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北京首都國際機場股份有限公司

Beijing Capital International Airport Co., Ltd.

(a sino-foreign joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00694)

(I) CONTINUING CONNECTED TRANSACTIONS SUPPLY OF POWER AND ENERGY AGREEMENT AND

(II) CONTINUING CONNECTED TRANSACTIONS INTERNATIONAL RETAIL MANAGEMENT AGREEMENT AND

(III) INVESTMENT PLAN IN RESPECT OF THE FORMATION OF THE JOINT VENTURE COMPANY

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



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 5 to 28 of this circular. A letter from the Independent Board Committee is set out on pages 29 to 30 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 60 of this circular.

The Company will convene the EGM at 9:00 a.m. on Tuesday, 29 December 2020 at the Conference Room, Room 112, the Office Building of the Company, No. 9 Siwei Road, Capital Airport, Beijing, the PRC. The notice convening the EGM was despatched to the Shareholders on Thursday, 12 November 2020.

The Company has despatched the reply slips for the EGM on Thursday, 12 November 2020. Shareholders who intend to attend the EGM are required to complete and return the reply slips in accordance with the instructions printed thereon as soon as possible and in any event by not later than Tuesday, 8 December 2020.

Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

4 December 2020

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

“Articles”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the same meaning as ascribed to it in the Listing Rules
“Beijing Airport Commercial and Trading”	Beijing Capital Airport Commercial and Trading Company Limited* (北京首都機場商貿有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Parent Company
“Beijing Capital Airport”	Beijing Capital International Airport
“Board”	the board of Directors
“Company”	Beijing Capital International Airport Co., Ltd., a sino-foreign joint stock limited company incorporated in the PRC with limited liability, and the H Shares of which are listed on the Stock Exchange
“connected person”	has the same meaning as ascribed to it in the Listing Rules
“controlling shareholder”	has the same meaning as ascribed to it in the Listing Rules
“COVID-19”	Novel Coronavirus
“Daxing Airport”	Beijing Daxing International Airport
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 9:00 a.m. on Tuesday, 29 December 2020 for the consideration and the approval of, among other things, (i) the Supply of Power and Energy Agreement and the transactions contemplated thereunder; (ii) the International Retail Management Agreement and the transactions contemplated thereunder; and (iii) the investment plan in respect of the formation of the Joint Venture Company
“Equipment Operation and Maintenance Company”	Capital Airports Group Equipment Operation and Maintenance Management Co., Ltd * (首都機場集團設備運維管理有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Parent Company

DEFINITIONS

“Former International Retail Management Agreement”	the international retail management agreement dated 15 November 2017 entered into between the Company and Beijing Airport Commercial and Trading, details of which were disclosed in the announcement of the Company dated 15 November 2017 and the circular of the Company dated 5 December 2017
“Former Supply of Power and Energy Agreement”	the supply of power and energy agreement dated 25 October 2017 entered into between the Company and the Power and Energy Company, details of which were disclosed in the announcement of the Company dated 25 October 2017 and the circular of the Company dated 15 November 2017
“Guarantee Company”	China Civil Aviation Xin’gang Guarantee Co., Ltd.*(中航鑫港擔保有限公司), a limited liability company incorporated in the PRC and a subsidiary which is owned by the Parent Company as to 98% of its equity interest
“H Share(s)”	overseas listed foreign share(s) of nominal value of RMB1.00 each in the registered share capital of the Company
“Independent Board Committee”	the independent board committee of the Company, comprising all the independent non-executive Directors, established to advise the Independent Shareholders in respect of (i) the Supply of Power and Energy Agreement and the transactions contemplated thereunder; and (ii) the International Retail Management Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Opus Capital”	Opus Capital Limited, a corporation licensed by the SFC to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Supply of Power and Energy Agreement and the transactions contemplated thereunder; and (ii) the International Retail Management Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) other than the Parent Company, its associates and any Shareholder who has a material interest in (i) the Supply of Power and Energy Agreement and the transactions contemplated thereunder; and/or (ii) the International Retail Management Agreement and the transactions contemplated thereunder; and/or (iii) the investment plan in respect of the formation of the Joint Venture Company

DEFINITIONS

“Inner Mongolia Airport Group”	Inner Mongolia Autonomous Region Civil Airports Group Co., Ltd.* (內蒙古自治區民航機場集團有限責任公司), a limited liability company incorporated in the PRC and a third party independent of the Company and its connected persons
“International Retail Management Agreement”	the international retail management agreement dated 3 November 2020 entered into between the Company and Beijing Airport Commercial and Trading for the provision of operation and management services of the designated retail resources in the international isolated area and international arrival area of Beijing Capital Airport by Beijing Airport Commercial and Trading to the Company
“International Retail Management Announcement”	the announcement of the Company dated 3 November 2020 in respect of the International Retail Management Agreement and the transactions contemplated thereunder
“international retail revenue”	operating revenue received by the Company from operators of duty-free businesses in the international isolated area and the international arrival area of Terminal Two and Terminal Three at Beijing Capital Airport
“Joint Venture Company”	a joint venture company in the form of limited liability company proposed to be established in the PRC by (i) the Company; (ii) the Equipment Operation and Maintenance Company; (iii) the Inner Mongolia Airport Group; and (iv) the Guarantee Company for the transformation of technological achievements
“Latest Practicable Date”	25 November 2020, being the latest practicable date prior to printing of this circular for the purpose of ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parent Company”	Capital Airports Holding Company* (首都機場集團公司), an enterprise established in the PRC and the controlling shareholder of the Company
“Power and Energy Company”	Capital Airports Power and Energy Co., Ltd.* (北京首都機場動力能源有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Parent Company
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of RMB1.00 each in the share capital of the Company, comprising Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of Share(s)
“Si Tuo Company”	Inner Mongolia Si Tuo Civil Aviation Technology Co., Ltd. * (內蒙古司拓民航科技有限責任公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Inner Mongolia Airport Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Announcement”	the supplemental announcement of the Company dated 5 November 2020 in respect of additional information relating to the Supply of Power and Energy Agreement and the International Retail Management Agreement
“Supply of Power and Energy Agreement”	the supply of power and energy agreement dated 3 November 2020 entered into between the Company and the Power and Energy Company for the provision of power and energy by the Power and Energy Company to the Company at Beijing Capital Airport
“Supply of Power and Energy Announcement”	the announcement of the Company dated 3 November 2020 in respect of the Supply of Power and Energy Agreement and the transactions contemplated thereunder
“Terminal Three”	the passenger terminal numbered three which forms part of Beijing Capital Airport
“Terminal Two”	the passenger terminal numbered two which forms part of Beijing Capital Airport
“Tianjin Airport”	Tianjin Binhai International Airport, a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Parent Company
“%”	per cent

* For identification purposes only

LETTER FROM THE BOARD



北京首都國際機場股份有限公司
Beijing Capital International Airport Co., Ltd.

(a sino-foreign joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00694)

Executive Directors:

Mr. Liu Xuesong
Mr. Han Zhiliang
Mr. Zhang Guoliang

Registered office:

Capital Airport, Beijing
The PRC

Non-executive Directors:

Mr. Gao Shiqing
Mr. Jia Jianqing
Mr. Song Kun

Principal place of business in Hong Kong:

37/F, One Taikoo Place
Taikoo Place
979 King's Road
Hong Kong

Independent Non-executive Directors:

Mr. Jiang Ruiming
Mr. Liu Guibin
Mr. Zhang Jiali
Mr. Stanley Hui Hon-chung

4 December 2020

To the Shareholders

Dear Sir or Madam,

**(I) CONTINUING CONNECTED TRANSACTIONS
SUPPLY OF POWER AND ENERGY AGREEMENT
AND**

**(II) CONTINUING CONNECTED TRANSACTIONS
INTERNATIONAL RETAIL MANAGEMENT AGREEMENT
AND**

**(III) INVESTMENT PLAN IN RESPECT OF THE FORMATION OF
THE JOINT VENTURE COMPANY**

INTRODUCTION

Reference is made to the Supply of Power and Energy Announcement, the International Retail Management Announcement and the Supplemental Announcement.

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As disclosed in the Supply of Power and Energy Announcement, the International Retail Management Announcement and the Supplemental Announcemen, on 3 November 2020, the Company entered into the following agreements:

- (i) the Supply of Power and Energy Agreement entered into between the Company and the Power and Energy Company, pursuant to which the Power and Energy Company agreed to provide power and energy to the Company at Beijing Capital Airport for a term of three years commencing from 1 January 2021 to 31 December 2023; and
- (ii) the International Retail Management Agreement entered into between the Company and Beijing Airport Commercial and Trading, pursuant to which Beijing Airport Commercial and Trading agreed to provide operation and management services of retail resources to the Company in the international isolated area and international arrival area in Terminal Two and Terminal Three of Beijing Capital Airport for a term of three years commencing from 1 January 2021 to 31 December 2023.

In addition, the Company proposes to implement an investment plan in respect of the formation of the Joint Venture Company, which is subject to the Independent Shareholders' approval at the EGM pursuant to the Articles.

The purpose of this circular is to provide you with (i) details of the Supply of Power and Energy Agreement and the transactions contemplated thereunder; (ii) details of the International Retail Management Agreement and the transactions contemplated thereunder; (iii) details of the investment plan in respect of the formation of the Joint Venture Company; (iv) the letter of recommendation from the Independent Board Committee in connection with the Supply of Power and Energy Agreement and the International Retail Management Agreement; and (v) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Supply of Power and Energy Agreement and the International Retail Management Agreement.

I. SUPPLY OF POWER AND ENERGY AGREEMENT

Background

Reference is made to the announcement of the Company dated 25 October 2017 and the circular of the Company dated 15 November 2017 in respect of, among other things, the Former Supply of Power and Energy Agreement. The Former Supply of Power and Energy Agreement will expire on 31 December 2020. As the parties intend to continue to carry out transactions of a similar nature from time to time after 31 December 2020, the Company entered into the Supply of Power and Energy Agreement as a renewal agreement.

On 3 November 2020, the Company entered into the Supply of Power and Energy Agreement with the Power and Energy Company, pursuant to which the Power and Energy Company agreed to provide power and energy services to the Company at Beijing Capital Airport for a term of three years commencing from 1 January 2021 to 31 December 2023.

LETTER FROM THE BOARD

Material terms of the Supply of Power and Energy Agreement

Date

3 November 2020

Parties

- (a) the Company; and
- (b) the Power and Energy Company

Services

Pursuant to the Supply of Power and Energy Agreement, the Power and Energy Company agreed to provide power and energy to the Company, including the provision of heating and cooling services, electricity, water, natural gas and steam power in the terminals and other areas of Beijing Capital Airport.

Term

The Supply of Power and Energy Agreement is for a term of three years, commencing from 1 January 2021 to 31 December 2023.

Condition precedent

The transactions contemplated under the Supply of Power and Energy Agreement are subject to the approval by the Independent Shareholders at the EGM.

Consideration and payment

The methods of calculating the service fees to be charged by the Power and Energy Company under the Supply of Power and Energy Agreement are set out as follows:

- (i) in respect of the supply of electricity, the method of calculation is as follows:

Electricity tariffs = comprehensive unit price of electricity supply ^(Note 1) × actual volume incurred

Note 1: The comprehensive unit price of electricity supply was calculated pursuant to the Beijing Electricity Sales Price Table* (《北京市銷售電價表》) and the Requirements on the Percentage of Electricity Consumption of High-voltage Self-regulated Residents During Peak, Valley and Normal Periods* (《關於高壓自管戶內峰、谷、平電量比率的規定》). In the event of adjustments to the electricity tariffs in Beijing city during the term of the Supply of Power and Energy Agreement, the parties will settle based on the adjusted amount of electricity tariffs.

LETTER FROM THE BOARD

- (ii) in respect of the supply of natural gas, the method of calculation is as follows:

Natural gas tariffs = unit price of natural gas ^(Note 2) × actual volume incurred

Note 2: In the event of adjustments to natural gas tariffs during the term of the Supply of Power and Energy Agreement, the parties will settle based on the adjusted amount of natural gas tariffs.

- (iii) in respect of the supply of water and steam, the method of calculation is as follows:

Water tariffs = unit price of water supply ^(Note 3) × actual volume incurred

Steam tariffs = unit price of steam ^(Note 3) × actual volume incurred

Note 3: In the event of adjustments to water and steam tariffs during the term of the Supply of Power and Energy Agreement, the parties will settle based on the adjusted amount of tariffs.

- (iv) in respect of the provision of cooling and heating services, the method of calculation is as follows:

Cooling fees = unit price of cooling supply × area of cooling supply × days of cooling supply ^(Note 4)

Heating fees = unit price of heating supply × area of heating supply × days of heating supply ^(Note 4)

Note 4: In the event of changes in the area, price or management model of heating and cooling supply during the term of the Supply of Power and Energy Agreement, the parties will make adjustments after negotiation and confirmation.

