovery respectively in passenger and cargo throughput and flight take-offs and landings as compared to the same period of last year, and also recorded a large increase in non-aeronautical business revenue from franchising of duty-free operation as compared to the same period of last year.

The Directors of the Company have reviewed the Group's cash flow forecast prepared by the management of the Company. In the opinion of the Directors, after taking into account the Group's available internal resources (including internally generated funds and available bank and other financing resources), and in the consideration of the above key assumptions, the Group has sufficient working capital to meet its current requirements for at least 12 months from the date of this circular, in the absence of unforeseeable circumstances of the Group.

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

1) The Parent Company and the Company would be able to successfully obtain written confirmation from the loan syndicate for not to require the Parent Company and the Company to repay the principal and interest of their respective Syndicated Loan within a time limit and not to require the Company, as a co-borrower, to repay the Syndicated Loan drawn down by the Parent Company;

2) The remaining capital injections of the Phrase II Expansion Project would be timely received and the loan syndicate would continue to release the unutilized facilities in accordance with the Syndicated Loan Agreement;

3) Approval of the Parent Company Subscription and New H Shares Issue would be granted and completed on schedule; and

4) The Group would be able to renew or extend the loans when they are matured and obtain new facility lines and other financing plans and arrangements to repay the loans and to support its future operations.

If the above-mentioned conditions could not be satisfied and the Group fails to take other measures to defer the repayment of bank borrowings and construction costs due within the next 12 months, the Group will not have sufficient working capital for its present requirements that is 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 2019, the Group recorded an audited revenue of RMB1,576,371,078, and a net profit attributable to Shareholders of RMB575,412,545. Earnings per share was RMB1.22.

Since the outbreak of the Epidemic in January 2020, various emergency public health measures and other actions have been taken by China and other countries and regions in the world to prevent the spread of the Epidemic, including controlling the movement of people and traffic to a certain extent and imposing restrictions on the resumption of work after the Chinese New Year holiday. The Epidemic also had a material impact on the aviation industry. It is expected that in the first half of 2020, the main business indicators of the Group will decline significantly as compared with the corresponding period of last year. In July 2020, the operation of Meilan Airport presented a good situation with accelerated recovery growth. At present, the average number of domestic flights per day of Meilan Airport amounts to 340 times with domestic passenger throughput amounting to 46 thousand, representing a year-on-year recovery to around 85% and 80%, respectively. With the reduction of the impact of the Epidemic in China, the resumption of work and production, and the orderly recovery of the market, the passenger throughput of Meilan Airport will be further improved. The Company expects that the impact of the Epidemic to the Group will be limited and will not constitute a material adverse change of the Group.

To actively deal with the adverse effect brought by the Epidemic and on the premise of ensuring safety production, the Group will effectively take advantages of various favorable policies on development of the civil aviation industry, step up route development, expand route coverage network, enhance its presence in international aviation market, promote Hainan Province to give full play to its role as a strategic fulcrum of the "Maritime Silk Road"; strengthen the construction of international ports and cross-border e-commerce, international distribution and international re-export functions, and build an aviation logistics network linking Australia, New Zealand and Southeast Asia, with a view to enhancing the revenue from the non-aviation business of Meilan Airport comprehensively; extensively participate in the assessment by the authorities in the industry including SKYTRAX and Airports Council International, strength the positive interaction with media and enhance brand values; establish a sound corporate value management system by ways of capital operation and investor relations maintenance to promote the effective improvement on the corporate value of the Company and strive to achieve the healthy and sustainable development of Meilan Airport, thus delivering more outstanding performance to all the Shareholders.

Aviation Business

In 2020, the Company will focus on improving the aviation market development in the two flight seasons of civil aviation by focusing on two core indicators, namely, improving the use of available time slots and passenger load factor, thereby fostering a larger passenger throughput to lay a good and solid foundation for the completion of annual production tasks. We will continue to promote the expansion of time slots and their utilisation to solve the development bottlenecks; continue to improve the fine management of flights to achieve business transformation and expansion. We will widen the amount of services provided at check-in desks and accelerate the construction of the international transit hub.

Non-aviation Business

In 2020, the Company will be proactively "identifying potential passengers and expanding throughput", with the goal of creating normalized brand promotions, data-oriented development, precision marketing; strengthening market research; comprehending passenger consumption needs; and establishing a routine marketing mechanism; comprehensively enhancing revenue from non-aviation business of Meilan Airport.

In the meantime, the Company will also substantiate efforts in brand promotion, and improve the service quality of Meilan Airport; optimise the financial structure to ensure funding balance; strengthen the safety management and control to smoothly realize the 22nd year of safety operation of Meilan Airport; push forward the infrastructure construction at all strength. While ensuring the steady progress of infrastructure projects under construction at Meilan Airport, vigorously push forward the construction of the Phase II Expansion Project, strive to turn Meilan Airport into a comprehensive multi-dimensional transportation hub in northern Hainan, covering the whole Hainan Province and connecting Southeast Asia, by 2020.

A. THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

Below are the unaudited pro forma consolidated balance sheet, the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement (the "**Unaudited Pro Forma Financial Information**") for illustrative purposes only, which have been compiled in accordance with paragraph 4.29 of the Listing Rules and the notes set out below to illustrate the financial impact of the Supplemental Investment and Construction Agreement, as if the financial impact had taken place at 31 December 2019 (as for the Group's unaudited pro forma consolidated balance sheet) and at 1 January 2019 (as for the Group's unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement).

The unaudited pro forma financial information is prepared for illustrative purposes only, and due to its hypothetical nature, it may not truly reflect the financial position, financial performance and cash flows of the Group if the Phase II Expansion Project as agreed in the Supplemental Investment and Construction Agreement (the "**Company Construction Project**") has been completed on 31 December 2019, 1 January 2019 or any future date respectively.

The unaudited pro forma financial information should be read in conjunction with other financial information contained in other sections of this circular.

(I) The Group's unaudited pro forma consolidated balance sheet as at 31 December 2019

	The Group's audited consolidated balance sheet	Pro forma adjustments		The Group's unaudited pro forma consolidated balance sheet
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	
Assets				
Current assets				
Cash at bank and on hand	1,511,750	1,956,000	(3,448,465)	19,285
Accounts receivable	490,503			490,503
Prepayments	7,611			7,611
Other receivables	13,857			13,857
Inventories	696			696
Other current assets	9,460			9,460
Total current assets	2,033,877			541,412
Non-current assets				
Long-term equity investments	1,402,717			1,402,717
Investment properties	1,217,722			1,217,722
Fixed assets	2,237,698		6,543,350	8,781,048
Construction in progress	3,247,885		(3,247,885)	–
Right-of-use assets	116,963			116,963
Intangible assets	157,208		1,103,000	1,260,208
Long-term prepaid expenses	7,092			7,092
Deferred tax assets	14,735			14,735
Other non-current assets	1,020,266		(950,000)	70,266
Total non-current assets	9,422,286			12,870,751
Total assets	**11,456,163**			**13,412,163**
Liabilities				
Current liabilities				
Short-term borrowings	902,665			902,665
Accounts payable	310,339			310,339
Advances from customers	131,600			131,600
Contract liabilities	638			638
Employee benefits payable	30,324			30,324
Taxes payable	491,065			491,065
Other payables	1,229,632			1,229,632
Current portion of non-current liabilities	2,050,930	1,956,000		4,006,930
Total current liabilities	5,147,193			7,103,193

	The Group's audited consolidated balance sheet	Pro forma adjustments		The Group's unaudited pro forma consolidated balance sheet
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	
Non-current liabilities				
Lease liabilities	2,480			2,480
Long-term payables	904,341			904,341
Deferred revenue	52,226			52,226
Long-term employee benefits payable	58			58
Deferred tax liabilities	279			279
Other non-current liabilities	196,995			196,995
Total non-current liabilities	**1,156,379**			**1,156,379**
Total liabilities	**6,303,572**			**8,259,572**
Shareholders' equity				
Share capital	473,213			473,213
Capital surplus	819,662			819,662
Surplus reserve	246,394			246,394
Other comprehensive income	(19,524)			(19,524)
Retained earnings	3,589,087			3,589,087
Total equity attributable to shareholders of the Company	5,108,832			5,108,832
Minority interests	43,759			43,759
Total equity	**5,152,591**			**5,152,591**
Total liabilities and equity	**11,456,163**			**13,412,163**

(II) The Group's unaudited pro forma consolidated income statement for the year ended 31 December 2019

	The Group's audited consolidated income statement	Pro forma adjustment	The Group's unaudited pro forma consolidated income statement
	RMB'000	*RMB'000*	*RMB'000*
	Note 1	*Note 5*	*Note 5*
Revenue	**1,576,371**		**1,576,371**
Cost of sales	(720,860)		(720,860)
Taxes and surcharges	(30,493)		(30,493)
Selling and distribution expenses	(6,109)		(6,109)
General and administrative expenses	(72,193)		(72,193)
Financial income net	14,042		14,042
Expected credit loss of financial assets	(2,198)		(2,198)
Investment income	6,858		6,858
Gains on disposals of assets	3,405		3,405
Other income	3,151		3,151
Operating profit	**771,974**		**771,974**
Non-operating income	113		113
Non-operating expenses	(36)		(36)
Total profit	**772,051**		**772,051**
Income tax expenses	(190,686)		(190,686)
Net profit	**581,365**		**581,365**
Attributable to shareholders of the Company	575,413		575,413
Minority interests	5,952		5,952
	581,365		581,365

(III) The Group's unaudited pro forma consolidated cash flow statement for the year ended 31 December 2019

	The Group's audited consolidated cash flow statement	Pro forma adjustments		The Group's unaudited pro forma consolidated cash flow statement
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 5*
Cash flows from operating activities				
Cash received from sales of goods or rendering of services	1,737,554			1,737,554
Cash received relating to other operating activities	206,510			206,510
Sub-total of cash inflows	**1,944,064**			**1,944,064**
Cash paid for goods and services	(344,110)			(344,110)
Cash paid to and on behalf of employees	(229,826)			(229,826)
Payments of taxes and surcharges	(114,086)			(114,086)
Cash paid relating to other operating activities	(424,764)			(424,764)
Sub-total of cash outflows	**(1,112,786)**			**(1,112,786)**
Net cash flows from operating activities	**831,278**			**831,278**
Cash flows from investing activities				
Net cash received from disposals of fixed assets	3,275			3,275
Cash received relating to other investing activities	629,422			629,422
Sub-total of cash inflows	**632,697**			**632,697**
Cash paid to acquire fixed assets and other long-term assets	(1,319,680)		(3,448,465)	(4,768,145)
Sub-total of cash outflows	**(1,319,680)**			**(4,768,145)**
Net cash flows from investing activities	**(686,983)**			**(4,135,448)**

	The Group's audited consolidated cash flow statement	Pro forma adjustments		The Group's unaudited pro forma consolidated cash flow statement
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 5*
Cash flows from financing activities				
Cash received from borrowings	2,840,485	1,956,000		4,796,485
Cash received relating to other financing activities	842,861			842,861
Sub-total of cash inflows	**3,683,346**			**5,639,346**
Cash repayments of borrowings	(2,199,450)			(2,199,450)
Cash payments for interest expenses and distribution of dividends or profits	(168,509)			(168,509)
Cash payments relating to other financing activities	(50,381)			(50,381)
Sub-total of cash outflows	**(2,418,340)**			**(2,418,340)**
Net cash flows from financing activities	**1,265,006**			**3,221,006**
Effect of foreign exchange rate changes on cash and cash equivalents	**20,490**			**20,490**
Net increase/(decrease) in cash and cash equivalents	**1,429,791**			**(62,674)**
Add: Cash and cash equivalents at the beginning of the year	81,959			81,959
Cash and cash equivalents at the end of the year	**1,511,750**			**19,285**

Note 1: Amounts are extracted from the Group's audited consolidated balance sheet as at 31 December 2019, the audited consolidated income statement and the audited consolidated cash flow statement for the year ended 31 December 2019 as set out in the published annual report of the Company for the year ended 31 December 2019.

The Group had a net current liabilities amounted to RMB3.11 billion as at 31 December 2019. The overdue of debts of the Company's Parent Company incurred during the year ended 31 December 2019 has resulted in the loan syndicate has the right to suspend offering loan to the Company and request, at any time, the Company to early repay the principal and interest of the Syndicated Loan drawn down. In addition, the Group's capital commitment amounted to approximately RMB2.80 billion as at 31 December 2019, of which approximately RMB1.83 billion is expected to be paid in 2020 according to the construction plan of the project. These conditions, together with other matters set forth in the consolidated financial statements for the year ended 31 December 2019, indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statement for the year ended 31 December 2019 has been prepared in conformity with the principles applicable to a going concern basis. For details, please refer to the Company's consolidated financial statements for the year ended 31 December 2019.

Note 2: Adjustment refers to draw down of the remaining facilities of the Syndicated Loan specified for the Company Construction Project amounting to RMB1.956 billion. The overdue of debts of the Company's Parent Company incurred during the year ended 31 December 2019 has constituted a default event as defined in the Syndicated Loan Agreement, resulting in the loan syndicate has the right to request the Company to early repay the Syndicated Loan drawn down by the Company, accordingly, the outstanding balances of the Syndicated Loan were presented as "current portion of non-current liabilities" in the balance sheet.

Note 3: Pursuant to the Supplemental Investment and Construction Agreement, the Company and the Parent Company have agreed that the Company should provide funds amounting to approximately RMB7.646 billion, to construct the Company Construction Project.

The following table summarises the construction costs required under the Supplemental Investment and Construction Agreement as if the Company Construction Project had taken place at 31 December 2019:

	RMB'000
Fixed assets – construction and other costs *(note a)*	6,543,350
Intangible assets – cost for land acquisition and settlement compensation *(note b)*	1,103,000
Total construction costs for the Company Construction Project	7,646,000

Notes:

(a) By reference to the agreed estimated construction cost under the Supplemental Investment and Construction Agreement, the estimated investment amounts in relation to the fixed assets under the Company Construction Project are RMB6.54 billion, among which the construction in progress amounting to RMB3.25 billion as at 31 December 2019 would be reclassified to fixed assets upon completion of the project and when the fixed assets are ready for use.

(b) By reference to the agreed estimated construction cost under the Supplemental Investment and Construction Agreement, the estimated investment amounts in relation to the land acquisition and settlement compensation is estimated at RMB1,103 million, in which the Group's other non-current assets amounting to RMB950 million as at 31 December 2019, representing the prepayment of acquisition cost of the land use right for the Company Construction Project would be reclassified to intangible assets upon completion.

(c) For the purpose of the Unaudited Pro Forma Financial Information, the directors of the Company assumed to finance the Company Construction Project by drawing down the remaining facilities from the Syndicated Loan amounting to RMB1.956 billion and cash balance amounting to RMB1.492 billion.

(d) Since the Company Construction Project is still under progress, the actual aggregate amounts to be invested by the Group may be different from the estimated investment amount set out in the Supplementary Investment and Construction Agreement which are used in preparing this Unaudited Pro forma Financial Information, and such difference may be significant.

Note 4: The Company and the Parent Company have agreed to raise funds for the construction of the Airport Project through issuance of Local Government Special Bonds. Certain proportion of the proceeds from the Local Government Special Bonds will be allocated to the Company for the construction of the Company Construction Project. For the purpose of this Unaudited Pro Forma Financial Information, the proceeds from the Local Government Special Bonds are not presented as pro forma adjustments.

Note 5: For the purpose of preparing the pro forma consolidated income statement and the pro forma consolidated cash flow statement, the directors of the Company consider it is impracticable to estimate the revenue to be generated from the Phase II Expansion Project.

The following table presents the estimated depreciation of plant, property and equipment, amortisation of intangible assets, interest expenses related to bank borrowings and government bonds and the corresponding tax impact for the year ended 31 December 2019, assuming that the Phase II Expansion Project had been completed on 1 January 2019. The estimated amounts of depreciation and amortisation are determined in accordance with the accounting policies currently adopted by the Group. Assuming that the Company Construction Project had been completed and put into use on 1 January 2019, the actual capitalized interest expenses of the Company in 2019 would be recognized in profit or loss; meanwhile, assuming that the Company had borrowed the remaining facilities of the Syndicated Loan of RMB1.956 billion on 1 January 2019, the corresponding interest expenses in 2019 would be recognized in profit or loss, amounting to approximately RMB266,629,000 in total. All depreciation, amortization, interest expenses and the corresponding tax impact will have a continuous impact on the Group's performance, while interest expenses and the corresponding tax impact will have a continuous impact on the Group's cash flow. In 2020, the preferential income tax rate of 15% is applicable to the Company according to relevant provisions of the Notice regarding Hainan Free Trade Port's Preferential Policies on Corporate Income Tax (Cai Shui [2020] No. 31).