The unit price for the supply of electricity, water and natural gas by the Power and Energy Company under the Supply of Power and Energy Agreement will be confirmed in accordance with the relevant pricing standards issued by the relevant government authorities. The documents of relevant pricing standards specified by the relevant government authorities include: Jing Fa Gai [2020] No. 444, Jing Fa Gai [2019] No. 1544, Jing Fa Gai [2019] No. 758 and Jing Fa Gai [2018] No. 115, which were issued by the Beijing Municipal Commission of Development and Reform and provide for, among others, the increase in the electricity tariffs for companies within the electrical grid of Beijing and the increase in the water and natural gas tariffs for non-resident entities in Beijing.

The fees for the supply of cooling, heating and steam by the Power and Energy Company under the Supply of Power and Energy Agreement will be determined based on the following factors:

- (i) the historical service fees paid by the Company to the Power and Energy Company for the supply of cooling, heating and steam;
- (ii) the reasonable costs incurred by the Power and Energy Company for the supply of cooling, heating and steam to the Company;

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(iii) the reasonable profits of the Power and Energy Company for the supply of cooling, heating and steam to the Company; and

(iv) the related taxes.

The Directors consider that the fees to be charged by the Power and Energy Company for the provision of electricity, water and natural gas services are reasonable on the basis that such unit price is in line with the relevant price standards issued by the Beijing Municipal Commission of Development and Reform. The Directors also consider that the profits to be made by the Power and Energy Company for the provision of cooling, heating and steam services are reasonable after comparing the profit margin to be charged by the Power and Energy Company against (i) the profit margin to be charged by the Power and Energy Company to other independent third parties operating in Beijing Capital Airport for the provision of comparable services; and (ii) the profit margin charged by other service providers (being independent third parties) to Beijing Capital Airport in respect of comparable services that are essential to its daily operations. For further details, please refer to the section headed “I. SUPPLY OF POWER AND ENERGY AGREEMENT – Pricing policy” of this circular.

The actual service fees to be incurred under the Supply of Power and Energy Agreement shall be payable by the Company to the Power and Energy Company on monthly, quarterly, half-yearly or annual basis.

Historical figures

The following table shows the historical figures of service fees paid by the Company to the Power and Energy Company for the supply of power and energy:

	For the year ended 31 December 2018 (RMB)	For the year ended 31 December 2019 (RMB)	For the year ending 31 December 2020 (RMB)
Service fees paid by the Company to the Power and Energy Company for the supply of power and energy	671,063,000	610,929,000	694,517,000 ^(Note 5)
Annual caps	822,381,000	859,029,000	859,029,000

Note 5: The service fees paid by the Company to the Power and Energy Company for the supply of power and energy for the nine months ended 30 September 2020 is approximately RMB471,174,000. Since the audited figures for the service fees payable by the Company to the Power and Energy Company for the supply of power and energy for the year ending 31 December 2020 are not yet available, it is only an estimated figure. The Company expects that the relevant service fees payable by the Company to the Power and Energy Company for the year ending 31 December 2020 will not exceed its annual cap.

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Annual caps

The Company expects that the annual caps for the transactions contemplated under the Supply of Power and Energy Agreement are as follows:

(RMB)

For the year ending 31 December 2021	763,100,000
For the year ending 31 December 2022	763,100,000
For the year ending 31 December 2023	793,100,000

The above annual caps are determined based on the following factors:

- (i) the historical service fees paid by the Company to the Power and Energy Company for the supply of power and energy;
- (ii) the volume of services required by the Company based on its daily operations (including the corresponding change in the service volume and the scope of services resulting from the natural growth and decline of business volume);
- (iii) the possible increase of demand for services arising from the continuous upgrade and refinement of related services of Beijing Capital Airport, such as newly-built boarding bridges, auxiliary power units (APUs) allocated to remote aircraft stands, and newly-added electricity charging piles, etc.;
- (iv) the corresponding increase in energy consumption resulting from the revamp of terminals of Beijing Capital Airport and the equipment and facilities in the vicinity; and
- (v) the related taxes and reasonable profit margin.

The Company confirms that the proposed annual cap for the year ending 31 December 2021 represents an increase of approximately 9.87% and a decrease of approximately 11.17%, respectively, as compared with the historical service fees for the year ending 31 December 2020 and the annual cap for the year ending 31 December 2020, while the proposed annual cap remains the same for the year ending 31 December 2022 and the proposed annual cap for the year ending 31 December 2023 represents an increase of approximately 3.93% as compared with that of the preceding year. The proposed annual caps are mainly based on the following factors:

- (i) as the disruptions caused by the COVID-19 epidemic are expected to gradually decrease in 2021, the air traffic volumes of Beijing Capital Airport will gradually recover, resulting in a natural growth in the energy expenses related to the daily operations of the airport. However, as affected by the diversion of the transfer of flights to Daxing Airport, the overall energy expenses will decrease as compared with the period before the completion and commencement of operations of Daxing Airport. Therefore, it is expected that the annual caps for each of the next three years will increase by

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approximately RMB40 million as compared with the historical service fees for the year ending 31 December 2020, while the annual caps for each of the next three years will be lower than the annual cap for the year ending 31 December 2020;

- (ii) in order to establish a “green and environmentally friendly airport” and reduce carbon emissions, Beijing Capital Airport intends to push forward the construction of facilities such as remote aircraft boarding bridges, auxiliary power units with energy storage, and charging piles, resulting in a growth in energy expenses. Therefore, it is expected to contribute to a further increase of the annual caps for each of the next three years by approximately RMB5 million as compared with the historical service fees for the year ending 31 December 2020;
- (iii) as Beijing Capital Airport is considering the revamp of its terminals and the equipment and facilities in the vicinity, it will result in a growth in energy expenses. Therefore, it is expected to contribute to a further increase of the annual caps for each of the next three years by approximately RMB10 million as compared with the historical service fees for the year ending 31 December 2020; and
- (iv) it is anticipated that in the next three years, certain buildings and facilities at Beijing Capital Airport will be put into operation, resulting in a growth in energy expenses, and hence the annual cap for the year ending 31 December 2023 is expected to increase by approximately RMB30 million as compared with the annual caps for each of the two years ending 31 December 2022.

Pricing policy

The costs of the provision of services under Supply of Power and Energy Agreement mainly relate to (i) labour cost; (ii) the management, maintenance and repair expenses necessary for maintaining normal operation of the energy network and relevant equipment and facilities at Beijing Capital Airport during the course of supply of various types of energy; and (iii) the impairment during the energy supply process.

As the Power and Energy Company is the sole service provider of water, electricity, steam, natural gas, air-conditioning and heating in Beijing Capital Airport area, there are no comparable quotes from independent third parties available in the market. Through price consultation and negotiation, the Company understands that the profit margin to be charged by the Power and Energy Company is lower than the profit margin to be charged by the Power and Energy Company to other independent third parties operating in Beijing Capital Airport for the provision of comparable services, such as the airline companies, ground services companies and catering companies. Meanwhile, the Company monitors the pricing of the Supply of Power and Energy Agreement by comparing the profit margin of the Power and Energy Company (which is below 5%) with the profit margin (which is in the range of 8% to 15%) for provision of other services, such as building maintenance services and environmental and cleaning services, by other service providers (being independent third parties) to Beijing Capital Airport, which were selected based on tender results after

LETTER FROM THE BOARD

assessing their quotation, qualifications, experience and service proposal by the selection committee of the Company. Such services are comparable to the supply of power and energy as all of these services are essential to the daily operations of Beijing Capital Airport.

Internal control on pricing

The Company has implemented a management system to monitor the pricing standards for the transactions under the Supply of Power and Energy Agreement to ensure that the terms are on normal commercial terms as follows:

1. Prior to the entering into of the Supply of Power and Energy Agreement, the technology procurement department of the Company is responsible for gathering information on the historical service fees and profit margin under the Former Supply of Power and Energy Agreement and conducting cross-checks against the service fees and profit margin to be charged by the Power and Energy Company to other independent third parties operating in Beijing Capital Airport for the provision of comparable services, such as the airline companies, ground services companies and catering companies, as well as the service fees and profit margin of other service providers to Beijing Capital Airport in respect of comparable services that are essential to its daily operations, such as property management services and environmental and cleaning services. Thereafter, the technology procurement department is also responsible for the monitoring, assessment and ratings of the transactions contemplated under the Supply of Power and Energy Agreement. The finance department and the secretariat to the Board are responsible for gathering information of connected transactions and monitoring the implementation of connected transactions, with a view to conducting assessment on the fairness of the transaction terms and pricing terms.
2. Prior to the signing of the definitive agreements and the implementation of the transactions contemplated under the Supply of Power and Energy Agreement, the principal officers in the technology procurement department who handle the relevant matters shall lodge applications with the technology procurement department, the finance department, the legal department and the secretariat to the Board. Such applications would only be approved upon a preliminary review conducted by the managers of the above respective departments of the Company, followed by a final review at the general manager office meeting in accordance with the internal control policies of the Company. After the above internal review process based on different functions of various departments of the Company has been completed, the relevant definitive agreements will be considered and approved by the Board.
3. The independent non-executive Directors have reviewed and would continue to review the transactions contemplated under the Supply of Power and Energy Agreement to ensure that such transactions are entered into on normal commercial terms, fair and reasonable, and carried out pursuant to its contractual terms.

LETTER FROM THE BOARD

4. The auditors of the Company will conduct annual review on the transactions contemplated under the Supply of Power and Energy Agreement in relation to the pricing policy and annual caps contemplated thereunder in accordance with the Listing Rules.

Internal control on review of annual caps

The Company has implemented the following internal control measures to ensure that the annual caps for the transactions contemplated under the Supply of Power and Energy Agreement will not be exceeded:

1. The finance department of the Company provides the secretariat to the Board with information in relation to the actual transaction amounts on a monthly basis.
2. The secretariat to the Board is responsible for monitoring such transactions to ensure that the total amount of transactions does not exceed the annual caps.
3. If such amount of transactions is estimated to exceed the relevant annual cap, the person-in-charge of the relevant department of the Company will be notified so that the scale of transactions in the future may be re-estimated and arrangements may be made to issue announcements and/or to obtain the relevant approvals from the Board and the Independent Shareholders in accordance with the requirements of the Listing Rules.

Reasons for and benefits of entering into the Supply of Power and Energy Agreement

The operation of Beijing Capital Airport is dependent on the supply of water, electricity, steam, natural gas, air conditioning and heating. The Power and Energy Company is the sole supplier of water, electricity, steam, natural gas, air conditioning and heating for the Beijing Capital Airport area and it has abundant experience in the provision of power and energy for Beijing Capital Airport. The provision of the above power and energy by the Power and Energy Company will be in favour of safeguarding the daily operations and service quality of Beijing Capital Airport. This can ensure the continuity of power supply business and at the same time safeguard the capabilities of prompt response to emergency within the isolated area of Beijing Capital Airport as well as the professionalism and high efficiency required by its operations.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the Supply of Power and Energy Agreement is entered into on normal commercial terms that are fair and reasonable and in the ordinary and usual course of business of the Company, and the transactions contemplated under the Supply of Power and Energy Agreement are in the interest of the Company and the Shareholders as a whole.

Listing Rules implications

As at the Latest Practicable Date, the Parent Company is the controlling shareholder of the Company, holding approximately 58.96% of the issued share capital of the Company. Since the Power and Energy Company is a subsidiary of the Parent Company, the Power and Energy Company

LETTER FROM THE BOARD

is therefore a connected person of the Company. Accordingly, the Supply of Power and Energy Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Supply of Power and Energy Agreement is more than 5%, the Supply of Power and Energy Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

II. INTERNATIONAL RETAIL MANAGEMENT AGREEMENT

Background

Reference is made to the announcement of the Company dated 15 November 2017 and the circular of the Company dated 5 December 2017 in respect of the Former International Retail Management Agreement. The Former International Retail Management Agreement will expire on 31 December 2020. As the parties intend to continue to carry out transactions of a similar nature from time to time after 31 December 2020, the Company entered into the International Retail Management Agreement as a renewal agreement.

On 3 November 2020, the Company entered into the International Retail Management Agreement with Beijing Airport Commercial and Trading, pursuant to which Beijing Airport Commercial and Trading agreed to provide operation and management services of retail resources to the Company in the international isolated area and international arrival area in Terminal Two and Terminal Three of Beijing Capital Airport for a term of three years commencing from 1 January 2021 to 31 December 2023.

Material terms of the International Retail Management Agreement

Date

3 November 2020

Parties

- (a) the Company; and
- (b) Beijing Airport Commercial and Trading

Services

Pursuant to the International Retail Management Agreement, Beijing Airport Commercial and Trading agreed to provide operation and management services of retail resources in the international isolated area and international arrival area in Terminal Two and Terminal Three of Beijing Capital Airport to the Company.

LETTER FROM THE BOARD

Term

The International Retail Management Agreement is for a term of three years, commencing from 1 January 2021 to 31 December 2023.

Condition precedent

The transactions contemplated under the International Retail Management Agreement are subject to the approval by the Independent Shareholders at the EGM.

Consideration and payment

The method of calculating the entrusted management fees payable by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services are set out as follows:

Total international retail revenue of the Company for the current year $\times 22\%$ ^(Note6).

Note 6: The implementation of incremental sharing mechanism (as disclosed in the announcement dated 15 November 2017 and the circular dated 5 December 2017 of the Company in respect of the Former International Retail Management Agreement) shall be suspended during the current term of the International Retail Management Agreement.

The Company shall pay the entrusted management fees to Beijing Airport Commercial and Trading in accordance with the above-mentioned calculation method. Beijing Airport Commercial and Trading shall issue a written payment request to the Company in relation to the fees payable for the preceding month and the amount of such fees shall be confirmed by the Company on or before the fifth working day of each month. Within 10 working days from the day on which the Company receives such written payment notice from Beijing Airport Commercial and Trading, the Company shall settle the payment of such fees by way of bank transfer to the designated account of Beijing Airport Commercial and Trading.

Other material terms

Pursuant to the International Retail Management Agreement, Beijing Airport Commercial and Trading is authorised by the Company to sign individual retail contracts with each of the retailers in relation to the use and operation of retail resources, and the terms of such retail contracts shall not be in contradiction with the terms of the International Retail Management Agreement. In addition, Beijing Airport Commercial and Trading shall ensure that each of the retailers will make all payments to the Company's designated bank account directly. The Company will then pay Beijing Airport Commercial and Trading the entrusted management fees, details of which are set out in the section headed "II. INTERNATIONAL RETAIL MANAGEMENT AGREEMENT – Consideration and payment" in this circular. The Company expects that the retailers and their ultimate beneficial owners will be third parties independent of the Company and its connected persons.

LETTER FROM THE BOARD

In respect of commercial planning, the Company and Beijing Airport Commercial and Trading will establish a working mechanism for collaborative management. In particular, the Company is responsible for and Beijing Airport Commercial and Trading will participate in the management of resource allocation, layout, business type and product categories.

In respect of the formulation of standards, the Company is responsible for formulating (i) operator access standards, (ii) brand access standards, (iii) service standards; and (iv) resource value evaluation standards.

In respect of market development and merchandising, Beijing Airport Commercial and Trading is responsible for formulating and implementing merchandising proposals. The Company is responsible for reviewing the appropriateness of resource allocation plans in the merchandising proposals. The results of the merchandising proposals are considered and approved by Beijing Airport Commercial and Trading and reported to the Company for filing.

In respect of the daily operation and management of retail businesses, Beijing Airport Commercial and Trading is entrusted by the Company to undertake daily operation and management of the retailers, including safety, servicing, logistics, cashier, renovation, as well as management of resources, premises and other related entrusted resources.

In respect of marketing, the Company is responsible for the overall marketing framework. Beijing Airport Commercial and Trading is responsible for executing industry marketing and store promotion work in accordance with the overall marketing framework.

Historical figures

The following table shows the historical figures of entrusted management fees paid by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services:

	For the year ended 31 December 2018 (RMB)	For the year ended 31 December 2019 (RMB)	For the year ending 31 December 2020 (RMB)
Entrusted management fees paid by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services	619,057,000	782,734,000	46,430,000 ^(Note 7)
Approximate percentage of entrusted management fees over the international retail revenue of the Company	22%	22%	22%
Annual caps	700,000,000	820,000,000	700,000,000

LETTER FROM THE BOARD

Note 7: The entrusted management fees paid by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services for the ten months ended 31 October 2020 is approximately RMB45,081,000. Since the audited figures for the entrusted management fees payable by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services for the year ending 31 December 2020 are not yet available, it is only an estimated figure. The Company expects that the entrusted management fees payable by the Company to Beijing Airport Commercial and Trading for the year ending 31 December 2020 will not exceed its annual cap.

Annual caps

The Company expects that the annual caps for the transactions contemplated under the International Retail Management Agreement are as follows:

(RMB)

For the year ending 31 December 2021	394,000,000
For the year ending 31 December 2022	658,000,000
For the year ending 31 December 2023	812,000,000

The above annual caps are determined based on the following factors:

- (i) percentage of the historical service fees paid by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services over the international retail revenue of the Company (approximately 22%);
- (ii) the Company's estimate of the number of international passengers throughput, the amount of retail consumption per international passenger, and the total turnover of international retail business at Beijing Capital Airport, for each of the three years ending 31 December 2021, 31 December 2022 and 31 December 2023; and
- (iii) the related taxes.

The Company confirms that the proposed annual cap for the year ending 31 December 2021 represents an increase of approximately 749% and a decrease of approximately 44% as compared with the historical service fees for the year ending 31 December 2020 and the annual cap for the year ending 31 December 2020, respectively, and the proposed annual caps for the two years ending 31 December 2022 and 31 December 2023 represent increases of approximately 67% and 23%, respectively, as compared with the annual caps of preceding years. Such expected changes in the proposed annual caps are determined based on the following factors:

- (i) the expected international passenger traffic volume: the impact of COVID-19 pandemic on international air traffic volumes of Beijing Capital Airport is expected to gradually alleviate starting from 2021. It is expected that the international (including Hong Kong, Macau and Taiwan) passenger traffic volume for the year ending 31 December 2021 will be approximately 13 million person-times, the international (including Hong Kong, Macau and Taiwan) passenger traffic volume for the year ending 31 December 2022

LETTER FROM THE BOARD

will be approximately 19.6 million person-times and the international (including Hong Kong, Macau and Taiwan) passenger traffic volume for the year ending 31 December 2023 will be approximately 21.7 million person-times; and

- (ii) the expected amount of consumption per international passenger: taking into account the growth rate of the amount of consumption per international passenger in 2018 and 2019 (with no reference being made to the growth rate in 2020 which is an exceptional case under the influence of the pandemic), pursuant to which it is anticipated that the amount of consumption per international passenger in 2021 will stay flat as compared with that of 2019, and the annual growth rate of the amount of consumption per international passenger in each of 2022 and 2023 will be approximately 11%.

The Company has estimated the annual caps for the next three years with reference to (i) the estimated amount of consumption per international passenger, which was calculated by using the expected growth rate of the amount of consumption per international passenger; and (ii) the expected international passenger throughput.

Pricing policy

The method of calculating the entrusted management fees payable by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services was arrived at after arm's length negotiation between the Company and Beijing Airport Commercial and Trading with reference to the respective proportion of the amounts of entrusted management fees received by Beijing Airport Commercial and Trading over the total international retail revenue received by the Company for the previous two years ended 31 December 2019 and the last ten months ended 31 October 2020, which is the same for each year, i.e., approximately 22%. For further details, please refer to the section headed "II. INTERNATIONAL RETAIL MANAGEMENT AGREEMENT – Historical figures" in this circular.

The Company has considered the following factors to assess the reasonableness and fairness of the above calculation method: (i) the reasonable costs of Beijing Airport Commercial and Trading in providing the international retail management services; (ii) the proportion of the entrusted management fees being continuously maintained at a stable level of approximately 22% of the total international retail revenue of the Company for the international retail business between the Company and Beijing Airport Commercial and Trading; and (iii) the related taxes.

As the international retail business in other airports in the PRC have not adopted modes of operation under contractual arrangement that is similar or equivalent to the entrusted management mode of operation adopted under the International Retail Management Agreement, there is no direct comparable pricing policies for similar transactions. Furthermore, while some of the shopping centres in urban districts of the PRC have adopted a similar mode of operation involving entrusted management, the transactions of such shopping centres are not comparable to those in Beijing Capital Airport in view of the geographical locations of the shopping centres and the special requirements of safety, emergency treatment and service satisfaction for the provision of international management services in airports, which resulted in a different basis and method for determining the amount of entrusted management fees.

LETTER FROM THE BOARD

The Company understands that Beijing Airport Commercial and Trading also provides entrusted management services to Tianjin Airport in respect of its retail businesses, though the contractual arrangement does not solely relate to international retail management (as in the International Retail Management Agreement) but also includes the provision of both domestic and international retail management services. While the contractual arrangement between Tianjin Airport and Beijing Airport Commercial and Trading is not a direct comparable transaction, it may be considered as a reference for the Company to evaluate and compare the pricing policy under the International Retail Management Agreement. In respect of the rate of the entrusted management fees payable by Tianjin Airport to Beijing Airport Commercial and Trading for international retail management services, it is equivalent to approximately 22% of the total international retail revenue of Tianjin Airport. As such, the pricing basis for the entrusted management fees charged by Beijing Airport Commercial and Trading under the International Retail Management Agreement (i.e. 22% of the total international retail revenue of the Company) is not less favourable to the Company than the rate of entrusted management fees charged by Beijing Airport Commercial and Trading to Tianjin Airport.

In determining the percentage (i.e. 22%) for calculating the entrusted management fees payable by the Company to Beijing Airport Commercial and Trading, the following factors specifically related to Beijing Capital Airport were taken into account: (i) Beijing Airport Commercial and Trading has ample client resources in international retail business and strong capability of attracting and managing retail business, which can generate more revenue for the international retail business of Beijing Capital Airport and increase the non-aeronautical revenues of the Company. Beijing Airport Commercial and Trading conducts tender process for the Company in order to select duty-free businesses that operate in the international isolated areas at Beijing Capital Airport. The tender results of duty-free businesses in the past, including the supplementary agreements entered into with China Duty Free Group Co., Ltd.* (中國免稅品(集團)有限責任公司) and Sunrise Duty Free (China) Co., Ltd.* (日上免稅行(中國)有限公司) as disclosed in the inside information announcement of the Company dated 4 January 2018, have helped to ensure the scale of duty-free revenue of Beijing Capital Airport. In view of the tender results of duty-free businesses in the terminals of Beijing Capital Airport, Beijing Airport Commercial and Trading has fully demonstrated its extensive experience in international duty-free business and a solid understanding of the duty-free policy in the PRC, which will enable it to reasonably ensure that the value of duty-free resources at Beijing Capital Airport would be maximised in accordance with the laws and regulations; (ii) Beijing Capital Airport ranks first in the PRC and second worldwide in terms of the volume of passengers throughput, and has substantial workload for daily operation and accounting treatment in relation to international retail business; and (iii) as Beijing is positioned strategically as a political, cultural and international exchange centre, the requirements for safety and service standard of Beijing Capital Airport as “China’s No.1 Gateway” are rather special in the PRC. Therefore, Beijing Airport Commercial and Trading also has to incur higher costs in order to meet the operational requirements of Beijing Capital Airport.

Based on the above, the Directors consider that the pricing basis for the entrusted management fees charged by Beijing Airport Commercial and Trading to the Company under the International Retail Management Agreement is on normal commercial terms or better.

LETTER FROM THE BOARD

Internal control on pricing

The Company has implemented a management system to monitor the pricing standards for the transactions under the International Retail Management Agreement to ensure that the terms are on normal commercial terms as follows:

1. Prior to the entering into of the International Retail Management Agreement, the business development department of the Company is responsible for gathering information on the historical entrusted management fees and relevant transactions under the Former International Retail Management Agreement and conducting assessment of the fairness of the transaction terms and pricing terms. Thereafter, the business development department of the Company is also responsible for the monitoring and ratings of the transactions contemplated under the International Retail Management Agreement. The finance department of the Company and the secretariat to the Board are responsible for gathering information of connected transactions and monitoring the implementation of connected transactions.
2. Prior to the signing of the definitive agreements and the implementation of the transactions contemplated under the International Retail Management Agreement, the principal officers in the business development department who handle the relevant matters shall lodge applications with the business development department, the finance department, the legal department and the secretariat to the Board. Such applications would only be approved upon a preliminary review conducted by the managers of the above respective departments of the Company, followed by a final review at the general manager office meeting in accordance with the internal control policies of the Company. After the above internal review process based on different functions of various departments of the Company has been completed, the relevant definitive agreements will be considered and approved by the Board.
3. The independent non-executive Directors have reviewed and would continue to review the transactions contemplated under the International Retail Management Agreement to ensure that such transactions entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to its contractual terms.
4. The auditors of the Company will conduct annual review on the transactions contemplated under the International Retail Management Agreement in relation to the pricing policy and annual caps contemplated thereunder in accordance with the Listing Rules.