	RMB'000
Depreciation of property, plant and equipment	163,584
Amortization of intangible assets	22,060
Interest expenses	266,629
– Syndicated Loan (a)	191,100
– Other borrowings and corporate bonds (b)	75,529
Tax impact	(67,841)
	384,432

(a) It is calculated based on the total Syndicated Loan of RMB3.9 billion using its applicable annual interest rate;

(b) Interest expenses of RMB75,528,548 on other borrowings and corporate bonds refer to the capitalized interest expenses of RMB82,574,882 as disclosed in the Note 4 (32) of the Company's annual financial statements for the year ended 31 December 2019, excluding the amount of RMB7,046,334 which arose from the Syndicated Loan. The Company repaid all the corporate bonds during the year ended 31 December 2019 and the remaining borrowings as at 31 December 2019 is due within one year.

The Directors of the Company are of the view that presenting the above costs and expenses relating to the Phase II Expansion Project without presenting the corresponding revenue to be generated from the Phase II Expansion Projects in the Unaudited Pro Forma Financial Information will render such information misleading from readers' perspectives. Therefore, the Directors believe it is more appropriate to disclose the above costs and expenses by way of notes instead of presenting them as pro forma adjustments.

Note 6: Apart from notes 2 and 3 above, no other adjustments have been made to reflect the Group's business performance or other transactions after 31 December 2019, in particular, the outbreak of pneumonia epidemic caused by the novel coronavirus in January 2020.

Note 7: Apart from Note 5, the above adjustments are not expected to have a continuous impact on the Group's unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of a report received from PricewaterhouseCoopers Zhong Tian LLP, for the purpose of incorporation in this circular.

pwc 普華永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Hainan Meilan International Airport Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hainan Meilan International Airport Company Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated balance sheet as at 31 December 2019, the unaudited pro forma consolidated income statement for the year ended 31 December 2019, the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2019 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages 77 to 85 of the Company's circular dated 20 August 2020, in connection with the proposed transaction in relation to the supplemental investment and construction agreement (the "**Transaction**") by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages 77 to 85.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group's financial position as at 31 December 2019 and the Group's financial performance and cash flows for the year ended 31 December 2019 as if the Transaction had taken place at 31 December 2019 and 1 January 2019, respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the directors from the Group's financial statements for the year ended 31 December 2019, on which an audit report has been published.

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Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 31 December 2019 nor 1 January 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
20 August 2020

I. BACKGROUND

(I) Hainan Meilan International Airport Company Limited

Haikou Meilan International Airport commenced its services on 25 May 1999, and with beautiful scenery, spectacular view and a greenbelt area ratio of up to 99.6%, it was considered as China's No. 1 ecological landscape garden airport.

In recent years, Haikou Meilan International Airport has developed rapidly. The transportation capacity has been rising over the years, and it has enjoyed a sustained annual growth rate of passenger throughput at 10% above. As of 26 December 2011, the passenger throughput of Haikou Meilan International Airport had a breakthrough of 10,000,000, since which, it has been considered on a par with other major airports in Mainland China. In March 2012, the National Development and Reform Commission approved the implementation of 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 relevant requirements, CHELBI ENGINEERING CONSULTANTS, INC. was commissioned by Hainan Meilan International Airport Company Limited (hereinafter referred to as "**Meilan Airport**") in March 2020 to conduct a forecast on the traffic of Haikou Meilan International Airport in the coming 30 years (year of prospects: 2050) for the purpose of the incorporation in the circular.

(II) CHELBI ENGINEERING CONSULTANTS, INC.

CHELBI ENGINEERING CONSULTANTS, INC. (hereinafter referred to as "**Chelbi**") was established in 1984. As one of the earliest sino-foreign joint venture engineering consulting companies in Mainland China, it is currently one of the largest sino-foreign joint venture engineering consulting companies in Mainland China and is principally engaged in businesses such as the research of transportation development strategies, planning and feasibility study of transportation and construction engineering projects, the research, survey and design, bidding consultation and bidding agency, project evaluation and project management of loan technical assistance projects of international financial organizations, the traffic safety study, consultation on the financing and marketization operation of transportation infrastructure projects.

(III) 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 2005-2019 Air Transport Statistics;
- Sanya Phoenix International Airport 2006-2019 Air Transport Statistics;
- The World Bank – Global Economic Prospects 2020: Slow Growth, Policy Challenges;
- Global Economic Prospects (South Asia);
- 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 yearbooks and statistic communiqués of Hainan Province;
- Hainan International Tourism Island Construction Development Plan (2010-2020);
- Other industry-related regulations and standards.

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

II. MEILAN INTERNATIONAL AIRPORT'S HISTORICAL DEVELOPMENT TREND

Being a modernized 4E-rating civil airport, Haikou Meilan International Airport has been developing rapidly in recent years, and the three indicators, namely the passenger throughput, cargo and mail throughput and aircraft takeoff and landing, have retained a relatively fast-growing momentum. From the perspective of the annual average growth rate (from 2005 to 2019), the passenger throughput, cargo and mail throughput and aircraft takeoff and landing have risen by 9.2%, 7.9% and 7.7% respectively, and the increase in the proportion of wide-body passenger aircraft and large passenger aircraft makes it possible to meet more transportation needs without changing the times of aircraft takeoff and landing.

The passenger throughput of Meilan International Airport from 2005 to 2019 is shown in the table below.

Table 1 Historic passenger throughput of Meilan International Airport (Unit: headcount/year)

Year	Total	Domestic	International	Regional
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
2016	18,803,727	17,994,611	425,069	384,047
2017	22,584,815	21,540,933	597,285	446,597
2018	24,123,582	22,814,745	835,934	472,903
2019	24,216,552	22,590,092	1,176,465	449,995
		Annual average growth rate		
2006–2010	4.5%	4.4%	16.8%	3.4%
2011–2015	13.0%	13.2%	5.0%	12.8%
2016–2019	10.6%	9.7%	48.1%	10.4%
2006–2019	9.2%	9.0%	20.3%	8.7%

The cargo and mail throughput of Meilan International Airport from 2005 to 2019 is shown in the table below.

Table 2 Historic cargo and mail throughput of Meilan International Airport (Unit: ton/year)

Year	Total	Domestic	International	Regional
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
2016	148,814.2	145,566.0	2,471.3	776.9
2017	154,495.7	151,376.5	2,152.2	967.0
2018	168,622.1	164,158.9	3,503.8	959.4
2019	175,566.7	168,831.5	5,680.3	1,054.9
		Annual average growth rate		
2006–2010	8.6%	8.7%	-16.4%	-0.5%
2011–2015	8.2%	8.2%	18.0%	17.6%
2016–2019	6.6%	5.7%	131.6%	15.0%
2006–2019	7.9%	7.7%	26.5%	10.1%

The aircraft takeoff and landing of Meilan International Airport from 2005 to 2019 is shown in the table below.

Table 3 Historic aircraft takeoff and landing of Meilan International Airport (Unit: time/year)

Year	Total	Domestic	International	Regional
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
2016	132,857	126,742	3,033	3,082
2017	156,065	147,449	4,958	3,658
2018	164,090	154,718	5,739	3,633
2019	163,957	152,266	8,040	3,651
		Annual average growth rate		
2006–2010	3.1%	3.1%	10.7%	-2.2%
2011–2015	12.5%	12.6%	10.5%	10.8%
2016–2019	7.7%	6.8%	33.2%	11.8%
2006–2019	7.7%	7.5%	16.6%	6.3%

As observed from table 1 to table 3, from 2005 to 2019, the average annual growth rate of international passengers, international cargo and mail and international takeoff and landing were the highest, which is closely associated with the internationalized development trend of the economic society of Hainan Province.

III. ANALYSIS ON FACTORS AFFECTING FUTURE DEVELOPMENT OF AIR TRANSPORT SERVICES OF MEILAN INTERNATIONAL AIRPORT

(I) GDP

Economic and social development and the accompanying increase in disposable income are key factors driving international, regional and domestic air travel. The relationship between per capita income and travel frequency is quite close in each market. 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 passengers. The economic situation of countries where the inbound passengers belong to is equally important, the following table provides the GDP of related countries and regions as the basis for predicting the base scenario of airport traffic.

Table 4 The GDP growth rate forecast of major source countries of Meilan International Airport 2020-2050

Source Market	2020	2021	2022	2023–2025	2026–2030	2031–2040	2041–2050
China	5.9%	5.8%	5.7%	5.5%	5.5%	5.0%	4.0%
Hainan Province	6.0%*	6.0%*	6.0%*	5.5%	5.0%	4.0%	3.0%
Hong Kong	3.0%*	3.0%*	3.0%*	3.0%	3.0%	2.5%	2.0%
Macau	5.5%*	5.5%*	5.5%*	5.0%	4.5%	4.0%	3.0%
Taiwan	2.0%*	2.0%*	2.0%*	2.0%	1.5%	1.0%	1.0%
Japan	0.7%	0.6%	0.4%	0.5%	0.5%	0.4%	0.4%
South Korea	2.5%*	2.5%*	2.5%*	2.5%	2.0%	1.5%	1.0%
Thailand	2.7%	2.8%	2.9%	3.0%	3.0%	2.5%	2.0%
Vietnam	6.5%	6.5%	6.4%	6.4%	6.0%	5.0%	4.0%
Singapore	3.0%*	3.0%*	3.0%*	2.5%	2.0%	1.5%	1.0%
Indonesia	5.1%	5.2%	5.2%	5.0%	5.0%	4.5%	4.0%
Australia	3.0%*	3.0%*	3.0%*	3.0%	2.5%	2.0%	1.5%
Malaysia	4.5%	4.5%	4.5%	4.0%	3.5%	3.0%	2.5%
Cambodia	6.8%	6.8%	6.8%	6.5%	6.0%	5.0%	4.0%
Laos	5.8%	5.7%	5.6%	5.5%	5.0%	4.5%	4.0%
Ukraine	3.7%	4.2%	4.2%	4.0%	3.5%	3.0%	2.5%
Brunei	1.0%*	1.0%*	1.0%*	1.0%	0.8%	0.6%	0.5%
Myanmar	6.7%	6.8%	6.8%	6.5%	6.0%	5.0%	4.0%
Kazakhstan	3.7%	3.9%	3.7%	3.5%	3.0%	2.5%	2.0%
Russia	1.6%	1.8%	1.8%	2.0%	2.0%	1.5%	1.5%
Philippines	6.1%	6.2%	6.2%	6.0%	5.0%	4.0%	3.0%
Italy	1.7%	1.7%	1.7%	1.5%	1.5%	1.0%	1.0%

Notes:

1. Data sources: The World Bank – Global Economic Prospects 2020: Slow Growth, Policy Challenges, Global Economic Prospects (South Asia) and the official website of the World Bank;

2. The data with “*” and the forecast data from 2023 to 2050 are the results of extrapolation based on data sources.

(II) Hainan International Tourism Island

On 4 January 2010, the State Council issued the Certain Opinions of the State Council on Promoting the Construction and Development of 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 by 2020, making it an island of liberalization, green, civilization and harmony.

Hainan International Tourism Island will be developed into a pilot zone for the reform and innovation of China's tourism industry, a world-class island leisure vacation destination, a national ecological civilization construction demonstration area, an important platform for international economic cooperation and cultural exchange, the South China Sea resource development and servicing base and the national tropical modern agricultural base.

Transportation infrastructure is a major support to the construction of Hainan International Tourism Island. Although the construction plan and timetable of the Qiongzhou Strait Cross-sea Project have not yet been confirmed, the related preliminary strategic research work has been accelerating. The cross-sea channel directly connects the economies of Hainan, Guangdong and even the whole country, which can promote the development of Hainan, but also can create better opportunities for China's southeast coastal manufacturing industry to penetrate the Southeast Asian market. The establishment of the international tourism island can also make Hainan a brand-new international consumer market, which is conducive to establishing the Made-in-China image worldwide. Furthermore, the development of Hainan is also beneficial to exploit and manipulate petroleum and gas resources in the South China Sea, which is favorable for China to maintain the integrity of its territory in the South China Sea.

(III) Hainan Pilot Free Trade Zone

In 2018, President Xi Jinping of the People's Republic of China solemnly announced at the 30th Anniversary Meeting of Hainan Province and Hainan Special Economic Zone that, the CPC Central Committee decided to support the construction of a pilot free trade zone across the island of Hainan. The construction of the China (Hainan) Pilot Free Trade Zone (hereinafter referred to as the "**Pilot Free Trade Zone**") is a major decision made by the CPC Central Committee and the State Council based on the overall international and domestic development through in-depth research, overall consideration and scientific planning as well as a major measure that demonstrated China's determination to expand opening-up and actively promote the economic globalization. In order to deeply implement the spirits of General Secretary Xi Jinping's important speech at the conference celebrating the 30th anniversary of the setup of Hainan Province and the establishment of a special economic zone in Hainan, follow the requirements in the Guiding Opinions of the CPC Central Committee and the State Council on Supporting Hainan's Comprehensive Deepening of Reform and Opening-up and build the Pilot Free Trade Zone with high standards and high quality, the Overall Plan of China (Hainan) Pilot Free Trade Zone has been formulated.

We must give full play to the overall advantages of the across-island pilots in the Hainan Island and focus on the construction of a pilot area for the comprehensive deepening of reform and opening-up, a national ecological civilization pilot zone, an international tourism consumption center and a servicing area of major national strategies, and we should adopt a more proactive opening strategy, accelerate the construction of a new open economic system and promote the formation of a new pattern of comprehensive opening, in a bid to build Hainan into our important opening door to the Pacific Ocean and the Indian Ocean. According to the requirements of the overall plan of Hainan Province, we should take the development of tourism, modern service industry and high-tech industries as the key tasks, and scientifically arrange the industrial layout of Hainan Island. We should set up special customs supervision areas according to development needs, and innovate systems mainly to facilitate the free investment and trade in the special customs supervision areas and principally carry out the international investment and trade, bonded logistics, bonded maintenance and other businesses. A site should be selected in Sanya to establish customs quarantine areas to carry out the businesses such as the introduction and transit of global animal and plant germplasm resources.

The construction of the free trade zone will bring a new round of development opportunities for the aviation industry in Hainan Province, and further promote the vigorous development of the aviation market.

(IV) Impacts on Sanya Phoenix International Airport

Sanya Phoenix International Airport is a domestic mainline airport with an area of 471.20 hectares and a terminal area of 107,000 square meters. In 2019, Sanya Phoenix International Airport operated 204 flight routes, including 149 domestic routes, 55 international and regional routes; the airport extended its reach to 123 cities, including 77 domestic cities, 46 international and regional cities; and there are 47 airlines in operation, including 29 domestic airlines, 18 international and regional airlines. The airport has been rated as SKYTRAX 4-star airport. The comparison between Sanya Phoenix International Airport and Haikou Meilan International Airport is shown below.