LETTER FROM THE BOARD

Internal control measures on review of annual caps

The Company has implemented the following internal control measures to ensure that the annual caps for the transactions contemplated under the International Retail Management Agreement will not be exceeded:

1. The finance department of the Company provides the secretariat to the Board with information in relation to the actual transaction amounts on a monthly basis.
2. The secretariat to the Board is responsible for monitoring such transactions to ensure that the total amount of transactions does not exceed the annual caps.
3. If such amount of transactions is estimated to exceed the relevant annual cap, the person-in-charge of the relevant department of the Company will be notified so that the scale of transactions in the future may be re-estimated and arrangements may be made to issue announcements and/or to obtain the relevant approvals from the Board and the Independent Shareholders in accordance with the requirements of the Listing Rules.

Reasons for and benefits of entering into the International Retail Management Agreement

Beijing Airport Commercial and Trading has maintained a good cooperative relationship with the Company in the past and is familiar with the international retail business within Beijing Capital Airport. In addition, Beijing Airport Commercial and Trading has relatively strong capability in attracting and managing retail business as well as in retail operation and management.

During the term of the Former International Retail Management Agreement from 1 January 2018 to 31 December 2020, Beijing Airport Commercial and Trading fully demonstrated its proactivity in expanding its market operation scale in its business area, improving the quality of commercial services in Beijing Capital Airport, and increasing overall value of resources, which protected the Company's income. At the same time, during the outbreak of the COVID-19 pandemic, Beijing Airport Commercial and Trading actively cooperated with the Company to implement epidemic prevention measures and strived to promote the resumption of normal work and production as the epidemic became normalised. Therefore, it is expected that the management of the international retail resources of Beijing Capital Airport by Beijing Airport Commercial and Trading will facilitate the recovery in the value of retail resources in Beijing Capital Airport.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the International Retail Management Agreement is entered into on normal commercial terms that are fair and reasonable and in the ordinary and usual course of business of the Company, and the transactions contemplated under the International Retail Management Agreement are in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Listing Rules implications

As at the Latest Practicable Date, the Parent Company is the controlling shareholder of the Company, holding approximately 58.96% of the issued share capital of the Company. Since Beijing Airport Commercial and Trading is a subsidiary of the Parent Company, Beijing Airport Commercial and Trading is therefore a connected person of the Company. Accordingly, the transactions contemplated under the International Retail Management Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the International Retail Management Agreement is more than 5%, the International Retail Management Agreement and the transactions contemplated thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

III. INVESTMENT PLAN IN RESPECT OF THE FORMATION OF THE JOINT VENTURE COMPANY

Background

In recent years, each of the Company, the Parent Company and certain subsidiaries of the Parent Company has achieved substantial achievement in technological innovation and has developed numerous technological innovative products. Nonetheless, due to (i) the relatively dispersed resources of relevant technological innovation units; and (ii) the existing platform's failure to support the transformation of technological achievements and incentivise innovative talents effectively, the Company is unable to conduct market-oriented operations for its existing technological innovative products.

Therefore, the Company proposes to implement an investment plan to form the Joint Venture Company together with (i) the Equipment Operation and Maintenance Company, (ii) the Inner Mongolia Airport Group; and (iii) the Guarantee Company by way of long-term equity investment.

Pursuant to Article 56 of the Articles, the Shareholders' general meeting shall be the organ of authority of the Company and shall exercise its powers according to laws. Pursuant to Article 57(1) of the Articles, the Shareholders' general meeting shall exercise the power to determine the business policies and investment plans, and the Shareholders' general meeting may authorise or appoint the Board to effect those matters authorised or appointed by the Shareholders' general meeting.

As such, the determination of the investment plan in respect of the formation of the Joint Venture Company is subject to the Shareholders' approval at the EGM in accordance with the requirements under the Articles.

LETTER FROM THE BOARD

Basic information of the investment plan

It is proposed that the Joint Venture Company will be a limited liability company to be established in the PRC and to be jointly funded by (i) the Company, (ii) the Equipment Operation and Maintenance Company, (iii) the Inner Mongolia Airport Group; and (iv) the Guarantee Company, with the contribution to the registered capital of the Joint Venture Company to be shared by each of the parties as follows:

Registered capital of the Joint Venture Company:

The registered capital of the Joint Venture is estimated to be approximately RMB1.3 billion.

Percentage of equity interest in the Joint Venture Company:

- (i) 31% by the Company;
- (ii) 31% by the Equipment Operation and Maintenance Company;
- (iii) 31% by the Inner Mongolia Airport Group; and
- (iv) 7% by the Guarantee Company

Form of funding:

The capital contribution by (i) the Company, (ii) the Equipment Operation and Maintenance Company; and (iii) the Guarantee Company will be satisfied in cash. Among them, the contribution by each of the Company and the Equipment Operation and Maintenance Company will be RMB40,513,200, and the contribution by the Guarantee Company will be RMB9,148,100.

The capital contribution by the Inner Mongolia Airport Group will be made by way of the entire equity interest of the shareholders of its subsidiary, Si Tuo Company. Based on the asset valuation report of Si Tuo Company completed on 8 September 2020 prepared by Beijing Detong Assets Appraisal Co., Ltd.* (北京德通資產評估有限責任公司), as at the benchmark date of valuation, i.e. 31 July 2020, the net assets value of Si Tuo Company was appraised at approximately RMB40,513,200 on the basis of income approach.

Reasons for and benefits of the investment plan to the Company

As the economy continues to develop, the number of travellers in airports also continues to increase. In order to keep up with the general trend of the industry, the Company shall continue to promote the establishment of “smart airports” and conduct in-depth exploration of digital and

LETTER FROM THE BOARD

intelligent new technology in order to consistently improve the convenience and efficiency of passenger travel. The investment plan for the formation of the Joint Venture Company helps to broaden the room for development of Beijing Capital Airport and has a positive impact on the promotion of development of the industry.

The transformation of technological achievements is key to the transformation of applied technology into real productive forces which generate economic benefit. If the investment plan for the formation of the Joint Venture Company is implemented, it would enable the Company to further promote the transformation of technological achievements. Through the further industrialised and commercialised promotion of existing technological achievements, it could contribute to an increase in the revenue of the Company.

In light of the above, the Directors are of the view that the investment plan in respect of the formation of the Joint Venture Company is expected to be in the interest of the Company and the Shareholders as a whole.

Listing Rules implications

As stated above, the investment plan in respect of the formation of the Joint Venture Company is subject to Shareholders' approval pursuant to the requirements under the Articles. The formation of the Joint Venture Company may or may not materialise. The investment plan for the formation of the Joint Venture Company is subject to, among other things, the negotiations of the joint venture partners and the entering into of a legally binding definitive agreement. The relevant details set out in this circular are based on, among other things, the information available to the Company as at the Latest Practicable Date and the preliminary assessment of impact of the possible formation of the Joint Venture Company on the Company.

As at the Latest Practicable Date, the Parent Company is the controlling shareholder of the Company, holding approximately 58.96% of the issued share capital of the Company. Since each of the Equipment Operation and Maintenance Company and the Guarantee Company is a subsidiary of the Parent Company, the Equipment Operation and Maintenance Company and the Guarantee Company are therefore connected persons of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Inner Mongolia Airport Group and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

If the formation of the Joint Venture Company materialises, it will constitute a connected transaction of the Company and may be subject to the reporting and announcement requirements, but will be exempt from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Furthermore, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, it is expected that, immediately upon the formation of the Joint Venture Company, the Joint Venture Company will not become a subsidiary of the Company.

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Further announcement(s) will be made by the Company as and when appropriate in compliance with the Listing Rules.

IV. INFORMATION ON THE PARTIES

The Company is principally engaged in the operation of Beijing Capital Airport.

The Parent Company is principally engaged in the provision of ground handling services for domestic and international aviation enterprises, including supply of water, electricity, steam and energy, airport management services and counter services.

The Power and Energy Company is principally engaged in the provision of water, electricity, steam, natural gas, air-conditioning and heating in Beijing Capital Airport; the operation and maintenance of their respective systems; provision of technological consultation services to the energy systems of terminals, air-field, staff quarters and other areas of Beijing Capital Airport. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, the Power and Energy Company is a wholly-owned subsidiary of the Parent Company; and the ultimate beneficial owner of the Parent Company is the Civil Aviation Administration of China, which is a state bureau administered by the Ministry of Transport of the PRC.

Beijing Airport Commercial and Trading is principally engaged in conducting trading and retail businesses. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, Beijing Airport Commercial and Trading is a wholly-owned subsidiary of the Parent Company; and the ultimate beneficial owner of the Parent Company is the Civil Aviation Administration of China, which is a state bureau administered by the Ministry of Transport of the PRC.

The Equipment Operation and Maintenance Company is principally engaged in the maintenance, development, installation and supply of spare parts of equipment as well as the provision of technical consulting services at airports; airport equipment manufacturing; computer system integration; internet information services, etc.

The Inner Mongolia Airport Group is principally engaged in airport and air traffic management and other ancillary activities of aviation transportation; internet and related services; software and information technology services; communication terminal equipment manufacturing; retail sales of communication equipment, etc.

The Guarantee Company is principally engaged in the provision of guarantees of loans, finance leases and other economic contracts for small and medium-sized enterprises, etc.

V. BOARD'S APPROVAL

Each of the Supply of Power and Energy Agreement, the International Retail Management Agreement, and the investment plan in respect of formation of the Joint Venture Company was approved by the Board.

LETTER FROM THE BOARD

As at the Latest Practicable Date, there were no overlapping directors between the Company and the Parent Company, the Power and Energy Company, Beijing Airport Commercial and Trading, the Equipment Operation and Maintenance Company or the Guarantee Company. Certain executive and non-executive Directors concurrently served as the general manager and deputy general managers of the Parent Company only, and there was no overlapping senior management between the Company and each of the Power and Energy Company, Beijing Airport Commercial and Trading, the Equipment Operation and Maintenance Company and the Guarantee Company. Moreover, none of the Directors personally had any material interest in the transactions contemplated under the Supply of Power and Energy Agreement, the International Retail Management Agreement or the investment plan in respect of the formation of the Joint Venture Company. Therefore, none of the Directors abstained from voting at the Board meeting to approve the Supply of Power and Energy Agreement, the International Retail Management Agreement or the investment plan in respect of the formation of the Joint Venture Company.

VI. THE EGM

The EGM will be convened at 9:00 a.m. on Tuesday, 29 December 2020 at the Conference Room, Room 112, the Office Building of the Company, No. 9 Siwei Road, Capital Airport, Beijing, the PRC to consider and, if thought fit, pass resolutions to approve, among other things, (i) the Supply of Power and Energy Agreement and the transactions contemplated thereunder; (ii) the International Retail Management Agreement and the transactions contemplated thereunder; and (iii) the investment plan in respect of the formation of the Joint Venture Company.

The relevant resolutions in respect of (i) the Supply of Power and Energy Agreement and the transactions contemplated thereunder; and (ii) the International Retail Management Agreement and the transactions contemplated thereunder will be proposed by way of ordinary resolutions at the EGM for approval by the Independent Shareholders.

The relevant resolutions in respect of the investment plan in respect of the formation of the Joint Venture Company will also be proposed by way of ordinary resolution at the EGM for approval by the Independent Shareholders.

The notice convening the EGM and the proxy forms and reply slips for the EGM were despatched to the Shareholders on Thursday, 12 November 2020.

Whether or not you are able to attend the meeting, please complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's H Share registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person in the EGM or any adjournment thereof if you so desire.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll.

LETTER FROM THE BOARD

VII. FORMATION OF THE INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders on the terms of the Supply of Power and Energy Agreement, the International Retail Management Agreement and the respective transactions contemplated thereunder.

A letter from the Independent Board Committee to the Independent Shareholder is set out on pages 29 to 30 of this circular.

The Company has appointed Opus Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Supply of Power and Energy Agreement, the International Retail Management Agreement and the respective transactions contemplated thereunder are fair and reasonable, and whether they are in the interest of the Company and the Shareholders as a whole.

A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages of 31 to 60 of this circular.

VIII. CONNECTED PERSONS WHO ARE REQUIRED TO ABSTAIN FROM VOTING ON THE RELEVANT RESOLUTIONS

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the Supply of Power and Energy Agreement and the International Retail Management Agreement and the respective transactions contemplated thereunder is required to abstain from voting on the relevant resolutions at the EGM.

As at the Latest Practicable Date, the Parent Company is the controlling shareholder of the Company, holding approximately 58.96% of the issued share capital of the Company, and each of the Power and Energy Company and Beijing Airport Commercial and Trading is a subsidiary of the Parent Company. As such, the Parent Company and its associates must abstain from voting at the EGM on the resolutions approving (i) the Supply of Power and Energy Agreement and the transactions contemplated thereunder; and (ii) the International Retail Management Agreement and the transactions contemplated thereunder.

As each of the Equipment Operation and Maintenance Company and the Guarantee Company is a subsidiary of the Parent Company, for good corporate governance, the Parent Company and its associates will also abstain from voting on the resolution approving the investment plan in respect of the formation of the Joint Venture Company at the EGM.

As at the Latest Practicable Date and to the best knowledge and belief of the Directors, save as disclosed in this circular, none of the other Shareholders must abstain from voting on the relevant resolutions.

LETTER FROM THE BOARD

IX. BOOK CLOSURE PERIOD

The register of members of the Company will be temporarily closed from Sunday, 29 November 2020 to Tuesday, 29 December 2020 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 29 December 2020 are entitled to attend and vote at the EGM.

In order to qualify for the entitlement to attend and vote at the EGM, holders of H Shares whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the Company's H Share registrar, Hong Kong Registrars Limited at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong at or before 4:30 p.m. on Friday, 27 November 2020.

X. RECOMMENDATIONS

The Board (including independent non-executive Directors) considers that the resolutions to be proposed at the EGM, as disclosed in the notice of the EGM dated 12 November 2020, are in the interest of the Company and the Shareholders as a whole, and accordingly, recommends the Shareholders to vote in favour of the resolutions to be proposed at the EGM.

Your attention is also drawn to the recommendation of the Independent Board Committee as set out on pages 29 to 30 of this circular and the letter of advice from the Independent Financial Adviser as set out on pages 31 to 60 of this circular.

XI. ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board of
Beijing Capital International Airport Co., Ltd.
Meng Xianwei
Secretary to the Board



北京首都國際機場股份有限公司
Beijing Capital International Airport Co., Ltd.

(a sino-foreign joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00694)

4 December 2020

To the Independent Shareholders

Dear Sir or Madam,

**(I) CONTINUING CONNECTED TRANSACTIONS
SUPPLY OF POWER AND ENERGY AGREEMENT
AND
(II) CONTINUING CONNECTED TRANSACTIONS
INTERNATIONAL RETAIL MANAGEMENT AGREEMENT**

We refer to the circular issued by the Company to the Shareholders dated 4 December 2020 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether, in our opinion, the Supply of Power and Energy Agreement and the International Retail Management Agreement are entered into on normal commercial terms that are fair and reasonable and in the ordinary and usual course of business of the Company, and whether the respective transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Opus Capital has been appointed as the Independent Financial Adviser to advise the Independent Shareholders and us in this respect.

We wish to draw your attention to the letter from the Board as set out on pages 5 to 28 of the Circular and the letter from the Independent Financial Adviser as set out on pages 31 to 60 of the Circular, which contain, among other things, their advice and recommendations regarding the Supply of Power and Energy Agreement, the International Retail Management Agreement and the respective transactions contemplated thereunder.

Having considered the terms of the Supply of Power and Energy Agreement, the International Retail Management Agreement and the respective transactions contemplated thereunder, and the advice and recommendation of the Independent Financial Adviser, we are of the view that the Supply of Power and Energy Agreement and the International Retail Management Agreement are entered into on normal commercial terms that are fair and reasonable and in the ordinary and usual course of business of the Company, and the respective transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to approve the Supply of Power and Energy Agreement, the International Retail Management Agreement and the respective transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Beijing Capital International Airport Co., Ltd.

Mr. Jiang Ruiming, Mr. Liu Guibin,

Mr. Zhang Jiali and Mr. Stanley Hui Hon-chung

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from Opus Capital to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions contemplated under the Supply of Power and Energy Agreement and the International Retail Management Agreement, which has been prepared for the purpose of inclusion in this circular.



18th Floor, Fung House
19-20 Connaught Road Central
Central, Hong Kong

4 December 2020

To: *The Independent Board Committee and the Independent Shareholders of
Beijing Capital International Airport Co., Ltd.*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS (1) SUPPLY OF POWER AND ENERGY AGREEMENT; AND (2) INTERNATIONAL RETAIL MANAGEMENT AGREEMENT

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of continuing connected transactions (the “**Continuing Connected Transactions**”) contemplated under the Supply of Power and Energy Agreement and the International Retail Management Agreement (collectively, the “**Agreements**”) and their respective annual caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 4 December 2020 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined or the context requires otherwise.

On 3 November 2020, the Company entered into the following agreements:

- (i) the Supply of Power and Energy Agreement entered into between the Company and the Power and Energy Company, pursuant to which the Power and Energy Company agreed to provide power and energy to the Company at Beijing Capital Airport for a term of three years commencing from 1 January 2021 to 31 December 2023; and
- (ii) the International Retail Management Agreement entered into between the Company and Beijing Airport Commercial and Trading, pursuant to which Beijing Airport Commercial and Trading agreed to provide operation and management services of retail resources to the Company in the international isolated area and international arrival area in Terminal Two and Terminal Three of Beijing Capital Airport for a term of three years commencing from 1 January 2021 to 31 December 2023.

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As at the Latest Practicable Date, the Parent Company was the controlling shareholder of the Company, holding approximately 58.96% of the issued share capital of the Company. Since the Power and Energy Company and Beijing Airport Commercial and Trading are subsidiaries of the Parent Company, the Power and Energy Company and Beijing Airport Commercial and Trading are therefore connected persons of the Company. Accordingly, the transactions contemplated under the Supply of Power and Energy Agreement and the International Retail Management Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of each of the Supply of Power and Energy Agreement and the International Retail Management Agreement is more than 5%, each of the Supply of Power and Energy Agreement and the International Retail Management Agreement and their respective transactions contemplated thereunder are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Each of the Supply of Power and Energy Agreement and the International Retail Management Agreement was approved by the Board.

As at the Latest Practicable Date, there were no overlapping directors between the Company and the Parent Company, the Power and Energy Company and Beijing Airport Commercial and Trading. Certain executive and non-executive Directors concurrently served as the general manager and deputy general managers of the Parent Company only, and there was no overlapping senior management between the Company and each of the Power and Energy Company and Beijing Airport Commercial and Trading. Moreover, none of the Directors personally had any material interest in the transactions contemplated under the Supply of Power and Energy Agreement or the International Retail Management Agreement. Therefore, none of the Directors abstained from voting at the Board meeting to approve the Supply of Power and Energy Agreement or the International Retail Management Agreement.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Jiang Ruiming, Mr. Liu Guibin, Mr. Zhang Jiali and Mr. Stanley Hui Hon-chung, has been established to advise the Independent Shareholders as to whether (i) the Agreements are entered into in the ordinary and usual course of business of the Company; (ii) the terms of the Agreements, the Continuing Connected Transactions (including their respective annual caps) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote on the relevant resolutions at the EGM. Our appointment as the Independent Financial Adviser in this respect has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Company, the Power and Energy Company, Beijing Airport Commercial and Trading or other parties that could reasonably be regarded as relevant to our independence. Apart from normal independent financial advisory fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser,

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no arrangements exist whereby we had received or shall receive any other fees or benefits from the Company, the Power and Energy Company, Beijing Airport Commercial and Trading or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have considered and reviewed, amongst other things:

- (i) the Supply of Power and Energy Agreement;
- (ii) the International Retail Management Agreement;
- (iii) The documents in relation to pricing standards issued by the relevant PRC government authorities include: Jing Fa Gai [2020] No. 444, Jing Fa Gai [2019] No. 1544, Jing Fa Gai [2019] No. 758 and Jing Fa Gai [2018] No. 115;
- (iv) the internal documents of the Company in connection with the determination of the annual caps, internal control procedures and pricing policies in relation to the Continuing Connected Transactions; and
- (v) other information as set out in the Circular.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Company (collectively, the “**Management**”). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Company or its future prospects.

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The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms of the Agreements, the Continuing Connected Transactions and their respective annual caps, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

1. Information on the Company, the Parent Company, the Power and Energy Company and Beijing Airport Commercial and Trading

1.1 Information of the Company

The Company was incorporated as a joint stock company with limited liability in the PRC on 15 October 1999 and has been listed on the Stock Exchange since 1 February 2000. The Company is principally engaged in the operation of Beijing Capital Airport and the provision of related services. As at the Latest Practicable Date, the Parent Company held approximately 58.96% of the total issued share capital of the Company.

The Company is principally engaged in the operating and managing aeronautical and non-aeronautical businesses and certain ancillary commercial businesses at the Beijing Capital Airport. The aeronautical business of the Company includes provision of aircraft landings and take-offs and passenger service facilities, ground support services and firefighting services for domestic and foreign air transportation enterprises. The Company's non-aeronautical business includes the franchise-based operation of: (i) ground handling agent services supplied for domestic and foreign airliners; (ii) in-flight catering services; (iii) duty free and other retail shops in the terminals; (iv) restaurants and other catering businesses in the terminals; and (v) leasing of advertising spaces inside and outside the terminals and other businesses at the Beijing Capital Airport. In addition, it also includes the self-operation of: (i) leasing of properties in the terminals; (ii) provision of car parking services; and (iii) provision of ground handling facilities for ground handling agent companies.

1.2 Information of the Parent Company

The Parent Company is principally engaged in the provision of ground handling services for domestic and international aviation enterprises, including supply of water, electricity, steam and energy, airport management services and counter services. The ultimate beneficial owner of the Parent Company is the Civil Aviation Administration of China, which is a state bureau administered by the Ministry of Transport of the PRC.

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1.3 Information of the Power and Energy Company

The Power and Energy Company is principally engaged in the provision of water, electricity, steam, natural gas, air-conditioning and heating in Beijing Capital Airport; the operation and maintenance of their respective systems; provision of technological consultation services to the energy systems of terminals, air-field, staff quarters and other areas of Beijing Capital Airport. The Power and Energy Company was a wholly-owned subsidiary of the Parent Company as at the Latest Practicable Date.

1.4 Information of Beijing Airport Commercial and Trading

Beijing Airport Commercial and Trading is principally engaged in conducting trading and retail businesses. Beijing Airport Commercial and Trading was a wholly-owned subsidiary of the Parent Company as at the Latest Practicable Date.

2. The Supply of Power and Energy Agreement

2.1 Background of the Supply of Power and Energy Agreement

Reference is made to the announcement of the Company dated 25 October 2017 and the circular of the Company dated 15 November 2017 in respect of, among others, the Former Supply of Power and Energy Agreement. The Former Supply of Power and Energy Agreement will expire on 31 December 2020.

As the parties intend to continue to carry out transactions of a similar nature from time to time after 31 December 2020, the Company entered into the Supply of Power and Energy Agreement as a renewal agreement.

On 3 November 2020, the Company entered into the Supply of Power and Energy Agreement with the Power and Energy Company, pursuant to which the Power and Energy Company agreed to provide power and energy services to the Company for Beijing Capital Airport for a term of three years commencing from 1 January 2021 to 31 December 2023.

2.2 Reasons for and benefits of the entering into of the Supply of Power and Energy Agreement

We have discussed with the Management in relation to the reasons for and benefits of obtaining the power and energy supply from the Power and Energy Company and understand that the Power and Energy Company has been supplying power and energy to the Company for over a decade, and such services provided by the Power and Energy Company have been reliable and stable, with no severe power failure or interruption of water supply over the past three years, and therefore it is in the interests of the Company and the Shareholders to enter into the Supply of Power and Energy Agreement with the Power and Energy Company.

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In addition, as discussed in the Letter from the Board, the Power and Energy Company is the sole supplier of water, electricity, steam, natural gas, air conditioning and heating for Beijing Capital Airport area and it has abundant experience in the provision of power and energy for Beijing Capital Airport. The provision of the above power and energy by the Power and Energy Company will be in favour of safeguarding the daily operations and service quality of Beijing Capital Airport. This arrangement can ensure the continuity of utility supply while safeguarding the capability of rapid emergency response within the surrounding area of Beijing Capital Airport to be as professional and efficient as required by its operations. As the operation of the Beijing Capital Airport is highly dependent on a steady supply of water, electricity, steam, natural gas, air conditioning and heating, we concur with the Management that the services provided by the Power and Energy Company is crucial to the daily operation of the Beijing Capital Airport, and the entering into the Supply of Power and Energy Agreement with the Power and Energy Company is in the ordinary and usual course of business of the Company, and in the interests of the Company and the Shareholders as a whole.