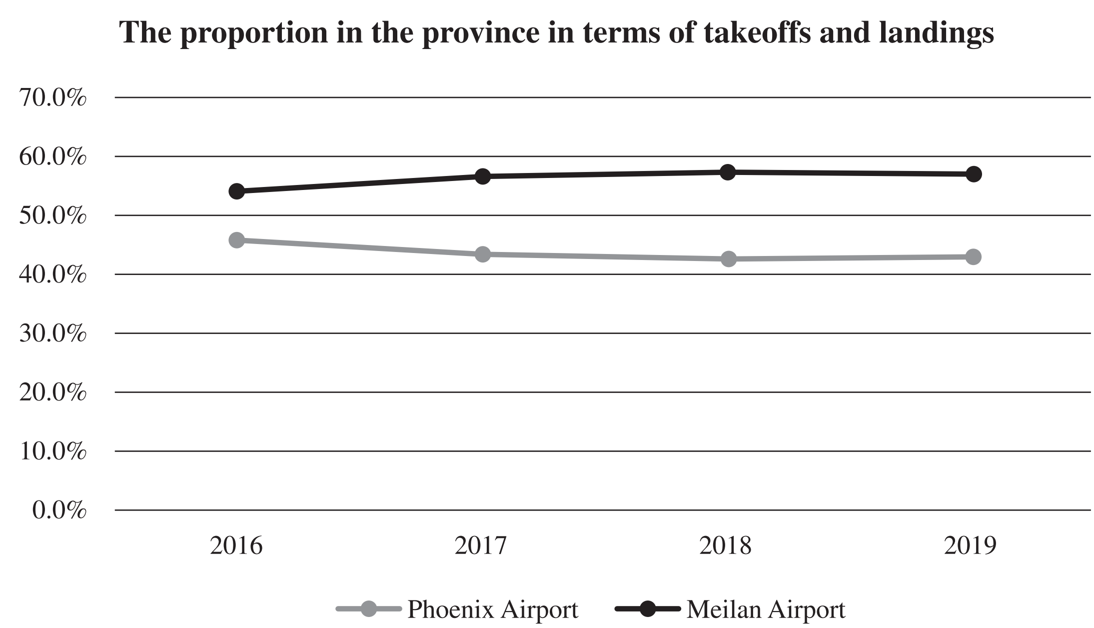

Figure 1 The proportion of takeoffs and landings of Sanya Phoenix International Airport and Haikou Meilan International Airport

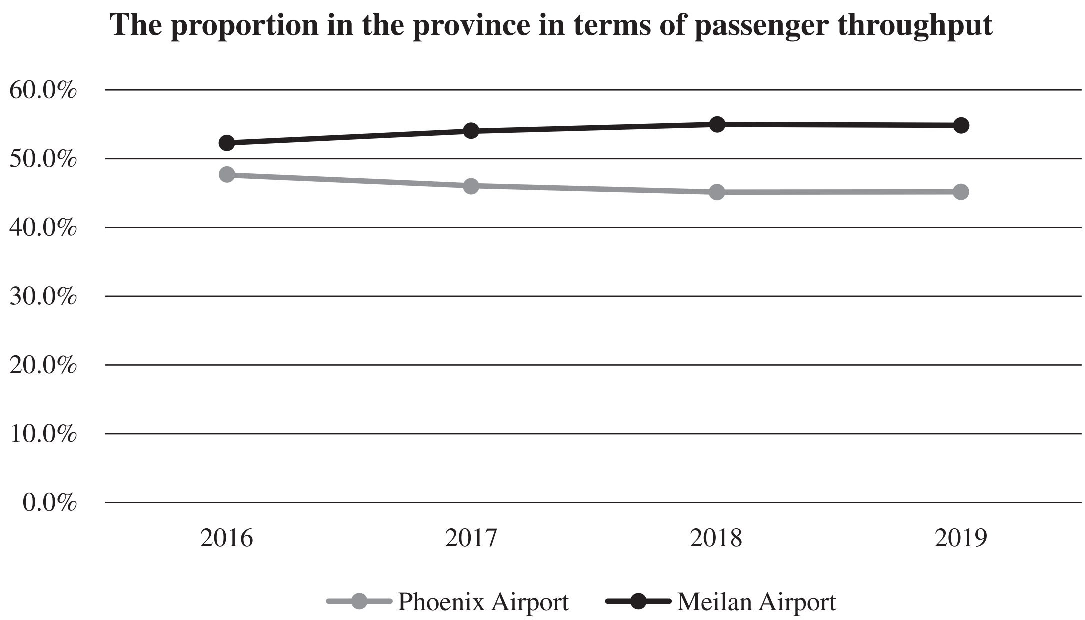

Figure 2 The proportion of passenger throughput of Sanya Phoenix International Airport and Haikou Meilan International Airport

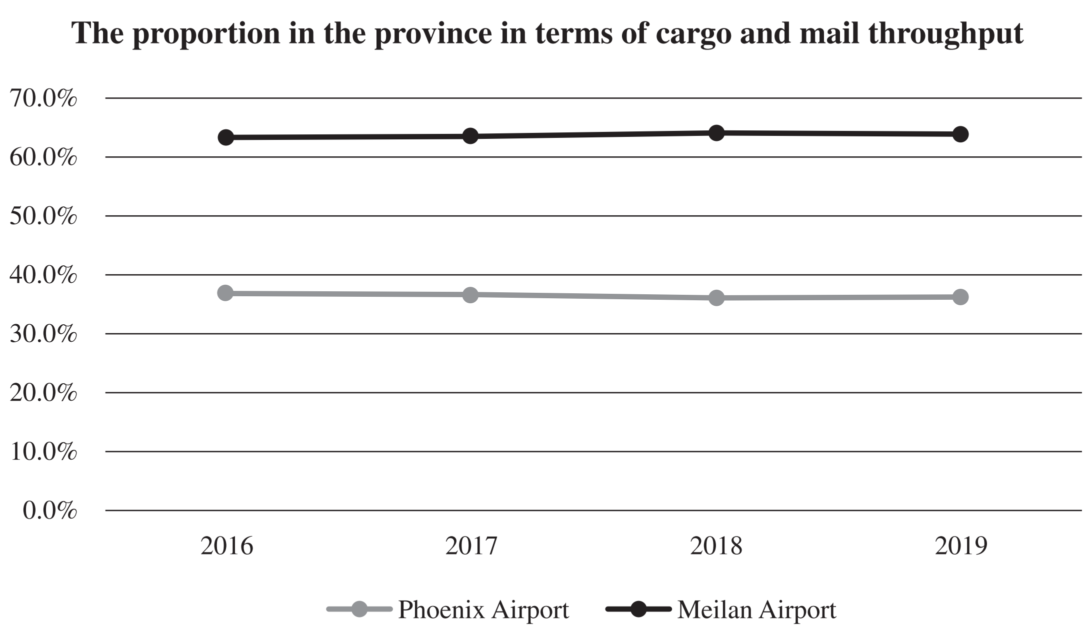

Figure 3 The proportion of cargo and mail throughput of Sanya Phoenix International Airport and Haikou Meilan International Airport

Sanya Phoenix International Airport is slightly lower than Haikou Meilan International Airport in terms of takeoffs and landings and passenger throughput, and Sanya Phoenix International Airport has relatively fewer cargo and mail throughput.

From the perspective of the annual average growth rate of the three indicators, the aircraft takeoff and landing, the passenger throughput and cargo and mail throughput of Sanya Phoenix International Airport have risen by 3.0%, 5.1% and 4.8% respectively as compared to 7.3%, 8.8% and 5.7% of Haikou Meilan International Airport, which can be seen that the growth rate of various indicators of Sanya Phoenix International Airport is lower than that of Haikou Meilan International Airport.

Sanya Phoenix International Airport, being one of the two 4E-rating airports in Hainan Province, has an important transport diversion role for Haikou Meilan International Airport and jointly undertakes the air transportation tasks of Hainan Province. In 2019, the passenger throughput of Sanya Phoenix International Airport was 20,163,700 passengers. At present, the phase iii expansion construction of Sanya Phoenix International Airport was completed in 2017. It can now achieve a passenger throughput of 25,000,000 passengers per year and provide better services to passengers.

(V) Services and fares of airlines

The fare level is an important determinant of air travel demand. The key factors affecting Meilan International Airport's fares are fluctuations in global oil prices and competitions within the airline industry. In the short term, international crude oil prices have recently hit a new low in recent years, and 37 airlines at Meilan International Airport have formed a fully competitive market. In the long run, the main factor affecting fares is the improvement of aircraft carrying efficiency brought about by technological progress.

(VI) Capacity constraints

Currently, Meilan International Airport can satisfy an annual passenger throughput of 16,000,000 passengers. In 2019, the passenger throughput of Meilan International Airport was 24,216,600 passengers, and facilities such as the airport terminals and airfield were oversaturated, which imposed increasing pressure upon the operation of the airport.

The Phase II Expansion Construction of Meilan International Airport is currently underway. Up to now, the preparations for the completion and acceptance of the airfield area of the Meilan Phase II Expansion Construction have begun; the baggage system, air conditioning and boarding bridge of the terminal building have been basically installed, and the interior decoration work has been completed by 40%; and the supporting ringlike road and bridge transportation system has generally taken shape, the east access road has entered the final stage and half of it has been functionally opened to traffic. It is expected that after the completion of the construction, it can ensure the maximum of the annual passenger throughput of 45,000,000 passengers and the annual cargo and mail throughput of 600,000 tons, respectively. Meanwhile, the Phase II Expansion Construction will not only drastically improve the current position of existing infrastructure in the airport, but also further foster the economic and social development of Haikou City and even the surrounding areas.

(VII) Aircraft models

Meilan International Airport is currently a 4E-rating airport, which can meet the requirements of 747-400 aircraft full-load takeoff. In the course of the Phase II Expansion Construction of Meilan International Airport, a 3,600-metre runway will be built. After the construction is implemented, Meilan International Airport will have two airfields, namely the north airfield and south airfield. The north airfield is ranked the 4F grade and can meet the takeoff and landing requirements of the currently largest civil aviation aircraft Airbus A380. The maximum takeoff weight and the required runway length of each aircraft model are shown in the table below.

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

Model	Number of seats (Headcount)	Cargo (Ton)	Maximum structural weight (Ton)	Actual takeoff weight (Ton)	Runway length (Meter)
B747-200	–	93.80	377.84	377.80	3,600
B747-400	334	28.18	385.50	385.50	3,630
B777-200	345	16.20	242.67	242.67	2,800
A330-200	283	18.85	233.0	233.0	3,200
A340-313	370	15.30	271.0	271.0	3,750
A380-841	555	66.40	560.0	560.0	3,600

IV. AIR TRAFFIC FORECAST OF MEILAN INTERNATIONAL AIRPORT

The traffic forecast of Meilan International Airport adopts the econometric model, which has been widely recognized by the industry and has garnered the industry's "best practice" assessed by organizations like International Civil Aviation Organization (ICAO) and the Department of Transport of the United Kingdom.

According to the available historical information regarding the passenger throughput, cargo and mail throughput and aircraft takeoff and landing of Meilan International Airport, based on the analysis on regional and national economic society and current position of transportation and with reference to the national and regional economic prospects provided by the World Bank and the International Monetary Fund to further predict their trend types of economic and social development, this report adopts the elastic coefficient method to estimate the passenger throughput, cargo and mail throughput and aircraft takeoff and landing in the future.

- **Elastic coefficient method**

By analyzing the changing law of economic activities and social activities and their relationship with transportation, we can more accurately grasp the changing law of traffic generation. The traffic forecast predicts the passenger throughput, cargo and mail throughput and aircraft takeoff and landing in the future based on the economic and social prediction results and by applying the elasticity coefficient method. The elastic coefficient method is to capture the relationship between economic development and transportation as a whole. The formula of the elastic coefficient is shown below:

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

According to the analysis of relevant indicators, the growth rate of the headcount of passengers, cargo and mail throughput, aircraft takeoff and landing and the growth rate of GDP are generally selected for regression analysis to estimate their elasticity coefficients. With reference to these coefficients, the future elasticity coefficient can be determined.

When analyzing the traffic volume of regional and international airports, the most frequent regional and international regions (Hong Kong and South Korea) are selected as examples. Through analyzing the economic and social development of Hong Kong and South Korea and the airports' historic regional and international traffic, we can determine the future regional and international elastic coefficients of the airports in order to estimate traffic growth.

Against the backdrop of China 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 GDP to forecast domestic flights' traffic is relatively objective and feasible.

- **The elastic coefficient forecast of future traffic volume**

In the initial development stage of an airport, economic development generates a large demand for transportation, and the development of traffic travel shows explosive growth. At this time, the elasticity coefficients of passenger and cargo travel are large. When the development of an airport becomes saturated, the routes and voyages are gradually fixed, and the throughput will gradually decrease due to the capacity constraints of the airport itself. At this time, the development trend of airport traffic and the economic development trend will gradually slow down, and the elastic coefficients will gradually decrease.

When predicting the domestic, regional and international passenger throughput and cargo and mail throughput of Meilan International Airport, we use the World Bank's reports on the development trend of GDP of China and typical countries and regions (South Korea and Hong Kong) and the elasticity coefficients of historical traffic volume and GDP analysis to predict future traffic growth.

- **The growth rate forecast of future airport traffic volume**

Based on the afore-predicted economic development rates and the airport throughput elasticity coefficients, the growth rate of the future traffic volume can be derived. The calculation formula is:

$$\gamma\, k(h) = Tk(h) \bullet E$$

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

(I) AVIATION PASSENGERS FORECAST

1. Domestic passenger throughput forecast

According to the forecast, as for the base scenario, the domestic passenger throughput of Meilan International Airport is expected to reach 72,730,000 by 2050, which represents an annual average growth rate of 4.7% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 3.8% and 5.3% respectively in the upcoming 30 years. For detail, please refer to table 6.

Table 6 Domestic passenger throughput forecast (Unit: headcount/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2020	17,979,490	18,541,948	19,060,427
2021	26,370,941	26,945,158	27,379,879
2022	28,294,965	29,218,252	29,923,744
2025	34,487,910	36,724,850	38,480,776
2030	43,453,263	48,753,300	53,106,774
2040	50,082,575	61,983,450	72,628,180
2050	54,301,142	72,732,035	90,390,757
	Annual average growth rate (%)		
2020–2025	13.9%	14.6%	15.1%
2020–2030	9.2%	10.2%	10.8%
2020–2040	5.3%	6.2%	6,9%
2020–2050	3.8%	4.7%	5.3%

2. *International passenger throughput forecast*

According to the forecast, as for the base scenario, the international passenger throughput of Meilan International Airport is expected to reach 16,210,000 by 2050, which represents an annual average growth rate of 8.4% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 7.8% and 8.9% respectively in the upcoming 30 years. For detail, please refer to table 7.

Table 7 International passenger throughput forecast (Unit: headcount/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2020	1,423,780	1,424,249	1,432,764
2021	1,690,794	1,712,651	1,729,136
2022	2,004,447	2,043,596	2,073,290
2025	3,131,685	3,254,818	3,349,793
2030	5,131,658	5,498,290	5,788,716
2040	9,846,421	11,115,455	12,167,845
2050	13,737,903	16,208,812	18,338,703
		Annual average growth rate (%)	
2020–2025	17.1%	18.0%	18.5%
2020–2030	13.7%	14.5%	15.0%
2020–2040	10.2%	10.8%	11.3%
2020–2050	7.8%	8.4%	8.9%

3. Regional passenger throughput forecast

According to the forecast, as for the base scenario, the regional passenger throughput of Meilan International Airport is expected to reach 1,080,000 by 2050, which represents an annual average growth rate of 3.7% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 3.3% and 4.1% respectively in the upcoming 30 years. For detail, please refer to table 8.

Table 8 Regional passenger throughput forecast (Unit: headcount/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2020	355,402	359,940	364,778
2021	503,469	510,155	515,198
2022	529,901	540,509	548,557
2025	601,816	625,707	644,138
2030	692,605	741,350	779,932
2040	823,815	926,097	1,010,622
2050	928,185	1,085,409	1,219,917
	Annual average growth rate (%)		
2020–2025	11.1%	11.7%	12.0%
2020–2030	6.9%	7.5%	7.9%
2020–2040	4.3%	4.8%	5.2%
2020–2050	3.3%	3.7%	4.1%

4. Total passenger throughput forecast

According to the forecast, as for the base scenario, the total passenger throughput of Meilan International Airport is expected to reach 90,030,000 by 2050, which represents an annual average growth rate of 5.1% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 4.3% and 5.7% respectively in the upcoming 30 years. For detail, please refer to table 9.

Table 9 Total passenger throughput forecast (Unit: headcount/year)

Year	**Underestimate scenario**	**Base scenario**	**Overestimate scenario**
2020	19,763,167	20,326,137	20,854,424
2021	28,565,204	29,167,964	29,624,214
2022	30,829,312	31,802,357	32,545,591
2025	38,221,411	40,605,375	42,474,707
2030	49,277,526	54,992,940	59,675,423
2040	60,752,811	74,025,002	85,806,646
2050	68,967,230	90,026,256	109,949,377
		Annual average growth rate (%)	
2020–2025	14.1%	14.8%	15.3%
2020–2030	9.6%	10.5%	11.1%
2020–2040	5.8%	6.7%	7.3%
2020–2050	4.3%	5.1%	5.7%

(II) AIR CARGO FORECAST

1. Domestic cargo forecast

According to the forecast, as for the base scenario, the domestic cargo throughput of Meilan International Airport is expected to reach 1,230,000 tons by 2050, which represents an annual average growth rate of 7.1% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 6.2% and 7.7% respectively in the upcoming 30 years. For detail, please refer to table 10.

Table 10 Domestic cargo and mail throughput forecast (Unit: ton/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2020	153,672	158,747	163,331
2021	201,701	206,043	209,329
2022	219,407	226,478	231,880
2025	279,162	297,025	311,037
2030	386,263	432,601	470,610
2040	653,565	804,459	938,822
2050	923,701	1,227,947	1,517,630
		Annual average growth rate (%)	
2020–2025	12.7%	13.3%	13.7%
2020–2030	9.7%	10.5%	11.2%
2020–2040	7.5%	8.5%	9.1%
2020–2050	6.2%	7.1%	7.7%

2. *International cargo forecast*

According to the forecast, as for the base scenario, the international cargo throughput of Meilan International Airport is expected to reach 220,000 tons by 2050, which represents an annual average growth rate of 13.5% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 12.9% and 13.9% respectively in the upcoming 30 years. For detail, please refer to table 11.