2.3 Principal terms of the Supply of Power and Energy Agreement

Set out below are the principal terms of the Supply of Power and Energy Agreement:

Date

3 November 2020

Parties

- (a) the Company; and
- (b) the Power and Energy Company

Services

Pursuant to the Supply of Power and Energy Agreement, the Power and Energy Company agreed to provide power and energy to the Company, including the provision of heating and cooling services, electricity, water, natural gas and steam power in the terminals and other areas of Beijing Capital Airport.

Term

The Supply of Power and Energy Agreement is for a term of three years, commencing from 1 January 2021 to 31 December 2023.

Conditions precedent

The transactions under the Supply of Power and Energy Agreement are subject to the approval by the Independent Shareholders at the EGM.

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Consideration and payment

The methods of calculating the service fees to be charged by the Power and Energy Company under the Supply of Power and Energy Agreement are set out as follows:

- (i) in respect of the supply of electricity, the method of calculation is as follows:

Electricity tariffs = comprehensive unit price of electricity supply^(Note 1) × actual volume incurred

Note 1: The comprehensive unit price of electricity supply was calculated pursuant to the Beijing Electricity Sales Price Table* (《北京市銷售電價表》) and the Requirements on the Percentage of Electricity Consumption of High-voltage Self-regulated Residents During Peak, Valley and Normal Periods* (《關於高壓自管戶內峰、谷、平電量比率的規定》). In the event of adjustments to the electricity tariffs in Beijing city during the term of the Supply of Power and Energy Agreement, the parties will settle based on the adjusted amount of electricity tariffs.

- (ii) in respect of the supply of natural gas, the method of calculation is as follows:

Natural gas tariffs = unit price of natural gas^(Note 2) × actual volume incurred

Note 2: In the event of adjustments to natural gas tariffs during the term of the Supply of Power and Energy Agreement, the parties will settle based on the adjusted amount of natural gas tariffs.

- (iii) in respect of the supply of water and steam, the method of calculation is as follows:

Water tariffs = unit price of water supply^(Note 3) × actual volume incurred

Steam tariffs = unit price of steam^(Note 3) × actual volume incurred

Note 3: In the event of adjustments to water and steam tariffs during the term of the Supply of Power and Energy Agreement, the parties will settle based on the adjusted amount of tariffs.

- (iv) in respect of the provision of cooling and heating services, the method of calculation is as follows:

Cooling fees = unit price of cooling supply × area of cooling supply × days of cooling supply^(Note 4)

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Heating fees = unit price of heating supply x area of heating supply x days of heating supply^(Note 4)

Note 4: In the event of changes in the area, price or management model of heating and cooling supply during the term of the Supply of Power and Energy Agreement, the parties will make adjustments after negotiation and confirmation.

The unit price for the supply of electricity, water and natural gas by the Power and Energy Company under the Supply of Power and Energy Agreement will be confirmed in accordance with the relevant pricing standards issued by the relevant government authorities. The documents of relevant pricing standards specified by the relevant government authorities include: Jing Fa Gai [2020] No. 444, Jing Fa Gai [2019] No. 1544, Jing Fa Gai [2019] No. 758 and Jing Fa Gai [2018] No. 115, which were issued by the Beijing Municipal Commission of Development and Reform and provide for, among others, the increase in the electricity tariffs for companies within the electrical grid of Beijing and the increase in the water and natural gas tariffs for non-resident entities in Beijing.

We have reviewed the aforementioned documents in relation to the pricing standards, namely Jing Fa Gai [2020] No. 444, Jing Fa Gai [2019] No. 1544, Jing Fa Gai [2019] No. 758 and Jing Fa Gai [2018] No. 115. According to 《關於調整本市非居民用天然氣銷售價格的通知》(京發改[2019]1544號) (*the Notice on Adjustment of Natural Gas Sales Price for Local Non-residents (Jing Fa Gai [2019] No. 1544)), we understood that the state-prescribed unit price of natural gas should be determined with reference to, among others, the actual consumption volume and supply region. In particular, as stated in 《關於階段性調整本市非居民用天然氣銷售價格的通知》(京發改[2020]444號) (*the Notice of Phased Adjustment of Natural Gas Sales Price for Local Non-residents (Jing Fa Gai [2020] No. 444)), Beijing Municipal Commission of Development and Reform (*北京市發展和改革委員會) provided further regulation on the unit price of natural gas in specific time period other than the regular hours prescribed under Jing Fa Gai [2019] No. 1544. We have also reviewed《關於調整本市一般工商業銷售電價有關問題的通知》(京發改[2019]758號) (*the Notice of Adjustment of General Commercial Sales Prices of Electricity (Jing Fa Gai [2019] No. 758) issued by Beijing Municipal Commission of Development and Reform (*北京市發展和改革委員會) and understood that the electricity suppliers must charge their customers in accordance with the electricity unit price list as attached in the aforesaid notice. The electricity unit price list indicated the unit price to be charged should be determined based on the (i) volume; (ii) voltage; (iii) user category; (iv) time of consumption; and (v) purpose of consumption. According to 《關於本市水價有關問題的通知》(京發改[2018]115號) (*the Notice of relevant issues for the Price of Water (Jing Fa Gai [2018] No. 115)), the state-prescribed unit price of water should be determined based on, among others, (i) the consumption volume; and (ii) the region.

Based on our review of the abovementioned documents, we consider such guidelines provide a clear pricing standard to govern the pricing charged by utilities service providers and is fair and reasonable.

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The fees for the supply of cooling, heating and steam by the Power and Energy Company under the Supply of Power and Energy Agreement will be determined based on the following factors:

- (i) the historical service fees paid by the Company to the Power and Energy Company for the supply of cooling, heating and steam;
- (ii) the reasonable costs to be incurred by the Power and Energy Company for the supply of cooling, heating and steam to the Company;
- (iii) the reasonable profits of the Power and Energy Company for the supply of cooling, heating and steam to the Company; and
- (iv) the related taxes.

The actual service fees to be incurred under the Supply of Power and Energy Agreement shall be payable by the Company to the Power and Energy Company on monthly, quarterly, half-yearly or annual basis.

2.4 Pricing Policy

As set out in the Letter from the Board, the costs of the provision of services under the Supply of Power and Energy Agreement mainly relate to (i) labour cost; (ii) the management, maintenance and repair expenses necessary for maintaining normal operation of the energy network and relevant equipment and facilities at Beijing Capital Airport during the course of supply of various types of energy; and (iii) the impairment during the energy supply process.

We understand from the Management that the reasonable profits to be charged by the Power and Energy Company to the Company will be no less favourable to the Company than those charged to other independent third parties (the “**Independent Operators**”) operating in the Beijing Capital Airport, such as the airline companies, ground services companies and catering companies. The Power and Energy Company has given the guarantee to the Company that the profit margin to be charged to the Company will not be higher than those charged to the Independent Operators and we have reviewed the letter of guarantee provided by the Power and Energy Company and we are satisfied with it. Furthermore, as advised by the Management, we understand that the Power and Energy Company would issue a notice to their customers, including the Company, when there is any change in the unit price of the supply of electricity, water or natural gas. The Company has provided and we have reviewed the relevant notices issued by the Power and Energy Company in relation to the change in the unit price in the past three years and we understood that the price to be charged by the Power and Energy Company to the Independent Operators is public and transparent. Considering the cost for the supply of electricity, water and natural gas by the Power and Energy Company to the Company and the Independent Operators are similar, the Company is able to ensure the profit margin to be charged by the Power and Energy Company to the Company will not be higher than those charged to the Independent Operators by comparing the unit price as stated in the relevant notice.

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The Company has provided and we have also reviewed the revenue and profit of the Power and Energy Company generated under the Former Supply of Power and Energy Agreement and we noted that the profit margin charged by the Power and Energy Company to the Company were below 5% for two years ended 31 December 2019 and the estimated profit margin is approximately 4.67% for the year ending 31 December (“FY”) 2020. The Company considers such profit margin (i.e., below 5%) is reasonable after taking into account the profit margins to be charged by other service providers to the Company (which were in the range within 8% to 15%) for provision of other services, e.g., building maintenance service, environmental and cleaning services in the Beijing Capital Airport.

We have discussed with the Management and understand that the Power and Energy Company is the sole supplier of water, electricity, steam, natural gas, air conditioning and heating in Beijing Capital Airport. Therefore, there are no quotations from other independent utilities service providers for price comparison. Given the fact that no other utilities service provider is available, we concur with the Management that it is reasonable to compare the profit margin to be charged by the Power and Energy Company to the Company with those charged by other services providers (e.g. building maintenance service, environmental and cleaning services) to the Company as these are all operation-related services and crucial for the daily operation of Beijing Capital Airport. Furthermore, such services are selected based on tender results after assessing their quotation, qualifications, experience and service proposal, etc., by the selection committee of the Company. We have reviewed the building maintenance service, environmental and cleaning service agreement entered into between the Company and other service providers and concur with the Management that the profit margin (i.e. below 5%) is reasonable.

In addition, the internal control of the Company will ensure that the price charged by the Power and Energy Company will be no less favourable to the Company than those charging to other independent third parties. Regarding the pricing mechanism and procedures to approve the prices, we have reviewed the historical transaction record in relation to provision of power and energy by the Power and Energy Company and noted that the pricing mechanism is in place and are of the view that the terms of the Supply of Power and Energy Agreement are on normal commercial terms.

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2.5 *Historical figures*

The following table shows the historical figures of service fees paid by the Company to the Power and Energy Company for the supply of power and energy for the year ended 31 December 2018 (“FY2018”) and 2019 (“FY2019”) and for the year ending 31 December 2020 (“FY2020”):

	FY2018 (RMB)	FY2019 (RMB)	FY2020 (RMB)
Service fees paid by the Company to the Power and Energy Company for the supply of power and energy	671,063,000	610,929,000	694,517,000 (Note 1)
Annual caps	822,381,000	859,029,000	859,029,000
Utilisation rate for the supply of power and energy (Note 2)	81.6%	71.1%	80.8%

Note:

1. The service fees paid by the Company to the Power and Energy Company for the supply of power and energy for the nine months ended 30 September 2020 is approximately RMB471,174,000. Since the audited figures for the service fees payable by the Company to the Power and Energy Company for the supply of power and energy for FY2020 are not yet available, it is only an estimated figure. The Company expects that the relevant service fees payable by the Company to the Power and Energy Company for FY2020 will not exceed its annual cap.
2. The historical utilisation rate for the supply of power and energy is calculated based on the historical services fee paid by the Company to the Power and Energy Company for the supply of power and energy divided by the historical annual caps for the supply of power and energy.

We have discussed with the Management and understand that the service fee paid for the supply of power and energy for FY2018 increased by approximately 11.1% as compared to that for FY2017. As advised by the Management, such increment in the service fee was mainly due to the increase in the unit price charged by the Power and Energy Company upon the renewal of the Former Supply of Power and Energy Agreement. During FY2019, such service fee decreased by approximately 9.0% as a result of the decrease in the unit price in the pricing standards issued by the relevant government authorities and a one-off adjustment to electricity tariffs after negotiation with the Power and Energy Company. We also understood that the air traffic volume decreased significantly during the first half year in 2020. However, as most of the facilities in Beijing Capital Airport were in operation as usual and the Company seized the opportunity to carry out several building maintenance and refurbishment projects in Terminal One and the west runway of Beijing Capital Airport. As such, the total power and energy consumption for FY2020 is expected to remain at the similar level of FY2018 and the Management expected the estimated service fee would increase by approximately 3.5% as compared to that for FY2018. The utilisation rate for the supply of power and energy were approximately 81.6% and 71.1% for FY2018 and FY2019, respectively, and is expected to be approximately 80.8% for FY2020.

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2.6 *Proposed annual caps and basis of determination for annual caps*

The following table sets out the expected maximum aggregate annual fee payable by the Company under the Supply of Power and Energy Agreement for each of FY2021, FY2022 and FY2023.

	FY2021	FY2022	FY2023
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Proposed annual caps for the supply of power and energy	763,100,000	763,100,000	793,100,000

As illustrated in the table above, the proposed annual cap for FY2021 represents a decrease of approximately 11.2% as compared with that for FY2020; the proposed caps will remain the same during FY2022 and will increase by approximately 3.9% for FY2023.

As disclosed in the Letter from the Board, the annual caps were determined after taking into account (i) the historical fees paid by the Company to the Power and Energy Company for the supply of power and energy; (ii) the volume of services required by the Company based on its daily operation (including the corresponding change in the service volume and the scope of services resulting from the natural growth and decline of business volume); (iii) the possible increase of demand for services arising from the continuous upgrade and refinement of related services of Beijing Capital Airport, such as newly-built boarding bridges, auxiliary power units (APUs) allocated to remote aircraft stands, and newly-added electricity charging piles, etc.; (iv) the corresponding increase in energy consumption resulting from the revamp of terminals of Beijing Capital Airport and the equipment and facilities in the vicinity; and (v) the related taxes and reasonable profit margin.

We noted that the utilisation rates of annual caps in FY2018, FY2019 and FY2020 hovered between 70% and 82% which we consider the annual caps were sufficiently utilised and the internal forecast conducted by the Management was accurate in general.

The proposed annual cap for FY2021 represents an increase of approximately 9.9% and a decrease of approximately 11.2% respectively, as compared with the historical service fees for FY2020 and the annual cap for FY2020, while the proposed annual cap remains the same for FY2022. The proposed annual cap for FY2023 represents an increase of approximately 3.9% as compared with that for FY2022.

In the determination of the proposed annual caps under the Supply of Power and Energy Agreement, the Management has considered the following factors:

- (i) as the disruptions caused by the novel coronavirus epidemic (the “**COVID-19 Outbreak**”) are expected to gradually decrease in 2021, the air traffic volumes of Beijing Capital Airport will gradually recover, resulting in a natural growth in the energy expenses related to the daily operations of the airport. However, as affected by the diversion of the transfer of flights to Daxing Airport, the overall energy expenses will decrease as compared with the period before the completion

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and commencement of operations of Daxing Airport. Therefore, it is expected that the annual caps for each of the next three years will increase by approximately RMB40 million as compared with the historical service fees for FY2020, while the annual caps for each of the next three years will be lower than the annual cap for FY2020;

- (ii) in order to establish a “green and environmentally friendly airport” and reduce carbon emissions, Beijing Capital Airport intends to push forward the construction of facilities such as remote aircraft boarding bridges, auxiliary power units with energy storage, and charging piles, resulting in a growth in energy expenses. Therefore, it is expected to contribute to a further increase of the annual caps for each of the next three years by approximately RMB5 million as compared with the historical service fees for FY2020;
- (iii) as Beijing Capital Airport is considering the revamp of its terminals and the equipment and facilities in the vicinity, it will result in a growth in energy expenses. Therefore, it is expected to contribute to a further increase of the annual caps for each of the next three years by approximately RMB10 million as compared with the historical service fees for FY2020; and
- (iv) it is anticipated that in the next three years, certain buildings and facilities at Beijing Capital Airport will be put into operation, resulting in a growth in energy expenses, and hence the annual cap for FY2023 is expected to increase by approximately RMB30 million as compared with the annual caps for each of FY2021 and FY2022.

According to the statistics published by 中華人民共和國交通運輸部 (*Ministry of Transport of the PRC), the total passenger throughput of the airports in the PRC was approximately 1,351.6 million for FY2019 and the average monthly passenger throughput was approximately 112.6 million. As affected by the COVID-19 Outbreak and the restrictive quarantine policies for travellers among the major cities in the PRC and for all foreign passengers, the passenger throughput of the airports in the PRC dropped from approximately 103.3 million in January 2020 to approximately 17.0 million in February 2020, representing a sharp decline of approximately 83.5%. As a result of the effective measures such as the social distancing and the quarantine policy against the inbound passengers from foreign countries, the monthly COVID-19 confirmed cases in the PRC have dropped from 21,168 in February 2020 to 583 in October 2020. As the situation of the COVID-19 Outbreak became relatively stable, the quarantine policies among the major cities in the PRC have been relaxed. Accordingly, the passenger throughput of the airports in the PRC bounced back to approximately 94.5 million in August 2020, representing a decrease of approximately 16.1% as compared to the average monthly passenger throughput of approximately 112.6 million in FY2019. Given the fact that the constant decrease in the daily confirmed COVID-19 cases in the PRC, it is reasonable to expect the recovery in the air traffic volumes will continue and there will be a natural growth in the energy expense related to the daily operations of Beijing Capital Airport.

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According to the official website of Daxing Airport Authority, we noted that Daxing Airport as the second international airport located in Beijing currently has four runways and 79 airport stands. Based on its development plan, there will be three additional runways in the future. Upon completion of the construction of the runways, Daxing Airport will have seven runways in total and is expected to serve approximately 620,000 flights annually. According to the statistic published by the State Council of the PRC, the annual passenger throughput and cargo throughput of Daxing Airport are expected to reach 72 million and 2 million tons respectively by 2025. As disclosed on the website of Daxing Airport, we noted that more than 80 airline companies set up their flight routes to Daxing Airport, including Chinese airlines such as Air China, China Eastern Airlines and China Southern Airlines, and international airlines such as American Airlines, Delta Air Lines, Emirates, Lufthansa and etc. Taking into account of the above, we consider the diversion of the transfer of flights from Beijing Capital Airport to Daxing Airport is a fair and reasonable projection.

The Company has also advised us their facilities upgrade and refinement plan for newly-built boarding bridges, auxiliary power units (APUs) allocated to remote aircraft stands, and newly-added electricity charging piles as well as the revamp of its terminals and the equipment and facilities in the vicinity. We have discussed with the Management and understand that the aforesaid scheduled upgrade and refinement work will lead to an increase in the usage of electricity of approximately 17.8 million kilowatt-hour. We also understood that certain buildings and facilities at Beijing Capital Airport will be put into operation by 2023, hence the power and energy consumption attributable to the operation of such buildings and facilities will further increase the total power and energy usage in FY2023. As such, we consider the expected increase in services volume adopted by the Management is justifiable.

We have also reviewed the calculation of the annual caps for the transactions contemplated under the Supply of Power and Energy Agreement, and noted that the proposed annual caps are derived based on the estimated service fee to be paid by the Company to the Power and Energy Company for the supply of power and energy for FY2020 plus the service fee estimated by the Company for the additional power and energy consumption to be incurred by the abovementioned factors and a buffer for the tax to be incurred in the transactions contemplated under the Supply of Power and Energy Agreement. We have discussed with the Management and understand that the Company estimated such additional service fee by projecting the volume of power and energy to be used in each year under the Supply of Power and Energy Agreement and then multiplying by the relevant unit price to be charged by the Power and Energy Company.

In light of the above, we are of the view that the increases in the proposed annual caps are justifiable and the proposed annual caps under the Supply of Power and Energy Agreement are fair and reasonable.

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2.7 *Internal control*

In respect of monitoring the pricing standards for transaction under the Supply of Power and Energy Agreement, the Company has implemented a management system to ensure that the terms are on normal commercial terms as follows:

1. Prior to the entering into of the Supply of Power and Energy Agreement, the technology procurement department of the Company is responsible for gathering information on the historical service fees and profit margin under the Former Supply of Power and Energy Agreement and conducting cross-checks against the service fees and profit margin to be charged by the Power and Energy Company to other independent third parties operating in Beijing Capital Airport for the provision of comparable services, such as the airline companies, ground services companies and catering companies, as well as the service fees and profit margin of other service providers to Beijing Capital Airport in respect of comparable services that are essential to its daily operations, such as building maintenance services and environmental and cleaning services. Thereafter, the technology procurement department is also responsible for the monitoring, assessment and ratings of the transactions contemplated under the Supply of Power and Energy Agreement. The finance department and the secretariat to the Board are responsible for gathering information of connected transactions and monitoring the implementation of connected transactions, with a view to conducting assessment on the fairness of the transaction terms and pricing terms.
2. Prior to the signing of the definitive agreements and the implementation of the transactions contemplated under the Supply of Power and Energy Agreement, the principal officers in the technology procurement department who handle the relevant matters shall lodge applications with the technology procurement department, the finance department, the legal department and the secretariat to the Board. Such applications would only be approved upon a preliminary review conducted by the managers of the above respective departments of the Company, followed by a final review at the general manager office meeting in accordance with the internal control policies of the Company. After the above internal review process based on different functions of various departments of the Company has been completed, the relevant definitive agreements will be considered and approved by the Board.
3. The independent non-executive Directors have reviewed and would continue to review the transactions contemplated under the Supply of Power and Energy Agreement to ensure that such transactions are entered into on normal commercial terms, fair and reasonable, and carried out pursuant to its contractual terms.

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4. The auditors of the Company will conduct annual review on the transactions contemplated under the Supply of Power and Energy Agreement in relation to the pricing policy and annual caps contemplated thereunder in accordance with the Listing Rules.

In assessing the implementation of the aforementioned internal control procedures, we have selected five sample transactions in relation to the supply of power and energy by the Power and Energy Company on a random basis, and noted that the service fees were determined with reference to (i) pricing standard of water, electricity and natural gas issued by the relevant government authorities; and (ii) cost incurred by the Power and Energy Company plus a reasonable profit margin for the provision of cooling, heating and steam services. The samples were selected on a random basis taking into consideration that the contracts were entered into in different years, and we consider the selected samples are sufficient to provide a comprehensive view of the implementation of the internal control system of the Company.

We noted from our review of the selected samples that before the implementation of the supply of power and energy, the principal officers would prepare an application which includes the summary of power and energy usage and related fees for preceding year, the summary of the reasons for the expected changes in power and energy usage and related fees. The application was then reviewed by the technology procurement department and the Management. Upon passing the internal review process, the application was submitted to Directors' office for final review and approval.

Further, as advised by the Management, the transactions under the Former Supply of Power and Energy Agreement had been properly reviewed by the independent non-executive Directors to ensure the fairness and reasonableness of such transactions prior to the approval in the Board meeting. The independent non-executive Directors had also conducted annual review on the transactions under the Former Supply of Power and Energy Agreement for FY2018 and FY2019.

In respect of the monitoring of annual caps not being exceeded, the finance department provides the secretariat to the Board with information in relation to the actual transaction amounts on a monthly basis. The secretariat to the Board is responsible for monitoring such transactions to ensure that the total amount of transaction does not exceed the annual caps. If such amounts of transaction are estimated to exceed the relevant annual caps, the person-in-charge of the relevant department of the Company will be notified so that the scale of transactions in the future may be re-estimated and arrangements may be made to issue announcements and/or to obtain the relevant approvals from the Board and the Independent Shareholders in accordance with the requirements of the Listing Rules. We have reviewed the internal verification documents of the Company in relation to the aforementioned monitoring procedures of annual caps and noted that the secretariat to the Board have taken appropriate steps as mentioned above to monitor the utilisation of the annual caps, and we consider the Company has implemented sufficient internal procedures to ensure the transaction amounts under the Supply of Power and Energy Agreement do not to exceed the respective annual caps.

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As such, we consider the Company has carried out appropriate internal procedures to ensure the pricing mechanism has been implemented and such pricing mechanism is fair and reasonable, and we are of the view that the aforementioned internal control measures are properly implemented so far as the Independent Shareholders are concerned.

3. The International Retail Management Agreement

3.1 Background of the International Retail Management Agreement

Reference is made to the announcement of the Company dated 15 November 2017 and the circular of the Company dated 5 December 2017 in respect of the Former International Retail Management Agreement. The Former International Retail Management Agreement will expire on 31 December 2020. As the parties intend to continue to carry out transactions of a similar nature from time to time after 31 December 2020, the Company entered into the International Retail Management Agreement as a renewal agreement.

On 3 November 2020, the Company entered into the International Retail Management Agreement with Beijing Airport Commercial and Trading, pursuant to which Beijing Airport Commercial and Trading agreed to provide operation and management services of retail resources to the Company in the international isolated area and international arrival area in Terminal Two and Terminal Three of Beijing Capital Airport for a term of three years commencing from 1 January 2021 to 31 December 2023.

3.2 Reasons for and benefits of the entering into of the International Retail Management Agreement

We have discussed with the Management in relation to the reasons for and benefits of entering into the International Retail Management Agreement and understand that Beijing Airport Commercial and Trading has maintained a good cooperative relationship with the Company in the past and is familiar with the international retail business within Beijing Capital Airport. In addition, Beijing Airport Commercial and Trading has relatively strong capability in attracting and managing retail business as well as in retail operation and management.

Furthermore, during the term of the Former International Retail Management Agreement from 1 January 2018 to 31 December 2020, Beijing Airport Commercial and Trading fully demonstrated its proactivity in expanding its market operation scale in term of its business area, improving the quality of commercial services in Beijing Capital Airport, and increasing overall utilisation of resources while providing positive contribution to prevailing protection to the Company's retail revenue. At the same time, during the COVID-19 Outbreak, Beijing Airport Commercial and Trading actively cooperated with the Company to implement epidemic prevention measures and strived to promote the resumption of normal work and production as the epidemic became normalised in China. Therefore, it is expected that the management of the international retail resources of Beijing Capital Airport by Beijing Airport Commercial and Trading will facilitate the recovery in the utilisation of retail resources in Beijing Capital Airport.