Table 11 International cargo and mail throughput forecast (Unit: ton/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2020	4,832	4,873	4,891
2021	7,929	8,033	8,111
2022	9,277	9,461	9,600
2025	14,494	15,068	15,511
2030	27,688	29,647	31,198
2040	79,875	89,925	98,239
2050	185,819	218,164	245,929
		Annual average growth rate (%)	
2020–2025	24.6%	25.3%	26.0%
2020–2030	19.1%	19.8%	20.4%
2020–2040	15.1%	15.7%	16.2%
2020–2050	12.9%	13.5%	13.9%

3. *Regional cargo forecast*

According to the forecast, as for the base scenario, the regional cargo throughput of Meilan International Airport is expected to reach 4,000 tons by 2050, which represents an annual average growth rate of 5.1% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 4.7% and 5.5% respectively in the upcoming 30 years. For detail, please refer to table 12.

Table 12 Regional cargo and mail throughput forecast (Unit: ton/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2020	943	958	972
2021	1,188	1,203	1,215
2022	1,260	1,285	1,304
2025	1,486	1,545	1,590
2030	1,879	2,009	2,112
2040	2,748	3,083	3,360
2050	3,693	4,307	4,832
		Annual average growth rate (%)	
2020–2025	9.5%	10.0%	10.3%
2020–2030	7.1%	7.7%	8.1%
2020–2040	5.5%	6.0%	6.4%
2020–2050	4.7%	5.1%	5.5%

4. *Total cargo forecast*

According to the forecast, as for the base scenario, the total cargo throughput of Meilan International Airport is expected to reach 1,450,000 tons by 2050, which represents an annual average growth rate of 7.5% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 6.7% and 8.1% respectively in the upcoming 30 years. For detail, please refer to table 13.

Table 13 Total cargo and mail throughput forecast (Unit: ton/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2020	159,644	164,578	169,096
2021	210,818	215,279	218,656
2022	229,944	237,224	242,784
2025	295,143	313,638	328,138
2030	415,829	464,257	503,920
2040	736,188	897,466	1,040,421
2050	1,113,212	1,450,418	1,768,391
		Annual average growth rate (%)	
2020–2025	13.1%	13.8%	14.2%
2020–2030	10.0%	10.9%	11.5%
2020–2040	7.9%	8.9%	9.5%
2020–2050	6.7%	7.5%	8.1%

(III) Aircraft takeoff and landing forecast

1. Domestic aircraft takeoff and landing forecast

According to the forecast, as for the base scenario, the domestic aircraft takeoff and landing of Meilan International Airport is expected to reach 500,000 times by 2050, which represents an annual average growth rate of 4.6% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 3.7% and 5.3% respectively in the upcoming 30 years. For detail, please refer to table 14.

Table 14 Domestic aircraft takeoff and landing forecast (Unit: time/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2020	126,700	130,680	134,337
2021	179,680	183,572	186,518
2022	194,019	200,313	205,123
2025	240,525	256,035	268,207
2030	305,446	342,552	373,021
2040	342,447	423,750	496,463
2050	375,289	502,543	624,442
		Annual average growth rate (%)	
2020–2025	13.7%	14.4%	14.8%
2020–2030	9.2%	10.1%	10.8%
2020–2040	5.1%	6.1%	6.8%
2020–2050	3.7%	4.6%	5.3%

2. *International aircraft takeoff and landing forecast*

According to the forecast, as for the base scenario, the international aircraft takeoff and landing of Meilan International Airport is expected to reach 82,000 times by 2050, which represents an annual average growth rate of 7.6% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 7.1% and 8.0% respectively in the upcoming 30 years. For detail, please refer to table 15.

Table 15 International aircraft takeoff and landing forecast (Unit: time/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2020	8,999	9,118	9,244
2021	10,185	10,325	10,431
2022	11,405	11,642	11,821
2025	15,677	16,327	16,829
2030	25,376	27,247	28,731
2040	49,850	56,388	61,818
2050	69,861	82,589	93,579
		Annual average growth rate (%)	
2020–2025	11.7%	12.4%	12.7%
2020–2030	10.9%	11.6%	12.0%
2020–2040	8.9%	9.5%	10.0%
2020–2050	7.1%	7.6%	8.0%

3. *Regional aircraft takeoff and landing forecast*

According to the forecast, as for the base scenario, the regional aircraft takeoff and landing of Meilan International Airport is expected to reach 16,000 times by 2050, which represents an annual average growth rate of 5.7% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 5.2% and 6.0% respectively in the upcoming 30 years. For detail, please refer to table 16.

Table 16 Regional aircraft takeoff and landing forecast (Unit: time/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2020	3,010	3,045	3,084
2021	4,119	4,173	4,214
2022	4,372	4,459	4,526
2025	5,173	5,377	5,534
2030	6,634	7,094	7,458
2040	9,939	11,149	12,148
2050	13,619	15,880	17,810
		Annual average growth rate (%)	
2020–2025	11.4%	12.0%	12.4%
2020–2030	8.2%	8.8%	9.2%
2020–2040	6.2%	6.7%	7.1%
2020–2050	5.2%	5.7%	6.0%

4. *Total aircraft takeoff and landing forecast*

According to the forecast, as for the base scenario, the total aircraft takeoff and landing of Meilan International Airport is expected to reach 601,000 times by 2050, which represents an annual average growth rate of 4.9% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario show an annual average growth rate of 4.1% and 5.5% respectively in the upcoming 30 years. For detail, please refer to table 17.

Table 17 Total aircraft takeoff and landing forecast (Unit: time/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2020	138,691	142,843	146,681
2021	193,984	198,070	201,162
2022	209,796	216,414	221,469
2025	261,375	277,738	290,569
2030	337,456	376,893	409,210
2040	402,236	491,288	570,429
2050	458,768	601,013	735,831
		Annual average growth rate (%)	
2020–2025	13.5%	14.2%	14.7%
2020–2030	9.3%	10.2%	10.8%
2020–2040	5.5%	6.4%	7.0%
2020–2050	4.1%	4.9%	5.5%

V. DESCRIPTION OF RESULTS

During the past fifteen years, Haikou Meilan International Airport has achieved huge growth in traffic. The annual average passenger growth from 2005 to 2019 is 9.2%. Under certain momentums arising from new economic norms, the active development of Hainan International Tourism Island, the huge development of China'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 the short term, the overall trend of air transportation remains very optimistic. In the long run, continuous economic growth and small-scale decrease in real airfares will continue to support the demand for air passenger services. In the overall forecast period (i.e. from 2020 to 2050), the annual average passenger growth rate is expected to be 5.1%.

Considering the outbreak of 2019-nCoV in 2020 caused a huge impact on China and the globe, the transportation industry was on the front line of the impact caused by the epidemic and faced a substantial loss. By May 2020, the situation in the PRC has generally resumed to normal state, while global condition remains not optimistic. Therefore, by considering the development of the epidemic, the forecast has reasonably lowered the 2020 forecast result, and the forecast presumes that in 2020, the epidemic can be defeated globally and the world will return to normal.

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. Inevitably, certain assumptions made during forecasting cannot be realized, and some unforeseen events or situations may also occur. Therefore, Chelbi cannot provide any form of guarantee as to whether the forecasts attached to the report can be achieved.

The following factors may lead to the deviation of the actual traffic from expectations:

- The growth rate of the Chinese economy is lower than the predicted value, or the expected economic growth rate of the major international source countries entering the port is lower than the predicted value;

- Changes in government policies directly or indirectly affect the traffic flow of Meilan International Airport, such as the Qiongzhou Strait Cross-Sea Highway and Railway Bridge;

- Negative impact on Meilan International Airport due to aviation industry integration;

- The costs of airlines have changed dramatically (e.g. sudden changes in fuel prices), and such changes are passed on to consumers by raising airfares;

- External factors including, but not limited to, natural disasters, political unrest, the outbreak of diseases, acts of terrorism and associated security concerns and strikes.

This report is provided for the exclusive use of Meilan Airport. No third-party institution can quote the data in this report without the authorisation of Meilan Airport or Chelbi.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

27th Floor, Standard Chartered Tower
Millennium City 1
388 Kwun Tong Road
Kowloon
Hong Kong

20 August 2020

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

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 (collectively referred to as the **"Equipment"**) exhibited to us as being owned by Hainan Meilan International Airport Company Limited (herein referred to as the "**Company**"), we confirm that we have conducted the 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, and opinion of value.

Based on the succeeding, it is our opinion that the market value (in-continued use) of the subject Equipment, appraised as at 30 June 2020, is reasonably represented in the amount of:

RMB418,037,000
(Renminbi Four Hundred Eighteen Million and Thirty 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.

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

Consultant

Maximo I. Montes Jr., BSME, PME, is a Professional Mechanical Engineer who specializes in industrial plant valuation covering a broad range of industries and has 49 years of experience in the valuation of plant machinery and equipment in Hong Kong, China, Macau, ASEAN countries, Germany, Turkey, Australia, Canada, Japan, South Korea, Taiwan, Mongolia and Saudi Arabia.

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 30 June 2020.

BASIS OF VALUATION

We have valued the Equipment on the basis of Market Value(at disposed), 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.

NARRATIVE DESCRIPTION

Hainan Meilan International Airport Company Limited, established in 28 December 2000, is mainly engaged in both aeronautical and non-aeronautical businesses at Meilan Airport. The aeronautical businesses of the Company mainly consist of the provision of terminal facilities, ground handling services and passenger services. The non-aeronautical businesses of the Company mainly include the leasing of commercial and retail spaces at Meilan Airport, franchising of airport related business, advertising, car parking, cargo handling and sales of consumable goods.

ASSETS APPRAISED

The assets subject of this valuation, as per the list provided to us, utilized by the Company in the business of both aeronautical and non-aeronautical, consist of: passenger elevator, terminal transfer system, sightseeing elevator, escalator, generator, transformer equipment, high/low voltage cabinet, distribution box and cabinet equipment, combined air conditioning unit equipment, aerial vehicle, passenger boarding bridge and other auxiliaries facilities and equipment.

Location

The Equipment is situated at the Company's facilities located at Meilan International Airport Linshan Town, Meilan District, Haikou City, Hainan Province, the PRC.

Observations and Comments

In accordance with your instructions, we had conducted the inspection at 8 May 2020. The Equipment were acquired in brand new condition. Most of Equipment were installed and some were under construction. It is believed to be capable of operating efficiently the function for which it was designed, built and erected. The Equipment would undergo periodic maintenance.

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. The value developed using market or comparative sales approach is significant because it is a direct reading and interpretation of what has actually been established between buyers and sellers in the actual market place. The market has already made deduction for physical depreciation, some functional and economic obsolescence. 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

In developing our opinion of market value (in-continued use) of the Equipment, consideration has been given to accrued depreciation that was based on 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. Furthermore, 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.

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 desktop 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 provided to us by the Company such as records, listings, and cost information.

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 30 June 2020, is fairly represented in the amount of:

RMB418,037,000
(Renminbi Four Hundred Eighteen Million and Thirty Seven Thousand)

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

27th Floor, Standard Chartered Tower
Millennium City 1
388 Kwun Tong Road
Kowloon
Hong Kong

20 August 2020

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

Dear Sirs,

In accordance with the instructions of Hainan Meilan International Airport Company Limited (the "**Company**") for us to value the land of approximately 252.9 hectares and the construction works erected thereon used for the Company Construction Project under the Investment and Construction Agreement (hereinafter referred to as the "**property interest**") 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 30 June 2020 ("**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 market 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 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. All documents have been used for reference only.

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 2017 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 thirty one years' experiences in undertaking valuations of properties in Hong Kong and has over twenty five years' experiences in valuations of properties in the PRC.

VALUATION CERTIFICATE

Property interest used for the Company Construction Project under the Investment and Construction Agreement

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2020
The land and construction works erected thereon located within the Phase II expansion project of Meilan Airport, west of Duokan village in Yanfeng Town, south of Tingzipo Village in Lingshan Town, Meilan District, Haikou City, Hainan Province, the PRC	The property comprises the land of approximately 252.9 hectares and construction works of total gross floor area of approximately 436,930.57 sq.m. used for the Company Construction Project under the Investment and Construction Agreement. The construction works comprises a terminal building, a parking building, cargo handling facilities, ground handling service facilities, airport fire-fighting and rescue facilities and airport emergency respond and rescue facilities. The Company Construction Project is part of the Phase II expansion project of Meilan Airport. The land consists of the new airport terminal areas, working areas and cargo handling areas of site areas of approximately 113.4 hectares, 125.5 hectares and 14 hectares respectively.	As advised by the Company, the property has been used for the purpose of the construction of Phase II expansion project of Meilan Airport.	RMB5,781,200,000 (subject to assumptions made in Note 7)

Notes:

1. According to a Construction Land Planning Permit (Document No.: Di Zi No. 460100201700054), the property with a site area of approximately 2,529,000 sq.m. was permitted to be developed.

2. According to information provided by the Company and 11 Construction Works Planning Permits (Document Nos.: Jian Zi Nos. 460100201600191, 460100201700105, 460100201900002, 460100201800121, 460100201800073, 460100201800093, 460100201800069, 460100201800119, 460100201800187, 460100201700106 and 460100201800095), the construction works of the property have a total gross floor area of approximately 436,930.57 sq.m.

3. The property is subject to a syndicated loan for a term of 20 years at a maximum credit amount of RMB7,800,000,000.

4. Pursuant to the Investment and Construction Agreement, the Company has agreed to provide funds, to construct the Company Construction Project. The Parent Company shall act as the project representative of the Airport Project, responsible for organizing and supervising the implementation of construction plan of the Airport Project and the fund raising for the Parent Company Construction Project until its completion and acceptance.

5. Pursuant to the Investment and Construction Agreement, the Parent Company has agreed to register the ownership of the relevant assets comprising the Company Construction Project, including but not limited to, the land use rights and property ownership of the buildings, under the name of the Company upon the completion and acceptance of the Airport Project, unless otherwise agreed by both the Company and the Parent Company.

6. Pursuant to the Investment and Construction Agreement, the Parent Company has irrevocably agreed, undertaken and confirmed that, before the registration of the ownership of the assets comprising the Company Construction Project under the name of the Company, the Company has the right to occupy, utilize, benefit from and dispose of the assets comprising the Company Construction Project without making any payment to the Parent Company to the extent permitted by the applicable PRC laws.

7. In the course of our valuation, we have made the following assumptions:

   (a) The Company has obtained the relevant ownership certificates of the property and is entitled to sell, transfer, mortgage, charge, lease, sub-lease or otherwise dispose of the property to any third party (either local or overseas) at a consideration without payment of any additional premium or other onerous payment to the government during the whole of the unexpired term of the land use rights periods;

   (b) All land acquisition cost and settlement compensation and other costs of ancillary utility services have been fully settled;

   (c) The land use rights of the property has been granted for a term of 50 years for airport use;

   (d) The site formation works of the property has been completed;

   (e) The land has been provided with the basic infrastructures, including roads, electricity, communication, water supply and drainage; and

   (f) The property is free from any mortgages, orders and other legal encumbrances which may cause adverse effects to the title of the property.

8. The property was inspected by Ms. Xu Xiao Yun, China Real Estate Appraiser, on 8 May 2020.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

27th Floor, Standard Chartered Tower
Millennium City 1
388 Kwun Tong Road
Kowloon
Hong Kong

20 August 2020

The Directors
Hainan Meilan International Airport Company Limited
Office Building of Meilan Airport
Haikou City
Hainan Province, the PRC

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 (collectively referred to as the **"Equipment"**) exhibited to us as being owned by **Hainan Meilan International Airport Company Limited** (herein referred to as the "**Company**"), we confirm that we 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, and opinion of value.

Based on the succeeding, it is our opinion that the market value (in-continued use) of the subject Equipment, appraised as at 30 June 2020, is reasonably represented in the amount of:

RMB4,325,150
(Renminbi Four Million Three Hundred Twenty Five Thousand and One Hundred Fifty)

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.

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 Surveyor
Managing Director

Consultant

Maximo I. Montes Jr., BSME, PME, is a Professional Mechanical Engineer who specializes in industrial plant valuation covering a broad range of industries and has 49 years of experience in the valuation of plant machinery and equipment in Hong Kong, China, Macau, ASEAN countries, Germany, Turkey, Australia, Canada, Japan, South Korea, Taiwan, Mongolia and Saudi Arabia.

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 30 June 2020.

BASIS OF VALUATION

We have valued the Equipment on the basis of Market Value(at disposed), 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 the business of following:

Machinery – generator set, air compressor, transformer, high voltage switch cabinet, constant current dimmer, spray machine, grass cutter, aircraft jackcraft airbag, aircraft rescue lifting equipment, insecticidal lamp, aircraft towing harness, flat trailer and other auxiliaries facilities and equipment.

Motor Vehicle – patrol car, tractor, truck, electric vehicle, dumper, bulldozer and others.

Office Equipment – camera, air condition, computer, monitor, projector, UPS, console, network switch, walkie-talkie, water heater and others.

Location

The Equipment is situated at the Company's facilities located at Meilan International Airport, Linshan Town, Meilan District, Haikou City, Hainan Province, the PRC.

Observations and Comments

As per your instructions, we did not conduct an inspection of all subject Equipment and have relied considerably on the information and asset list provided to us. We have agreed and accepted to make the following assumptions:

Based on the documents made available to us, we have assumed and accepted that the subject Equipment physically exists and conforms to the physical characteristics and quantity as reported to us.

1. As reported to us and based on the documents provided to us, we assumed that the subject Equipment is capable to be operated to perform within its designed parameters.

2. That the subject Equipment is in good working condition and subjected to routine maintenance.

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. The value developed using market or comparative sales approach is significant because it is a direct reading and interpretation of what has actually been established between buyers and sellers in the actual market place. The market has already made deduction for physical depreciation, some functional and economic obsolescence. 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

In developing our opinion of market value (in-continued use) of the Equipment, consideration has been given to accrued depreciation that was based on 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. Furthermore, 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.

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 desktop 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 provided to us by the Company such as records, listings, and cost information.

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 30 June 2020, is fairly represented in the amount of:

RMB4,325,150
(Renminbi Four Million Three Hundred Twenty Five Thousand and One Hundred Fifty)

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

27th Floor, Standard Chartered Tower
Millennium City 1
388 Kwun Tong Road
Kowloon
Hong Kong

20 August 2020

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

Dear Sirs,

In accordance with the instructions of Hainan Meilan International Airport 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**") in the People's Republic of China ("PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interest as at 30 June 2020 ("**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 market 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 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. All documents have been used for reference only.

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 2017 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 thirty one years' experiences in undertaking valuations of properties in Hong Kong and has over twenty five years' experiences in valuations of properties in the PRC.

VALUATION CERTIFICATE

Property interest held by Haikou Meilan in the PRC

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2020
The land, buildings and structures located within Haikou Meilan International Airport, Lingshan Town, Meilan District, Haikou City, Hainan Province, the PRC	The property comprises 3 parcels of land (Lot Nos.: 460108102011GB02029, 460108102011GB02011 and 460108101022GB02037) with a total site area of approximately 1,952,587.34 sq.m., 2 power substations completed in 1999 with a total gross floor area of approximately 1,235.37 sq.m. and various structures including runway, taxiway, carport, warehouse and fences erected thereon 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 civil airport uses.	The property is occupied by Haikou Meilan for civil airport and ancillary facilities uses.	RMB1,515,950,000

Notes:

1. According to 4 Real Estate Title Certificates, the land use rights of the property having a total site area of approximately 1,952,587.34 sq.m. and a total gross floor area of 1,235.57 sq.m. have been granted to Hainan Meilan International Airport Company Limited for civil airport uses. Details are summarized as follows:

No.	Lot No.	Real Estate Title Certificate No.	Title Owner	Site Area *(sq.m.)*	Gross Floor Area *(sq.m.)*	Date of Term Expiry
1	460108102011 GB02029	Qiong (2019) Haikou Shi Bu Dong Chan Quan No. 0170302	Hainan Meilan International Airport Company Limited	1,891,452	795.96	25 May 2065
2		Qiong (2019) Haikou Shi Bu Dong Chan Quan No. 0170304	Hainan Meilan International Airport Company Limited		439.61	
3	460108102011 GB02011	Qiong (2020) Haikou Shi Bu Dong Chan Quan No. 0018828	Hainan Meilan International Airport Company Limited	8,820.69		26 March 2069
4	460108101022 GB02037	Qiong (2020) Haikou Shi Bu Dong Chan Quan No. 0097475	瑞港國際機場集團股份有限公司	52,314.65		5 October 2069
			Total:	1,952,587.34	1,235.57	

Remarks: 瑞港國際機場集團股份有限公司 has been changed to be named as Hainan Meilan International Airport Company Limited on 17 October 2019.

2. According to a memorandum issued by the Company's PRC legal adviser, King & Wood Mallesons, Beijing, the title owner of the property is Hainan Meilan International Airport Company Limited but the property is actually held and owned by Haikou Meilan which still has the rights to occupy, use and handle the property.

3. Hainan Meilan International Airport Company Limited has been previously named as "海南美蘭國際機場股份有限公司", "海航基礎股份有限公司" and "瑞港國際機場集團股份有限公司".

4. According to the Real Estate Title Certificate (Document No.: Qiong (2020) Haikou Shi Bu Dong Chan Quan No. 0097475), the site area of the land (Lot No.: 460108101022GB02037) is stated as 56,535.88 sq.m. As advised by the Company, portion of the land having a site area of 4,221.23 sq.m. has been resumed by the government. According to the asset list provided by the Company, the site area of land for this valuation is 52,314.65 sq.m.

5. The property was inspected by Ms. Xu Xiao Yun, China Real Estate Appraiser, on 8 May 2020.

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 interests or short positions in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers 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 2019, 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.

Each of Mr. Wang Zhen, the chairman of the Company, and Mr. Wang Hong, an executive Director, also serves as a director of the Parent Company, respectively; Mr. Yu Yan, an executive Director, also serves as the chief financial officer of the Parent Company; and Mr. Xing Zhoujin, an executive Director, also serves as the board secretary of the Parent Company. Save as disclosed above, as at the Latest Practicable Date, no other 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 and chief executive of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register to be kept by the Company under section 336 of the SFO.

Domestic Shares

Name of Shareholders	Capacity	Class of shares	Number of ordinary shares	Percentage of domestic shares issued	Percentage of 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 interest	Number of ordinary shares	Percentage of H shares issued	Percentage of total issued share capital
Soaring Eagle Industrial Limited *(Note 2)*	Beneficial owner	49,130,650(L)	21.65%	10.38%
Liang Yiming *(Note 2)*	Interest of controlled corporations	49,130,650(L)	21.65%	10.38%
ARC Capital Holdings Limited *(Note 3)*	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
ARC Capital Partners Limited *(Note 3)*	Investment manager	32,788,500(L)	14.45%	6.93%
Pacific Alliance Asia Opportunity Fund L.P. *(Note 3)*	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Pacific Alliance Equity Partners Limited *(Note 3)*	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Pacific Alliance Group Asset Management Limited *(Note 3)*	Investment manager	32,788,500(L)	14.45%	6.93%

Name of Shareholders	Type of interest	Number of ordinary shares	Percentage of H shares issued	Percentage of total issued share capital
PAG Holdings Limited *(Note 3)*	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Pacific Alliance Group Limited *(Note 3)*	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Pacific Alliance Investment Management Limited *(Note 3)*	Interest of controlled corporations	32,788,500(L)	14.45%	6.93%
Walden Ventures Limited *(Note 3)*	Beneficial owner	32,788,500(L)	14.45%	6.93%
UBS Group AG *(Note 4)*	Interest of controlled corporations	24,094,670(L)	10.62%	5.09%
Morgan Stanley *(Note 5)*	Interest of controlled corporations	12,115,493(L) 490,133(S)	5.33% 0.21%	2.56% 0.10%

Notes:

1. Haikou Meilan International Airport Company Limited is a Company established in the PRC and is the controlling shareholder of the Company.

2. According to the disclosure of interest filed on the website of the Stock Exchange, Liang Yiming held 100% interest in Soaring Eagle Industrial Limited.

3. According to the disclosure of interest filed on the website of the Stock Exchange, 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 held 46.67% interest in Walden Ventures Limited which in turn held 14.45% interest in the 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 in turn held 14.45% interest in the H shares of the Company.

4. 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 24,094,670 shares through the interest of controlled corporations. UBS Asset Management (Hong Kong) Ltd, UBS Asset Management (Japan) Ltd, UBS Fund Management (Luxembourg) S.A. and UBS 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 728,000, 541,300, 17,485,100 and 5,340,270 long position shares in the Company, respectively.

5. According to the disclosure of interest filed by Morgan Stanley on the website of the Stock Exchange, Morgan Stanley was deemed to hold 12,115,493 long position shares and 490,133 short position shares through the interest of controlled corporations. Morgan Stanley Capital Services LLC was held as to 100% by Morgan Stanley Domestic Holdings, Inc., which was in turn held as to 100% by Morgan Stanley Capital Management, LLC, which was in turn held as to 100% by Morgan Stanley. Morgan Stanley & Co. International plc was held as to 100% by Morgan Stanley Investments (UK), which was in turn held as to 100% by Morgan Stanley International Limited, which was in turn held as to 100% by Morgan Stanley International Holdings Inc., which was in turn held as to 100% by Morgan Stanley.

6. (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 and chief executive of the Company, no other person (not being a Director, supervisor or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were 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 2019, 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:

Name	Qualifications
Octal Capital	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers Zhong Tian LLP	Certified Public Accountant
Chelbi Engineering Consultants, Inc. ("**Chelbi**")	Independent traffic study report consultant
Vigers Appraisal & Consulting Limited ("**Vigers**")	Professional surveyors and valuers

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

As at the Latest Practicable Date, each of Octal Capital, PricewaterhouseCoopers Zhong Tian LLP, Chelbi and Vigers 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. MANAGEMENT DISCUSSION AND ANALYSIS

The following information is the management discussion and analysis of the Group for the three years ended 31 December 2017, 2018 and 2019:

FOR THE YEAR ENDED 31 DECEMBER 2017

Overview of Aviation Business

In 2017, boosted by the overall rapid growth of the PRC civil aviation industry, and benefited from certain favourable policies as well as construction of the Hainan International Tourism Island and off-shore duty-free policy, the passengers throughput of Meilan Airport continued to experience a substantial growth, and recorded a debut of exceeding 20 million of visits, enabling it to rise 1 place from last year to the 17th among all civil airports in China.

Revolving around the deployment of key tasks such as constructing the regional aviation hub, serving the national "One Belt One Road (一帶一路)" initiative, updating the internationalization level of Hainan International Tourism Island, Meilan Airport promoted the development of domestic route networks indepth and transformed the international market into a transportation system with "more non-stop international flights and high frequency of flights"; opened an additional 9 international routes which increased the number of navigable countries in ASEAN from 6 to 9; maintained frequent communication with airlines in respect of analysis of operations and potential routes; adopted market incentives such as "de-peaking" and "increment during the summer and autumn off-seasons" to better promote the growth in flights and passenger throughput for the year.

For the year ended 31 December 2017, Meilan Airport operated a total of 255 originating routes, including 228 domestic routes, 22 international routes and 5 regional routes. Meilan Airport extended its reach to 134 cities, including108 domestic cities, 21 international cities and 5 regional cities; and attracted 56 airlines to operate at Meilan Airport in total, including 34 domestic airlines, 12 international airlines and 5 regional airlines, and 5 domestic and international airlines to carry out alternate and temporary flights.

Details of the aviation traffic throughput of Meilan Airport in 2017 and comparative figures of last year are set out below:

	2017	**2016**	**Change**
Passenger throughput (headcount in ten thousand)	**2,258.48**	**1,880.38**	**20.11%**
In which: Domestic	2,169.37	1,811.83	19.73%
International and Regional	89.11	68.55	29.99%
Aircraft takeoff and landing (times)	**157,535**	**135,523**	**16.24%**
In which: Domestic	148,842	129,404	15.02%
International and Regional	8,693	6,119	42.07%
Cargo throughput (tons)	**299,178.50**	**274,535.90**	**8.98%**
In which: Domestic	285,134.60	262,680.30	8.55%
International and Regional	14,043.90	11,855.60	18.46%

The Group's total revenue from aviation business for 2017 was RMB826,753,040, representing an increase of 21.53% as compared to that of 2016. A breakdown of the Group's revenue from aviation business is as follows:

	Amount *(RMB)*	**Changes over 2016**
Passenger service charges	306,327,568	18.33%
Refund of Civil Aviation Development Fund	260,875,858	19.99%
Ground handling service income	147,570,418	29.02%
Fees and related charges on aircraft takeoff and landing	111,979,196	24.94%
Total revenue from aviation business	**826,753,040**	**21.53%**

Overview of Non-aviation Business

In 2017, the non-aviation business of the Group maintained growth momentum and achieved annual revenue of RMB643,102,155, representing a year-on-year increase of 21.70%. Its proportion in the Group's total revenue reached 43.75%. In 2017, the Group focused on building a five-star Meilan business, proceeding from the construction of the terminal complex and enhancement of brand. It utilized the existing resources deeply, explored market potential, comprehensively promoted the construction of new commercial model and facilitated the overall enhancement of sales, leading to satisfactory achievement in revenue from its non-aviation business. In 2017, the Group recorded franchise income accumulated to RMB381,087,859, representing year-on-year increase of 28.65%, while freight and packaging income reached RMB77,356,543, representing a year-on-year increase of 0.90%. Rental income reached RMB56,014,028, representing a year-on-year increase of 23.74%. In addition, parking fee income also reached RMB19,595,233, representing a year-on-year increase of 4.15%. Meanwhile, VIP room income reached RMB26,680,324, representing a year-on-year increase of 22.56%.

	Amount *(RMB)*	**Changes over 2016**
Franchise income	381,087,859	28.65%
Freight and packaging income	77,356,543	0.90%
Rental income	56,014,028	23.74%
VIP room income	26,680,324	22.56%
Parking fee income	19,595,233	4.15%
Other income	82,368,168	18.18%
Total revenue from non-aviation business	**643,102,155**	**21.70%**

Assets Analysis

As at 31 December 2017, the total assets of the Group amounted to RMB9,078,150,466, representing an increase of 10.77% over last year. Among which, current assets amounted to RMB1,166,368,936, representing 12.85% of the total assets, non-current assets amounted to RMB7,911,781,530, representing approximately 87.15% of the total assets.

Capital Structure

The major objective of the Group's capital management is to ensure the ability of ongoing operations and to maintain a healthy capital ratio in order to support its business and maximize shareholders' interests. The Group continued to emphasize the appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2017, the interest-bearing debts of the Group mainly include bank loans, debentures payable, finance lease payable and entrusted loans payable (hereinafter referred to as the "**total borrowings**"), amounting to approximately RMB2,634,015,255, and cash and cash equivalents were approximately RMB672,968,315. The gearing ratio (total borrowings/total equity) of the Group was 64.37% as at 31 December 2017 (31 December 2016: 88.78%).

The Group maintained a balanced portfolio of loans at fixed interest rates and variable rates to manage interest expenses. As at 31 December 2017, the Group has no long-term borrowings with floating rates.

The Group aimed to keep the balance between the continuity and flexibility of funds by capitalizing on its total borrowings. As at 31 December 2017, 8.19% of the Group's total borrowings will become due within one year, and the debentures payable will become due in 2019.

As at 31 December 2017, the Group's total borrowings were denominated in Renminbi, while cash and cash equivalents were held in Renminbi.

Costs Analysis

The cost of sales, selling and distribution expenses and general and administrative expenses of the Group were RMB722,221,753 in 2017, representing an increase of RMB198,150,552 or 37.81% as compared to that of 2016, mainly attributed to:

(1) the staff cost of the Group for the year recorded an increase of RMB29,745,440 as compared with that of 2016 due to a normal rise in the remuneration level;

(2) the depreciation charge of the Group for the year increased by RMB32, 623, 850, which was mainly due to the commencement of operation of the terminal complex and the auxiliary facilities;

(3) the expenses of labour dispatch and service outsourcing increased by RMB74,615,094 due to an increase in the remuneration level of labour dispatched employees and the outsourcing of some of its services in line with the business development of the Group; and

(4) the maintenance fee of the Group for the year increased by RMB26,452,754, which was mainly due to maintenance of the facilities and equipment of the terminal building according to the requirement of brand building for the five-star airport, which increased the maintenance fees.

In 2017, the financial expenses of the Group amounted to RMB117,467,650, representing a decrease of RMB19,371,843 as compared to the same period last year, which was mainly due to a decrease of interest expenses and exchange loss as a result of partial loan repayment by our Group.

Cash Flow

In 2017, the Group's net cash inflow from operating activities was RMB1,062,862,349, representing an increase of 9.73% over last year. Such increase was mainly due to the increase in operating income.

In 2017, the Group's net cash outflow from investing activities was RMB295,059,625, which was mainly attributable to payments for the construction of the terminal complex project.

In 2017, the Group's net cash outflow from financing activities was RMB847,247,482, which was mainly attributable to the repayment of principal of short-term borrowings, and the payment of interests on borrowings and dividends.

Pledge of Assets

On 2 July 2015, the Company entered into an arrangement with CITIC Trust Co., Ltd. (中信信託有限責任公司) 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 (the "**ABS**"). As at 31 December 2017, the remaining principal of the external borrowings of the ABS amounted to RMB679,000,000 (31 December 2016: RMB873,000,000).

As mentioned in the Company' s announcement dated 1 February 2018, the Company and the Parent Company, as co-borrowers, pledged the lands and buildings owned by the Company and the Parent Company as security to secure a long-term borrowing of RMB7.8 billion from CDB, ICBC Hainan Branch and ABC Hainan Branch, as co-lenders, for a period of 20 years, which shall be solely used for the construction of the Airport Project.

Account Receivable

As at 31 December 2017, the accounts receivable and other receivables of the Group amounted to RMB343,305,939, representing an increase of 30.74% as compared with the end of the previous year.

Gearing Ratio

As at 31 December 2017, current assets of the Group were RMB1,166,368,936, total assets were RMB9,078,150,466, current liabilities were RMB1,138,038,942, and total liabilities were RMB4,986,157,178. As at 31 December 2017, the gearing ratio (total liabilities/total assets) of the Group was 54.92%, representing an increase of 0.40% over 2016, which was mainly attributable to the accrued payables but unpaid amount according to the progress of the terminal complex project and the phase II expansion project.

Foreign Exchange Risks

The businesses of the Group are principally conducted in Renminbi, except certain aviation revenue, purchase of equipment and consulting service fees which are denominated in US dollars or Hong Kong dollars. In view of the limited impact derived from the changes in foreign exchange rates on the Group's operating results, the Group has not entered into any forward contracts to hedge its exposure to foreign exchange risks.

Financial Instruments

As at 31 December 2017, financial instruments of the Group mainly included bank loans, corporate bonds, cash and bank deposits. The purpose of these financial instruments is to finance the Group's operations. Besides, the Group had other financial instruments in relation to daily operations, such as receivables (excluding prepayments) and payables (excluding statutory liabilities).

Contingent Liability

As at 31 December 2017, neither the Group nor the Company had any significant contingent liability.

Significant Investments held and Their Performances

As of 31 December 2017, the Company held 24.5% equity interests in Hainan Airlines Airport Holding (Group) Company Limited ("**Airport Holding**"). During the year ended 31 December 2017, the Company recorded an investment income of RMB16,821,318 from share of profit attributable to the shareholders of Airport Holding.

Material Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

During the year ended 31 December 2017, the Company did not carry out any major acquisitions or disposals of subsidiaries, associated companies or joint ventures.

Future Material Investment and Expected Source of Fund

On 21 August 2015, the Company and the Parent Company entered into the Investment and Construction Agreement, pursuant to which, the Company agreed to provide funds, amounting to approximately RMB7.158 billion, to construct the Company Construction Project. The sources of fund for the Company Construction Project are expected to be as follows:

(1) The Company has completed the asset-backed securitization plan on 2 July 2015, of which approximately RMB0.95 billion will be utilized in the construction of the Company Construction Project;

(2) On 1 February 2018, the Company and the Parent Company, as co- borrowers, secured a long-term borrowing of RMB7.8 billion from CDB, ICBC Hainan Branch and ABC Hainan Branch, as co-lenders. According to the loan allocation agreement, the Company will secure a long-term loan facility of RMB3.9 billion, which shall be used for the construction of the Company Construction Project;

(3) The Company plans to issue the private placement of Renminbi corporate bonds with maximum principal amount of RMB3 billion, a part of the Renminbi corporate bonds will be utilized in the construction of the Company Construction Project; and

(4) The Company will use part of its working capital generated from its operation activities to support the construction of the Company Construction Project.

Employment, Remuneration Policy and Training

As at 31 December 2017, the Group had a total of 933 employees, representing an increase of 60 employees over last year, which was mainly due to normal recruitment of employees. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and related packages on a regular basis. Performance-based bonuses and commissions may be awarded to employees. The Group provided adequate trainings based on the requirement of employees, with an aim to upgrade the talent of employees. A total of 220 courses under the training scheme were completed, and 6,007 staff participated in such courses.

FOR THE YEAR ENDED 31 DECEMBER 2018

Overview of Aviation Business

In 2018, boosted by the overall rapid growth of the PRC civil aviation industry, and benefited from certain favorable policies as well as the construction of the Hainan International Tourism Island and off-shore duty-free policy, the passenger throughput of Meilan Airport continued to experience growth, and international passenger throughput passed the 1 million mark, ranking 17th among all civil airports in China.

Revolving around the deployment of key tasks such as constructing the regional aviation hub, serving the national the "One Belt and One Road" initiative and the goal of establishing a pilot free trade zone and a free trade port with Chinese characteristics in Hainan, Meilan Airport continuously expanded the coverage and accessibility of its route network and achieved rapid growth in international aviation market, realized full coverage of the ten ASEAN countries; actively promoted Hainan aviation tourism in cooperation with the government, airlines, travel agencies and charter operators, which effectively improved its flight passenger load factor and provided a strong source of customers for the rapid development of the international aviation market.

As of 31 December 2018, Meilan Airport operated a total of 303 originating routes, including 257 domestic routes, 42 international routes and 4 regional routes; Meilan Airport extended its reach to 156 cities, including 114 domestic cities, 38 international cities and 4 regional cities; and attracted 59 airlines to operate at Meilan Airport in total, including 35 domestic airlines, 20 international airlines and 4 regional airlines, and 5 domestic and international airlines to carry out alternate and temporary flights.

Details of the aviation traffic throughput of Meilan Airport in 2018 and comparative figures of last year are set out below:

	2018	2017	Change
Passenger throughput (headcount in ten thousand)	**2,412.36**	**2,258.48**	**6.81%**
In which: Domestic	2,297.51	2,169.37	5.91%
International and regional	114.85	89.11	28.89%
Aircraft takeoff and landing (times)	**165,186**	**157,535**	**4.86%**
In which: Domestic	155,814	148,842	4.68%
International and regional	9,372	8,693	7.81%
Cargo throughput (tons)	**324,697.50**	**299,178.50**	**8.53%**
In which: Domestic	306,301.60	285,134.60	7.42%
International and regional	18,395.90	14,043.90	30.99%

The Group's total revenue from aviation business for 2018 was RMB915,055,718, representing an increase of 10.68% as compared to that of 2017. A breakdown of the Group's revenue from aviation business is as follows:

	Amount *(RMB)*	**Changes over 2017**
Passenger service charges	345,919,512	12.92%
Refund of Civil Aviation Development Fund	250,367,077	-4.03%
Ground handling service income	190,501,947	29.09%
Fees and related charges on aircraft takeoff and landing	128,267,182	14.55%
Total revenue from aviation business	**915,055,718**	**10.68%**

Overview of Non-aviation Business

In 2018, the non-aviation business of the Group maintained growth momentum and achieved annual revenue of RMB788,768,611, representing a year-on-year increase of 22.65%. Its proportion to the Group's total revenue recorded to 46.29%. In 2018, the Group focused on building a five-star Meilan business, explored five-star Meilan Card and other innovative businesses in-depth, pushed ahead with new types of commercial construction in a comprehensive manner and, under the guidance of the "Circular on Printing and Distributing Plan for Adjusting Charge Standards of Civil Airports" (Civil Aviation Circular 18 in 2017) (《關於印發民用機場收費標準調整方案的通知》(民航2017年18號文)) issued by the CAAC, completed the adjustment of various business price mechanisms and boosted overall sales, resulting in good performance in terms of the revenue from non-aviation business. In 2018, the Group recorded franchise income accumulated to RMB417,190,686, representing a year-on-year increase of 9.47%, while freight and packaging income reached RMB97,174,931, representing a year-on-year increase of 25.62%. Rental income reached RMB89,213,598, representing a year-on-year increase of 59.27%; car parking income also reached RMB26,801,790, representing a year-on-year increase of 36.78%. Meanwhile, VIP room income reached RMB41,157,501, representing a year-on-year increase of 54.26%. In addition, the Group commenced the operation of the Meilan Airport hotel in February 2018. Revenue generated from the new hotel operation amounted to RMB30,957,567.

	Amount *(RMB)*	**Changes over 2017**
Franchise income	417,190,686	9.47%
Freight and packaging income	97,174,931	25.62%
Rental income	89,213,598	59.27%
VIP room income	41,157,501	54.26%
Car parking income	26,801,790	36.78%
Hotel income	30,957,567	–
Other income	86,272,538	4.74%
Total revenue from non-aviation business	**788,768,611**	**22.65%**

Asset Analysis

As at 31 December 2018, the total assets of the Group amounted to RMB8,866,140,984, representing a decrease of 2.34% over last year. Among which, current assets amounted to RMB487,012,821, representing 5.49% of the total assets, non-current assets amounted to RMB8,379,128,163, representing approximately 94.51% of the total assets.

Capital Structure

The major objective of the Group's capital management is to ensure the ability of ongoing operations and to maintain a healthy capital ratio in order to support its business and maximize shareholders' interests. The Group continued to emphasize the appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2018, the interest-bearing debts of the Group mainly include bank loans, debentures payable, finance lease payable and entrusted loans payable (hereinafter referred to as the "**total borrowings**"), amounting to approximately RMB2,368,670,230, and cash and cash equivalents were approximately RMB81,958,509. The gearing ratio (total borrowings/total equity) of the Group was 33.34% as at 31 December 2018 (31 December 2017: 32.40%).

The Group maintained a balanced portfolio of loans at fixed interest rates and variable rates to manage interest expenses. As at 31 December 2018, the Group has no long-term borrowings with floating rates.

The Group aimed to keep the balance between the continuity and flexibility of funds by capitalizing on its total borrowings. As at 31 December 2018, 96.21% of the Group's total borrowings will become due within one year, and the debentures payable will become due in 2019. As at 31 December 2018, the Group's total borrowings were denominated in Renminbi, while cash and cash equivalents were held in Renminbi.

Costs Analysis

The operation cost, promotion and selling expenses and administrative expenses of the Group totaled RMB786,665,694 in 2018, representing an increase of RMB64,443,941 or 8.92% as compared to that of 2017, mainly attributed to:

(1) the depreciation charge of the Group for the year increased by RMB53,166,728, mainly due to the completion of the construction of terminal complex and the upgrade and renovation of the terminal building which have been put into use;

(2) the expenses of outsourced employees of the Group for the year increased by RMB22,338,909 mainly due to the growth of business volume of Meilan Airport;

(3) the airport and logistic services fee of the Group for the year increased by RMB6,093,676, mainly due to the expansion of area of greening and environmental maintenance after the putting into use of the terminal complex of the Group.

In 2018, the financial expenses of the Group amounted to RMB120,021,798, representing an increase of RMB2,554,148 as compared to the last year, which was mainly due to the decrease in capitalized interest during the year as a result of the putting in use of the terminal complex.

Cash Flow

In 2018, the Group's net cash inflow from operating activities was RMB1,225,110,029, representing an increase of 15.27% over last year. Such increase was mainly due to the increase in operating income.

In 2018, the Group's net cash outflow from investing activities was RMB1,314,675,056, which was mainly attributable to payments for the construction of the Phase II Expansion Project.

In 2018, the Group's net cash outflow from financing activities was RMB501,432,243, which was mainly attributable to the repayment of principal of long-term borrowings, and the payment of interests on borrowings and dividends.

Pledge of Assets

As mentioned in the announcement of the Company dated 1 February 2018, the lands and buildings owned by the Company and the Parent Company have been pledged to secure a long-term borrowing of RMB7.8 billion granted to the Company and the Parent Company (as co-borrowers) from China Development Bank, ICBC Hainan Branch and ABC Hainan Branch (as co-lenders), for a term of 20 years, which shall be solely used for the construction of the Airport Project.

Accounts Receivable

As at 31 December 2018, the accounts receivable and other receivables of the Group amounted to RMB384,900,041, representing an increase of 12.12% as compared with the end of the previous year.

Gearing Ratio

As at 31 December 2018, current assets of the Group were RMB487,012,821, total assets were RMB8,866,140,984, current liabilities were RMB3,663,326,227, and total liabilities were RMB4,294,201,363. As at 31 December 2018, the gearing ratio (total liabilities/total assets) of the Group was 48.43%, representing a decrease of 6.49% over 2017, which was mainly attributable to the repayment of borrowings and the construction project payment in connection with Meilan Airport Phase II expansion project advanced by the Parent Company.

Foreign Exchange Risks

The businesses of the Group are principally conducted in Renminbi, except certain aviation revenue, purchase of equipment and consulting service fee which are denominated in US dollars or Hong Kong dollars. In view of the limited impact derived from the changes in foreign exchange rates on the Group's operating results, the Group has not entered into any forward contracts to hedge its exposure to foreign exchange risks.

Financial Instruments

As at 31 December 2018, financial instruments of the Group mainly included bank loans, corporate bonds, cash and bank deposits. The purpose of these financial instruments is to finance the Group's operations. Besides, the Group had other financial instruments in relation to daily operations, such as receivables (excluding prepayments) and payables (excluding statutory liabilities).

Contingent Liability

As at 31 December 2018, neither the Group nor the Company had any significant contingent liability.

Significant Investments held and Their Performances

As of 31 December 2018, the Company held 24.5% equity interests in Airport Holding. During the year ended 31 December 2018, the Company recorded an investment income of RMB52,635,936 from share of profit attributable to the shareholders of Airport Holding.

Material Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

During the year ended 31 December 2018, the Company did not carry out any major acquisitions or disposals of subsidiaries, associated companies or joint ventures.

Future Material Investment and Expected Source of Fund

On 21 August 2015, the Company and the Parent Company entered into the Investment and Construction Agreement, pursuant to which, the Company agreed to provide funds, amounting to approximately RMB7.158 billion, to construct the Company Construction Project. The sources of fund for the Company Construction Project are expected to be as follows:

(1) The Company has completed the asset-backed securitization plan on 2 July 2015, of which approximately RMB0.95 billion will be utilized in the construction of the Company Construction Project;

(2) On 1 February 2018, the Company and the Parent Company, as co-borrowers, entered into an agreement in relation to a long-term borrowing of RMB7.8 billion with CDB, ICBC Hainan Branch and ABC Hainan Branch, as co-lenders. According to the loan allocation agreement, the Company will secure a long-term loan facility of RMB3.9 billion, which shall be used for the construction of the Company Construction Project;

(3) The Company plans to issue the private placement of Renminbi corporate bonds with maximum principal amount of RMB3 billion, a part of the Renminbi corporate bonds will be utilized in the construction of the Company Construction Project; and

(4) The Company will use part of its working capital generated from its operation activities to support the construction of the Company Construction Project.

Employment, Remuneration Policy and Training

As at 31 December 2018, the Group had a total of 892 employees, representing a decrease of 41 employees over last year, which was mainly due to normal turnover of employees. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and related packages on a regular basis. Performance-based bonuses and commissions may be awarded to employees. The Group provided adequate trainings based on the requirement of employees, with an aim to upgrade the talent of employees. A total of 84 courses under the training scheme were completed, and 9,461 staffs participated in such courses.

FOR THE YEAR ENDED 31 DECEMBER 2019

Overview of Aviation Business

In 2019, boosted by the overall stable growth of the PRC civil aviation industry, and favorable factors including certain favorable policies, the construction of the China (Hainan) Pilot Free Trade Zone (Port) and off-shore duty-free policy, though the growth of Meilan Airport's principal business indicators slowed down due to the impact of the "cap control" policy of the CAAC and the grounding of Boeing 737MAX aircraft, its business stayed robust and it still ranked 17th among all civil airports in China.

Revolving around the goals of constructing the regional aviation hub, serving the national "One Belt and One Road" (一帶一路) Initiative and constructing the China (Hainan) Pilot Free Trade Zone (Port), Meilan Airport continuously expanded the coverage and accessibility of its route network and maintained rapid growth in international aviation market; actively promoted Hainan aviation tourism in cooperation with the government, airlines, travel agencies and charter operators, which effectively improved its flight passenger load factor and provided a strong source of customers for the rapid development of the international aviation market.

As of 31 December 2019, Meilan Airport operated a total of 297 originating routes, including 261 domestic routes, 32 international routes and 4 regional routes; Meilan Airport extended its reach to 149 cities, including 114 domestic cities, 31 international cities and 4 regional cities; and attracted 58 airlines to operate at Meilan Airport in total, including 33 domestic airlines, 21 international airlines and 4 regional airlines.

Details of the aviation traffic throughput of Meilan Airport in 2019 and comparative figures of last year are set out below:

	2019	**2018**	**Change**
Passenger throughput (headcount in ten thousand)	**2,421.66**	**2,412.36**	**0.39%**
In which: Domestic	2,281.51	2,297.51	-0.70%
International and regional	140.15	114.85	22.03%
Aircraft takeoff and landing (times)	**164,786**	**165,186**	**-0.24%**
In which: Domestic	153,095	155,814	-1.75%
International and regional	11,691	9,372	24.74%
Cargo throughput (tons)	**322,357.50**	**324,697.50**	**-0.72%**
In which: Domestic	298,935.60	306,301.60	-2.40%
International and regional	23,421.90	18,395.90	27.32%

The Group's total revenue from aviation business for 2019 was RMB709,389,882, representing a decrease of 22.48% as compared to that of 2018, which was mainly attributable to the adverse factors such as the abolition of the policy of recognition of refund of the Civil Aviation Development Fund as revenue. Ignoring the impact of this factor, the Group's revenue from aviation business actually increased by 6.73%. A breakdown of the Group's revenue from aviation business is as follows:

	Amount *(RMB)*	**Changes over 2018**
Passenger service charges	349,874,021	1.14%
Ground handling service income	226,584,824	18.94%
Fees and related charges on aircraft takeoff and landing	132,931,037	3.64%
Refund of the Civil Aviation Development Fund	–	-100%
Total revenue from aviation business	**709,389,882**	**-22.48%**

Overview of Non-aviation Business

In 2019, the non-aviation business of the Group maintained good growth momentum and achieved annual revenue of RMB866,981,196, representing a year-on-year increase of 9.92%. Its proportion to the Group's total revenue reached 55.00%.

In 2019, the Group sought to broaden its business thinking by developing new businesses and optimizing existing businesses. Hotel income recorded significant increase due to the full operation of rooms and supporting facilities of Meilan Airport Hotel; VIP room income recorded sustained growth due to the intensified efforts made to expansion of Xinyi membership card business; the income from freight business recorded sustained growth as the Group strengthened mail agency business cooperation with SF Express and actively expanded direct mail and all-cargo aircraft business cooperation. The non-aviation business of the Group achieved good performance in revenue.

In 2019, the Group recorded franchise income of RMB412,800,059, representing a year-on-year decrease of 1.05%; freight and packaging income reached RMB102,646,801, representing a year-on-year increase of 5.63%; the revenue from operating Meilan Airport Hotel amounted to RMB101,253,309, representing a year-on-year increase of 227.07%; VIP room income reached RMB75,664,796, representing a year-on-year increase of 83.84%; rental income reached RMB74,783,568, representing a year-on-year decrease of 16.17%; car parking income reached RMB14,598,056, representing a year-on-year decrease of 45.53%.

	Amount *(RMB)*	**Changes over 2018**
Franchise income	412,800,059	-1.05%
Freight and packaging income	102,646,801	5.63%
Hotel income	101,253,309	227.07%
VIP room income	75,664,796	83.84%
Rental income	74,783,568	-16.17%
Car parking income	14,598,056	-45.53%
Other income	85,234,607	-1.20%
Total revenue from non-aviation business	**866,981,196**	**9.92%**

Asset Analysis

As at 31 December 2019, the total assets of the Group amounted to RMB11,456,162,938, representing a year-on-year increase of 29.21%, among which, current assets amounted to RMB2,033,877,055, representing approximately 17.75% of the total assets; non-current assets amounted to RMB9,422,285,883, representing approximately 82.25% of the total assets.

Capital Structure

The major objective of the Group's capital management is to ensure the ability of ongoing operations and to maintain a healthy capital ratio in order to support its business and maximize shareholders' interests. The Group continued to emphasize the appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost.

As at 31 December 2019, the interest-bearing debts of the Group mainly include bank loans, finance lease payable and entrusted loans payable (the "**total borrowings**"), amounting to approximately RMB2,938,621,385, and cash and cash equivalents were approximately RMB1,511,749,849.

The gearing ratio (total borrowings/total equity) of the Group was 21.69% as at 31 December 2019 (31 December 2018: 32.57%).

The Group maintained a balanced portfolio of loans at fixed interest rates and variable rates to manage interest expenses. As at 31 December 2019, the Group's Syndicated Loan contract is denominated in Renminbi with a floating rate, of which the amount is RMB1.944 billion.

The Group aimed to keep the balance between the continuity and flexibility of funds by capitalizing on its total borrowings. As at 31 December 2019, 100% of the Group's total borrowings will become due within one year. As at 31 December 2019, the Group's total borrowings were denominated in Renminbi and US dollars, of which, the amount denominated in US dollars accounted for approximately 17.80% of the total borrowings, while cash and cash equivalents were held in Renminbi and US dollars, of which, the cash and cash equivalents held in US dollars accounted for approximately 0.04% of the total amount.

Costs Analysis

The operation cost, selling expenses and administrative expenses of the Group aggregated to RMB799,162,402 in 2019, representing an increase of RMB12,496,708 or 1.59% as compared to that of 2018. Information on items with large changes in cost and expense for the year is as follows:

(1) the employee salary and welfare expenses of the Group for the year increased by RMB17,603,869 as compared with that of the corresponding period of 2018, mainly due to the increased labor costs resulting from the personnel reserve in advance for the operation of the Phase II Expansion Project;

(2) the maintenance costs of the Group for the year decreased by RMB9,933,843 as compared with that of the corresponding period of 2018, mainly due to the decrease in maintenance activities for the year after completion of maintenance and renovation of equipment and facilities of Meilan Airport up to the standard of a five-star airport in prior years;

(3) the operating expense of VIP rooms of the Group for the year increased by RMB6,942,526 as compared with that of the corresponding period of 2018, mainly due to an increase in sales volume of Xinyi membership card, which resulted in the increase in the relevant costs; and

(4) the airport and logistic comprehensive services fee of the Group for the year increased by RMB5,206,026 as compared with that of the corresponding period of 2018, mainly due to the expansion of area of greening and environmental maintenance after the putting into use of the terminal complex.

In 2019, the financial income of the Group amounted to RMB14,041,631 (2018: finance expenses of RMB120,021,798). The change is mainly attributable to the decrease in interest expenses resulting from repayments of matured debts by the Group during the year and more capitalisation of interests along with the increase of construction in progress during the year.

Cash Flow

In 2019, the Group's net cash inflow from operating activities was RMB831,278,036, representing a year-on-year decrease of 32.15%, which was mainly because the refund of the Civil Aviation Development Fund was not received during the year.

In 2019, the Group's net cash outflow for investing activities was RMB686,983,411, which was mainly attributable to payments for the construction of the Phase II Expansion Project.

In 2019, the Group's net cash inflow from financing activities was RMB1,265,007,011, which was mainly attributable to the draw-down of the Syndicated Loan for the Phase II Expansion Project during the year.

Pledge of Assets

As mentioned in the Company's announcement dated 1 February 2018, the Company and the Parent Company, as co-borrowers, pledged the land use rights and buildings owned by the Company and the Parent Company as security to secure the Syndicated Loan of RMB7.8 billion from CDB Hainan Branch, ICBC Hainan Branch and ABC Hainan Branch, as co-lenders, for a period of 20 years, which shall be solely used for the construction of the airport project of the Phase II Expansion Project.

Accounts Receivable

As at 31 December 2019, the accounts receivable and other receivables of the Group amounted to RMB504,360,108, representing an increase of 31.04% as compared with the end of the previous year.

Gearing Ratio

As at 31 December 2019, current assets of the Group were RMB2,033,877,055, total assets were RMB11,456,162,938, current liabilities were RMB5,147,193,063, and total liabilities were RMB6,303,572,204.

As at 31 December 2019, the gearing ratio (total liabilities/total assets) of the Group was 55.02%, representing an increase of 6.59% over that as at 31 December 2018, which was mainly attributable to the increase in the borrowings during the year.

Foreign Exchange Risks

The businesses of the Group are principally conducted in Renminbi, except certain aviation revenue, purchase of equipment and consulting service fee which are denominated in US dollars or Hong Kong dollars. During the year, the Group borrowed a loan denominated in US dollars from Aero Infrastructure Investment Company Limited to meet capital requirements. As at 31 December 2019, the balance of the loan was US$75,000,000 (equivalent to approximately RMB523,215,000). The principal and interest of the aforesaid loan will be settled in US dollars. Therefore, fluctuations in the foreign exchange rate of RMB against US dollars will affect the financial performance of the Group. The Group has not entered into any forward contracts to hedge its exposure to foreign exchange risks.

Financial Instruments

As at 31 December 2019, financial instruments of the Group mainly included bank loans, cash and bank deposits. The purpose of these financial instruments is to finance the Group's operations. Besides, the Group had other financial instruments in relation to daily operations, such as receivables (excluding prepayments) and payables (excluding statutory liabilities).

Contingent Liability

Save for the arrangement of the Syndicated Loan, as at 31 December 2019, the Group had no other significant contingent liability.

Significant Investments held and Their Performances

As of 31 December 2019, the Company held 24.5% equity interests in Airport Holding. During the year ended 31 December 2019, the Company recorded an investment income of RMB6,847,978 from share of net profit attributable to the shareholders of Airport Holding.

Set out below are the details:

	As at 31 December 2019		For the year ended 31 December 2019			Carrying amount		
	Percentage of shareholding	Percentage of the Group's total assets	Share of profit	Share of other comprehensive income	Share of other change in equity	As at 31 December 2019	As at 31 December 2018	Investment cost
	%	%	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*
Airport Holding	24.50	11.97	6,847,978	(7,240,191)	6,526,547	1,370,744,642	1,364,610,308	1,011,715,103

Airport Holding is mainly engaged in businesses in the PRC such as airport operation and management and ground handling services related to the air transportation at home and abroad, airport investment, airport transformation, warehousing (non-hazardous cargo), and technical cooperation, consulting and services of domestic and overseas air transportation in the PRC. The investment in Airport Holding is conducive for the Group to strengthen its main business capabilities, helping it expand its business scale as well as enhance its core competitiveness, safeguarding the sustainable development of the Group with a solid guarantee, and to base its own business in Hainan for a broader range of business across the country.

Material Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

During the year ended 31 December 2019, the Company did not carry out any major acquisitions or disposals of subsidiaries, associated companies or joint ventures.

Future Material Investment and Expected Source of Fund

On 21 August 2015, the Company and the Parent Company entered into the Investment and Construction Agreement, pursuant to which, the Company agreed to provide funds, amounting to approximately RMB7.158 billion, to construct the Company Construction Project. The sources of fund for the unfinished part of the Company Construction Project are expected to be as follows:

(1) On 1 February 2018, the Company and the Parent Company, as co-borrowers, entered into an agreement in relation to a long-term borrowing of RMB7.8 billion with CDB Hainan Branch, ICBC Hainan Branch and ABC Hainan Branch, as co-lenders. According to the loan allocation agreement, the Company will secure a long-term loan facility of RMB3.9 billion, the amount not yet withdrawn is RMB1.956 billion, which shall be used for the construction of the Company Construction Project; and

(2) The Company will use part of its working capital generated from its operation activities to support the construction of the Company Construction Project.

Employment, Remuneration Policy and Training

As at 31 December 2019, the Group had a total of 1,010 employees, representing a year-on-year increase of 118 employees, which was mainly due to the increase in business volume and the personnel reserve for the Phase II Expansion Project, resulting in the Company's increased labor demand. Employees are remunerated by the Group based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and related packages on a regular basis. Bonuses and commissions may be awarded to employees according to the assessment of their performance. The Group provided adequate trainings based on the requirement of the positions of employees, with an aim to upgrade the talent of employees. A total of 117 courses under the training scheme were completed, and 6,548 staffs participated in such courses.

8. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Xing Zhoujin. Mr. Xing Zhoujin, aged 55, 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 Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(d) The English text of this circular and form of proxy shall prevail over the Chinese text.

9. 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 supplemental agreement dated 21 December 2018 (the "**2018 Supplemental Parent Company Domestic Shares Subscription Agreement**") entered into between the Company and the Parent Company in relation to the subscription of new Domestic Shares by the Parent Company;

(b) the termination agreement dated 21 December 2018 (the "**Termination Agreement**") entered into between the Company and HNA Infrastructure Investment Group Company Limited* (海航基礎設施投資集團股份有限公司) to terminate the subscription of not more than 50,000,000 new Domestic Shares by HNA Infrastructure Investment Group Company Limited* (海航基礎設施投資集團股份有限公司);

(c) the Past New H Shares Subscription Agreement;

(d) the Supplemental Investment and Construction Agreement; and

(e) the 2020 Parent Company Domestic Shares Subscription Agreement.

10. 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 10th Floor, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong for a period of 14 days from the date of this circular:

(a) the Articles of Association;

(b) the 2018 Supplemental Parent Company Domestic Shares Subscription Agreement;

(c) the Termination Agreement;

(d) the Past New H Shares Subscription Agreement;

(e) the Supplemental Investment and Construction Agreement;

(f) the 2020 Parent Company Domestic Shares Subscription Agreement;

(g) the letter from the Board, the text of which is set out on pages 6 to 36 of this circular;

(h) the letter from the Independent Board Committee to the Independent Shareholders;

(i) the letter from Octal Capital to the Independent Board Committee and the Independent Shareholders;

(j) the annual reports of the Company for each of the two financial years ended 31 December 2018 and 2019;

(k) the report from PricewaterhouseCoopers Zhong Tian LLP on unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this circular;

(l) the traffic study report from Chelbi, the text of which is set out in Appendix III to this circular;

(m) the valuation report for the Company Construction Project from Vigers, the text of which is set out in Appendix IV to this circular;

(n) the valuation report for the Phase I Runway Assets from Vigers, the text of which is set out in Appendix V to this circular;

(o) the Feasibility Study Report in relation to the construction of the Phase II Expansion Project;

(p) the written consents referred to in the paragraph headed "Experts and Consent" in this Appendix;

(q) the circular of the Company dated 7 January 2020; and

(r) this circular.

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

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

(Stock Code: 357)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Hainan Meilan International Airport Company Limited (the "**Company**") will be held at 10:00 am on Friday, 18 September 2020 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, the capitalised terms used in this notice shall have the same meaning as those defined in the circular of the Company dated 20 August 2020 (the "**Circular**").

BY WAY OF ORDINARY RESOLUTIONS

1. To consider and approve the Supplemental Investment and Construction Agreement dated 11 May 2020 entered into between the Company and the Parent Company and the transactions contemplated thereunder; and

2. To consider and approve proposals (if any) put forward at such meeting by any shareholder(s) holding three (3) per cent or more of the shares carrying the right to vote at such meeting.

BY WAY OF SPECIAL RESOLUTIONS

3. To consider and approve the 2020 Parent Company Domestic Shares Subscription Agreement dated 24 July 2020 entered into between the Company and the Parent Company in relation to the subscription of not more than 140,741,000 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company and to authorise the Board and the persons delegated by the Board to deal with all the matters in relation to the issuance of the Subscription Shares with full authority for an initial term of twelve (12) months following the passing of the relevant resolution(s) at the EGM and the Class Meetings. Such matters include but are not limited to:

   (1) within the issuance proposal of the Subscription Shares to be considered and approved at the EGM and the Class Meetings, make amendments to and improvement in the issuance proposal subject to the provisions of laws and regulations in the PRC and overseas, review opinions of relevant securities regulatory authorities and the actual

* *For identification purposes only*

needs of the Company (other than those matters that must be re-voted by the general meeting and class meeting pursuant to the relevant laws and regulations and the Articles of Association);

(2) determine the final price and number of issuance of the Subscription Shares, and negotiate with the Parent Company to amend, supplement, enter into and execute all agreements and any supplementary agreements or other documents (if any) in relation to the issuance of the Subscription Shares;

(3) decide with discretion the timing for issuance of the Subscription Shares;

(4) carry out review, registration, filing, approval and consent procedures with the relevant PRC and overseas regulatory departments or authorities and the Stock Exchange in connection with the issuance of the Subscription Shares;

(5) decide the engagement of relevant intermediaries and related issues;

(6) approve and authorise the Company to carry out registration procedures for Domestic Shares in relation to the issuance of the Subscription Shares with China Securities Depository and Clearing Corporation Limited;

(7) make consequential amendments to the Articles of Association as it thinks fit according to the actual status of issuance of the Subscription Shares and/or the requirements of regulatory authorities within and outside the PRC (if any), and carry out corresponding procedures for approval and industrial and commercial registration of change in connection to the increase in registered capital, and take other actions as necessary;

(8) adjust or waive in time any one of the conditions precedent for the 2020 Parent Company Domestic Shares Subscription Agreement becoming effective based on the actual conditions; and

(9) take all necessary actions to deal with the matters in relation to the issuance of the Subscription Shares.

4. To consider and approve the following resolutions on the Specific Mandate for the New H Shares Issue and listing of New H Shares on the Stock Exchange (relevant details of the resolutions are set out in the Circular):

"**THAT**:

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

4.1. Class of Shares to be issued;

4.2. Time of issuance;

4.3. Size of issuance;

4.4. Ranking of New H Shares;

4.5. Listing;

4.6. Method of issuance;

4.7. Target placee(s);

4.8. Pricing mechanism;

4.9. Method of subscription;

4.10. Accumulated profits;

4.11. Use of proceeds;

4.12. Validity period of the resolutions;

4.13. Other authorisation to the Board and the persons delegated by the Board to deal with all the matters in relation to the New H Share Issue with full authority for an initial term of twelve (12) months following the passing of the relevant resolution(s) at the EGM and the Class Meetings. Such matters include but are not limited to:

(1) 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;

(2) 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;

(3) negotiate and enter into subscription agreement(s) with the placee(s) and/or the placing agreement(s) with the placing agent(s) in relation to the proposed New H Shares Issue, and approving any revision or amendments to such agreement(s);

(4) deal with all the matters in relation to obtaining all the approvals and permissions from the relevant authorities including but not limited to CSRC, the Stock Exchange and/or any other relevant PRC and overseas authorities in relation to the proposed New H Shares Issue;

(5) 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;

(6) 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;

(7) execute, implement, amend and complete any document and do any act as necessary and appropriate in relation to the proposed New H Shares Issue;

(8) approve the publication of relevant announcement(s), circular(s) and notice(s) in relation to the proposed New H Shares Issue on the websites of the Stock Exchange and the Company, respectively, and the submission of relevant forms, files or other documents to the Stock Exchange;

(9) 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;

(10) adjust or waive in time any one of the conditions precedent for the proposed New H shares Issue based on the actual conditions; and

(11) take all necessary actions to deal with the matters in relation to the proposed New H Shares Issue."

5. To consider and approve the authorisation 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 issuance of the Subscription Shares and the New H Shares; and

6. To consider and approve proposals (if any) put forward at such meeting by any shareholder(s) holding three (3) per cent or more of the shares carrying the right to vote at such meeting.

By order of the Board
Hainan Meilan International Airport Company Limited*
Wang Zhen
Chairman

Haikou, the PRC
20 August 2020

As at the date of this notice, the Board comprises (i) five executive directors, namely Mr. Wang Zhen, Mr. Wang Hong, Mr. Wang Hexin, Mr. Yu Yan and Mr. Xing Zhoujin; (ii) two non-executive directors, namely 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*

Notes:

(A) The Company's register of members will be closed from Saturday, 29 August 2020 to Friday, 18 September 2020 (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 Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 28 August 2020.

(B) Holders of the overseas listed foreign shares (in the form of H Shares) of the Company whose names appear on the Company's register of members maintained by Computershare Hong Kong Investor Services Limited at the close of business on Friday, 28 August 2020 are entitled to attend and vote at the EGM after complying with the necessary registration procedures.

(C) Each holder of H Shares who has the right to attend and vote at the EGM (or any adjournment thereof) is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the EGM. A proxy of a Shareholder who has appointed more than one proxy may only vote on a poll.

(D) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified. The instrument appointing a proxy of any holder of H Shares (being a body corporate) must be affixed with the corporate seal of such holder of H Shares or duly signed by the chairman of its Board or by its authorised attorney. To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Shares share registrar, Computershare Hong Kong Investor Services Limited at 17M 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.

(E) Each holder of Domestic Shares is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the EGM. Notes (C) and (D) also apply to holders of Domestic Shares, except that the proxy form or other documents of authority must be delivered to the office of the secretary to the Board, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.

Details of the office of the secretary to the Board are as follows:

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

(F) If a proxy attends the EGM on behalf of a Shareholder, he should produce his ID card and the instrument signed by the proxy or his authorised representative, which specifies the date of its issuance. If the legal representative of the holder of legal person Share(s) attends the EGM, such legal representative should produce his ID card and valid documents evidencing his capacity as such legal representative. If a holder of legal person Share(s) appoints a representative of a company other than its legal representative to attend the EGM, such representative should produce his ID card and an authorisation instrument affixed with the seal of the holder of the legal person Share(s) and duly signed by its legal representative.

(G) The EGM is expected to last not more than one day. Shareholders or proxies attending the EGM are responsible for their own transportation and accommodation expenses.

(H) Pursuant to Rule 13.39 (4) of the Listing Rules, 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.

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

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

(Stock Code: 357)

NOTICE OF THE DOMESTIC SHAREHOLDERS CLASS MEETING

NOTICE IS HEREBY GIVEN that a domestic shareholders class meeting (the "**Domestic Shareholders Class Meeting**") of Hainan Meilan International Airport Company Limited (the "**Company**") will be held at 10:00 am on Friday, 18 September 2020 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, the capitalised terms used in this notice shall have the same meaning as those defined in the circular of the Company dated 20 August 2020 (the "**Circular**").

BY WAY OF SPECIAL RESOLUTIONS

1. To consider and approve the 2020 Parent Company Domestic Shares Subscription Agreement dated 24 July 2020 entered into between the Company and the Parent Company in relation to the subscription of not more than 140,741,000 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company and to authorise the Board and the persons delegated by the Board to deal with all the matters in relation to the issuance of the Subscription Shares with full authority for an initial term of twelve (12) months following the passing of the relevant resolution(s) at the EGM and the Class Meetings. Such matters include but are not limited to:

   (1) within the issuance proposal of the Subscription Shares to be considered and approved at the EGM and the Class Meetings, make amendments to and improvement in the issuance proposal subject to the provisions of laws and regulations in the PRC and overseas, review opinions of relevant securities regulatory authorities and the actual needs of the Company (other than those matters that must be re-voted by the general meeting and class meeting pursuant to the relevant laws and regulations and the Articles of Association);

   (2) determine the final price and number of issuance of the Subscription Shares, and negotiate with the Parent Company to amend, supplement, enter into and execute all agreements and any supplementary agreements or other documents (if any) in relation to the issuance of the Subscription Shares;

* *For identification purposes only*

(3) decide with discretion the timing for issuance of the Subscription Shares;

(4) carry out review, registration, filing, approval and consent procedures with the relevant PRC and overseas regulatory departments or authorities and the Stock Exchange in connection with the issuance of the Subscription Shares;

(5) decide the engagement of relevant intermediaries and related issues;

(6) approve and authorise the Company to carry out registration procedures for Domestic Shares in relation to the issuance of the Subscription Shares with China Securities Depository and Clearing Corporation Limited;

(7) make consequential amendments to the Articles of Association as it thinks fit according to the actual status of issuance of the Subscription Shares and/or the requirements of regulatory authorities within and outside the PRC (if any), and carry out corresponding procedures for approval and industrial and commercial registration of change in connection to the increase in registered capital, and take other actions as necessary;

(8) adjust or waive in time any one of the conditions precedent for the 2020 Parent Company Domestic Shares Subscription Agreement becoming effective based on the actual conditions; and

(9) take all necessary actions to deal with the matters in relation to the issuance of the Subscription Shares.

2. To consider and approve the following resolutions on the Specific Mandate for the New H Shares Issue and listing of New H Shares on the Stock Exchange (relevant details of the resolutions are set out in the Circular):

"**THAT**:

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

2.1. Class of Shares to be issued;

2.2. Time of issuance;

2.3. Size of issuance;

2.4. Ranking of New H Shares;

2.5. Listing;

2.6. Method of issuance;

2.7. Target placee(s);

2.8. Pricing mechanism;

2.9. Method of subscription;

2.10. Accumulated profits;

2.11. Use of proceeds;

2.12. Validity period of the resolutions;

2.13. Other authorisation to the Board and the persons delegated by the Board to deal with all the matters in relation to the New H Share Issue with full authority for an initial term of twelve (12) months following the passing of the relevant resolution(s) at the EGM and the Class Meetings. Such matters include but are not limited to:

(1) 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;

(2) 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;

(3) negotiate and enter into subscription agreement(s) with the placee(s) and/or the placing agreement(s) with the placing agent(s) in relation to the proposed New H Shares Issue, and approving any revision or amendments to such agreement(s);

(4) deal with all the matters in relation to obtaining all the approvals and permissions from the relevant authorities including but not limited to CSRC, the Stock Exchange and/or any other relevant PRC and overseas authorities in relation to the proposed New H Shares Issue;

(5) 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;

(6) 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;

(7) execute, implement, amend and complete any document and do any act as necessary and appropriate in relation to the proposed New H Shares Issue;

(8) approve the publication of relevant announcement(s), circular(s) and notice(s) in relation to the proposed New H Shares Issue on the websites of the Stock Exchange and the Company, respectively, and the submission of relevant forms, files or other documents to the Stock Exchange;

(9) 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;

(10) adjust or waive in time any one of the conditions precedent for the proposed New H shares Issue based on the actual conditions; and

(11) take all necessary actions to deal with the matters in relation to the proposed New H Shares Issue."

3. To consider and approve the authorisation 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 issuance of the Subscription Shares and the New H Shares; and

4. To consider and approve proposals (if any) put forward at such meeting by any shareholder(s) holding three (3) per cent or more of the shares carrying the right to vote at such meeting.

By order of the Board
Hainan Meilan International Airport Company Limited*
Wang Zhen
Chairman

Haikou, the PRC
20 August 2020

As at the date of this notice, the Board comprises (i) five executive directors, namely Mr. Wang Zhen, Mr. Wang Hong, Mr. Wang Hexin, Mr. Yu Yan and Mr. Xing Zhoujin; (ii) two non-executive directors, namely 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.

Notes:

(A) The Company's register of members will be closed from Saturday, 29 August 2020 to Friday, 18 September 2020 (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, Wan Chai, Hong Kong no later than 4:30 p.m. on Friday, 28 August 2020.

* *For identification purposes only*

(B) Holders of the Domestic Shares whose names appear on the Company's register of members of Domestic Shares at the close of business on Friday, 28 August 2020 are entitled to attend and vote at the Domestic Shareholders Class Meeting after complying with the necessary registration procedures.

(C) 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.

(D) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified. The instrument appointing a proxy of any holder of 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 of directors or by its authorised attorney. To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the office of the secretary to the Board, 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.

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) 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 authorised 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 authorisation instrument affixed with the seal of the holder of the legal person Share(s) and duly signed by its legal representative.

(F) 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.

(G) Pursuant to Rule 13.39 (4) of the Listing Rules, 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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海南美蘭國際空港股份有限公司
Hainan Meilan International Airport Company Limited*

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

(Stock Code: 357)

NOTICE OF THE H SHAREHOLDERS CLASS MEETING

NOTICE IS HEREBY GIVEN that an H shareholders class meeting (the "**H Shareholders Class Meeting**") of Hainan Meilan International Airport Company Limited (the "**Company**") will be held at 10:00 am on Friday, 18 September 2020 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, the capitalised terms used in this notice shall have the same meaning as those defined in the circular of the Company dated 20 August 2020 (the "**Circular**").

BY WAY OF SPECIAL RESOLUTIONS

1. To consider and approve the 2020 Parent Company Domestic Shares Subscription Agreement dated 24 July 2020 entered into between the Company and the Parent Company in relation to the subscription of not more than 140,741,000 new Domestic Shares as consideration for the transfer of the Phase I Runway Assets by the Parent Company to the Company and to authorise the Board and the persons delegated by the Board to deal with all the matters in relation to the issuance of the Subscription Shares with full authority for an initial term of twelve (12) months following the passing of the relevant resolution(s) at the EGM and the Class Meetings. Such matters include but are not limited to:

    (1) within the issuance proposal of the Subscription Shares to be considered and approved at the EGM and the Class Meetings, make amendments to and improvement in the issuance proposal subject to the provisions of laws and regulations in the PRC and overseas, review opinions of relevant securities regulatory authorities and the actual needs of the Company (other than those matters that must be re-voted by the general meeting and class meeting pursuant to the relevant laws and regulations and the Articles of Association);

    (2) determine the final price and number of issuance of the Subscription Shares, and negotiate with the Parent Company to amend, supplement, enter into and execute all agreements and any supplementary agreements or other documents (if any) in relation to the issuance of the Subscription Shares;

    (3) decide with discretion the timing for issuance of the Subscription Shares;

* *For identification purposes only*

(4) carry out review, registration, filing, approval and consent procedures with the relevant PRC and overseas regulatory departments or authorities and the Stock Exchange in connection with the issuance of the Subscription Shares;

(5) decide the engagement of relevant intermediaries and related issues;

(6) approve and authorise the Company to carry out registration procedures for Domestic Shares in relation to the issuance of the Subscription Shares with China Securities Depository and Clearing Corporation Limited;

(7) make consequential amendments to the Articles of Association as it thinks fit according to the actual status of issuance of the Subscription Shares and/or the requirements of regulatory authorities within and outside the PRC (if any), and carry out corresponding procedures for approval and industrial and commercial registration of change in connection to the increase in registered capital, and take other actions as necessary;

(8) adjust or waive in time any one of the conditions precedent for the 2020 Parent Company Domestic Shares Subscription Agreement becoming effective based on the actual conditions; and

(9) take all necessary actions to deal with the matters in relation to the issuance of the Subscription Shares.

2. To consider and approve the following resolutions on the Specific Mandate for the New H Shares Issue and listing of New H Shares on the Stock Exchange (relevant details of the resolutions are set out in the Circular):

"**THAT**:

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

2.1. Class of Shares to be issued;

2.2. Time of issuance;

2.3. Size of issuance;

2.4. Ranking of New H Shares;

2.5. Listing;

2.6. Method of issuance;

2.7. Target placee(s);

2.8. Pricing mechanism;

2.9. Method of subscription;

2.10. Accumulated profits;

2.11. Use of proceeds;

2.12. Validity period of the resolutions;

2.13. Other authorisation to the Board and the persons delegated by the Board to deal with all the matters in relation to the New H Share Issue with full authority for an initial term of twelve (12) months following the passing of the relevant resolution(s) at the EGM and the Class Meetings. Such matters include but are not limited to:

(1) 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;

(2) 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;

(3) negotiate and enter into subscription agreement(s) with the placee(s) and/or the placing agreement(s) with the placing agent(s) in relation to the proposed New H Shares Issue, and approving any revision or amendments to such agreement(s);

(4) deal with all the matters in relation to obtaining all the approvals and permissions from the relevant authorities including but not limited to CSRC, the Stock Exchange and/or any other relevant PRC and overseas authorities in relation to the proposed New H Shares Issue;

(5) 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;

(6) 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;

(7) execute, implement, amend and complete any document and do any act as necessary and appropriate in relation to the proposed New H Shares Issue;

(8) approve the publication of relevant announcement(s), circular(s) and notice(s) in relation to the proposed New H Shares Issue on the websites of the Stock Exchange and the Company, respectively, and the submission of relevant forms, files or other documents to the Stock Exchange;

(9) 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;

(10) adjust or waive in time any one of the conditions precedent for the proposed New H shares Issue based on the actual conditions; and

(11) take all necessary actions to deal with the matters in relation to the proposed New H Shares Issue."

3. To consider and approve the authorisation 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 issuance of the Subscription Shares and the New H Shares; and

4. To consider and approve proposals (if any) put forward at such meeting by any shareholder(s) holding three (3) per cent or more of the shares carrying the right to vote at such meeting.

By order of the Board
Hainan Meilan International Airport Company Limited*
Wang Zhen
Chairman

Haikou, the PRC
20 August 2020

As at the date of this notice, the Board comprises (i) five executive directors, namely Mr. Wang Zhen, Mr. Wang Hong, Mr. Wang Hexin, Mr. Yu Yan and Mr. Xing Zhoujin; (ii) two non-executive directors, namely 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.

Notes:

(A) The Company's register of members will be closed from Saturday, 29 August 2020 to Friday, 18 September 2020 (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, Wan Chai, Hong Kong no later than 4:30 p.m. on Friday, 28 August 2020.

* *For identification purposes only*

(B) Holders of the overseas listed foreign shares (in the form of H Shares) of the Company whose names appear on the Company's register of members maintained by Computershare Hong Kong Investor Services Limited at the close of business on Friday, 28 August 2020 are entitled to attend and vote at the H Shareholders Class Meeting after complying with the necessary registration procedures.

(C) 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.

(D) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified. The instrument appointing a proxy of any holder of H Shares (being a body corporate) must be affixed with the corporate seal of such holder of H Shares or duly signed by the chairman of its Board or by its authorised attorney. To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H Shares share registrar, Computershare Hong Kong Investor Services Limited at 17M 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.

(E) If a proxy attends the H Shareholders Class Meeting on behalf of a Shareholder, he should produce his ID card and the instrument signed by the proxy or his authorised representative, which specifies the date of its issuance. If the legal representative of the holder of legal person Share(s) attends the 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 authorisation instrument affixed with the seal of the holder of the legal person Share(s) and duly signed by its legal representative.

(F) 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.

(G) Pursuant to Rule 13.39(4) of the Listing Rules, 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.