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We also understand from the Management that Beijing Airport Commercial and Trading has ample client resources in international retail and strong capability of attracting and managing retail business, which can generate more revenue for the international retail business of Beijing Capital Airport and increase the non-aeronautical revenues of the Company. Beijing Airport Commercial and Trading conducts tender process for the Company in order to select duty-free businesses that operate in the international isolated areas at Beijing Capital Airport. The tender results, of duty-free businesses in the past, including the supplementary agreements entered into with China Duty Free Group Co., Ltd.* (中國免稅品(集團)有限責任公司) and Sunrise Duty Free (China) Co., Ltd.* (日上免稅行(中國)有限公司) as disclosed in the inside information announcement of the Company dated 4 January 2018, have helped to ensure the scale of duty-free revenue of Beijing Capital Airport. In view of the tender results of duty-free business, Beijing Airport Commercial and Trading has fully demonstrated its extensive experience in international duty-free business and a solid understanding of the duty-free policy in the PRC, which will enable it to reasonably ensure that the value of duty-free resources at Beijing Capital Airport would be maximised in accordance with the laws and regulations. Therefore, it is expected that the management of the international retail resources of Beijing Capital Airport by Beijing Airport Commercial and Trading will facilitate the recovery and increase in the value of retail resources in Beijing Capital Airport.

We consider the management of retail business operations in airport requires specific expertises in different areas such as safety requirements, emergency treatment and understanding of duty-free policy, etc. Since Beijing Airport Commercial and Trading is experienced in managing retail business in Beijing Capital Airport and the Company is heretofore satisfied with the international retail management services provided by Beijing Airport Commercial and Trading, we are of the view that the entering into the International Retail Management Agreement is in the ordinary and usual course of business of the Company, and in the interests of the Company and the Shareholders as a whole.

3.3 Principal terms of the International Retail Management Agreement

Date

3 November 2020

Parties

- (i) the Company; and
- (ii) Beijing Airport Commercial and Trading

Services

Pursuant to the International Retail Management Agreement, Beijing Airport Commercial and Trading agreed to provide operation and management services of retail resources in the international isolated area and international arrival area in Terminal Two and Terminal Three of Beijing Capital Airport to the Company.

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Term

The International Retail Management Agreement is for a term of three years commencing from 1 January 2021 to 31 December 2023.

Conditions precedent

The transactions under the International Retail Management Agreement are subject to the approval by the Independent Shareholders at the EGM.

Consideration and payment

The method of calculating the entrusted management fees payable by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services are set out as follows:

Total international retail revenue of the Company for the current year \times 22%.

The Company shall pay the entrusted management fees to Beijing Airport Commercial and Trading in accordance with the above-mentioned calculation method. Beijing Airport Commercial and Trading shall issue a written payment request to the Company in relation to the fees payable for the preceding month and the amount of such fees shall be confirmed by the Company on or before the fifth working day of each month. Within 10 working days from the day on which the Company receives such written payment notice from Beijing Airport Commercial and Trading, the Company shall settle the payment of such fees by way of bank transfer to the designated account of Beijing Airport Commercial and Trading.

3.4 Pricing policy

We have discussed with the Management and understand that the entrusted management fees payable by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services was arrived at after arm's length negotiation between the Company and Beijing Airport Commercial and Trading with reference to the respective proportion of the amounts of entrusted management fees received by Beijing Airport Commercial and Trading over the total international retail revenue received by the Company for FY2018 and FY2019 and the ten months ended 31 October 2020, which is the same for each year, i.e., approximately 22%.

As advised by the Management, the Company has considered the following factors to assess the reasonableness and fairness of the above calculation method: (i) the reasonable costs of Beijing Airport Commercial and Trading in providing the international retail management services; (ii) the proportion of the entrusted management fees being continuously maintained at a stable level of approximately 22% of the total international retail revenue of the Company for the international retail business between the Company and Beijing Airport Commercial and Trading; and (iii) the related taxes.

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Based on our discussion with the Management, we understood that the international retail business in other airports in the PRC have not adopted modes of operation under contractual arrangement that is similar or equivalent to the entrusted management mode of operation adopted under the International Retail Management Agreement, thus there is no direct comparable pricing policies for similar transactions. Furthermore, while some of the shopping centres in urban districts in the PRC have adopted a similar operation model involving entrusted management, the transactions of such shopping centres are not comparable to those in Beijing Capital Airport in view of the geographical locations of the shopping centres and the special requirements of safety, emergency treatment and service satisfaction for the provision of international management services in airports, which resulted in a different basis and method for determining the amount of entrusted management fees.

In order to assess the fairness and reasonableness of the level adopted in calculating the basis point of fees (i.e. 22% of total international retail revenue) under the pricing mechanism, we have conducted our research for entrustment management operation model of international retail management in other airports in the PRC but did not find any direct comparable transactions. In our assessment, we have, on a best effort basis, identified, based on information extracted from Bloomberg, six listed airport operators in the PRC (the **“PRC Airports”**) other than the Company. We have reviewed their latest published annual reports and understand it is not common that the PRC Airports entrust third party to operate and manage the retail resource in their airports. In our review of the annual reports of the PRC Airports, we noted that only one of the PRC Airports, namely Shenzhen Airport Co., Ltd. (**“Shenzhen Airport Company”**), a company listed on Shenzhen Stock Exchange (stock code: 000089), entrusted the operation and management service (the **“Shenzhen Entrustment Service”**) of the retail resources in the terminal three of Shenzhen Airport to its fellow subsidiary, namely 深圳機場航空城運營管理有限公司 (*Shenzhen Airport Aviation City Operation Management Co., Ltd.) (**“Shenzhen Airport Aviation City”**). As disclosed in the announcement published by Shenzhen Airport Company dated 25 January 2019, Shenzhen Airport Aviation City agreed to provide operation and management services of retail resources in the terminal three in Shenzhen Airport to Shenzhen Airport Company and we noted that the provision of the Shenzhen Entrustment Service by Shenzhen Airport Aviation City to Shenzhen Airport Company is not limited to isolation area and arrival area, but all areas in the terminal three of Shenzhen Airport and the method of calculating the annual entrusted management fee payable by Shenzhen Airport Company to Shenzhen Airport Aviation City is based on 6% of the total retail turnover in the terminal three of Shenzhen Airport for the current year. Since the Shenzhen Entrustment Service covers all the area in the terminal three of Shenzhen Airport which include duty-free shops and other shops in the airport, we consider it is not a direct comparable transaction to the transactions contemplated under the International Retail Management Agreement.

Although we do not consider the Shenzhen Entrustment Service to be a direct comparable transaction, the following comparison was conducted as a reference during the consideration of the reasonableness of the pricing terms under the International Retail Management Agreement. As advised by the Management, we understood that entrustment management fees payable by the Company to Beijing Airport Commercial and Trading under the Former International Retail Management Agreement was approximately 9.8% of the total

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retail turnover in the international isolated area and international arrival area in Terminal Two and Terminal Three in Beijing Capital Airport for FY2019 which is fairly close to the entrusted management fee of 6% of the total retail turnover payable by Shenzhen Airport Company to Shenzhen Airport Aviation City for the Shenzhen Entrustment Service. As stated in the latest annual report published by Shenzhen Airport Company, we noted that the revenue and the international passenger throughput of Shenzhen Airport Company were approximately RMB3.8 billion and 5.3 million, respectively, for FY2019. Comparatively, the revenue and the international passenger throughput of the Company were approximately RMB10.8 billion and 23.9 million respectively for FY2019, representing more than double of the respective figure of Shenzhen Airport Company.

Considering (i) the duty-free shops in the international isolated area and international arrival area in Terminal Two and Terminal Three in Beijing Capital Airport are mainly engaged in sale of luxury goods and high-end products; (ii) the operation scale of Beijing Capital Airport is more than double of Shenzhen Airport in terms of the revenue and the international passenger throughput; (iii) Beijing Capital Airport ranks first in the PRC and second worldwide in terms of the volume of passengers throughput, and has substantial workload for daily operation and accounting treatment in relation to international retail business; and (iv) Beijing is positioned strategically as a political, cultural and international exchange centre, the requirements for safety and service standard of Beijing Capital Airport as “China’s No.1 Gateway” are rather special in the PRC, it is reasonable that Beijing Airport Commercial and Trading has to incur higher costs in order to meet the operational requirements of Beijing Capital Airport.

We have also discussed with the Management and understand that Beijing Airport Commercial and Trading also provides entrusted management services to Tianjin Airport in respect of its retail businesses, though the contractual arrangement does not solely relate to international retail management (as in the International Retail Management Agreement) but also includes the provision of both domestic and international retail management services. We have reviewed the agreement entered into between Beijing Airport Commercial and Trading and Tianjin Airport in relation to the provision of the international retail management service in Tianjin Airport and noted that the entrusted management fee charged by Beijing Airport Commercial and Trading to Tianjin Airport was also 22% of the total international retail revenue of Tianjin Airport. As such, the pricing basis for the entrusted management fees charged by Beijing Airport Commercial and Trading under the International Retail Management Agreement (i.e. 22% of the total international retail revenue of the Company) is no less favourable to the Company than the rates of entrusted management fees charged by Beijing Airport Commercial and Trading to Tianjin Airport.

In addition, we have reviewed the pricing mechanism and the historical transactions figures of the Company under the terms of the Former International Retail Management Agreement. For further details of the historical figure, please refer to the following section headed “3.5 Historical figure” in this letter. We noted that the calculation basis of the entrustment management fees paid by the Company to Beijing Airport Commercial and Trading for FY2018, FY2019 and the ten months ended 31 October 2020 was based on the

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terms stated in the Former International Retail Management Agreement and which the amount of the entrustment management fees continuously maintained at a stable level of approximately 22% of the international retail revenue of the Company.

We have also discussed with the Management and understand that the Management is of the view that the significant decline in the international retail revenue of the Company caused by the COVID-19 Outbreak is temporary and it is reasonable to expect that there will be a substantial increase in international retail revenue in the coming years as compared to that in FY2020. According to the pricing mechanism in the Former International Retail Management Agreement, the entrusted management fee payable by the Company to Beijing Airport Commercial and Trading was determined based on (i) 22% of the total international retail revenue; and (ii) 60% of the increase of total international retail revenue for the current year over that of the preceding year (the “**Incentive Pricing Mechanism**”). Considering the recent fluctuation in the international retail revenue of the Company, the Management considers that the Incentive Pricing Mechanism may cause negative impact to the financial performance of the Company. After the arm’s length negotiation with Beijing Airport Commercial and Trading, the Incentive Pricing Mechanism has been removed from the pricing mechanism in the International Retail Management Agreement. We agree with the Management that the removal of the Incentive Pricing Mechanism in the International Retail Management Agreement is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Moreover, we have discussed with the Management and understand that Beijing Airport Commercial and Trading provides value-added services, which are crucial to achieve a higher international retail revenue, to the Company in different aspects including but not limited commercial planning, market development and merchandising, daily operation and management and marketing.

In respect of commercial planning, Beijing Airport Commercial and Trading has set up a coordinated management working mechanism with the Company and participated in through resources positioning, layout, business types and product categories.

In respect of market development and merchandising, Beijing Airport Commercial and Trading will be responsible for the formulation and detailed implementation of the merchandising proposals.

For daily operation and management, Beijing Airport Commercial and Trading is responsible for undertaking the daily operation and managerial work in respect of the tenants, including safety, servicing, logistics, cashier, renovation, premises and managerial work of related entrusted resources.

In respect of marketing, Beijing Airport Commercial and Trading will execute the industry marketing and store promotion works in accordance with the overall marketing framework set by the Company.

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We are of the view that the effort contributed by Beijing Airport Commercial and Trading is crucial and can directly affect the international retail revenue of the Company. In light of the above, we consider the pricing basis for the entrusted management fees charged by Beijing Airport Commercial and Trading to the Company under the International Retail Management Agreement is fair and reasonable and on normal commercial terms.

3.5 *Historical figures*

The following table shows the historical figures of entrusted management fees paid by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services:

	FY2018	FY2019	FY2020
	(RMB)	(RMB)	(RMB)
Entrusted management fees paid by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services	619,057,000	782,734,000	46,430,000 (Note)
Percentage of entrusted management fees over the international retail revenue of the Company	22%	22%	22%
Annual caps	700,000,000	820,000,000	700,000,000

Note:

The entrusted management fees paid by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services for the ten months ended 31 October 2020 is approximately RMB45,081,000. Since the audited figures for the entrusted management fees payable by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services for FY2020 are not yet available, it is only an estimated figure. The Company expects that the entrusted management fees payable by the Company to Beijing Airport Commercial and Trading for FY2020 will not exceed its annual cap.

We have discussed with the Management and understand that the historical international retail revenue of the Company increased by approximately 83.2% and 29.3% for FY2018 and FY2019 respectively. The corresponding entrusted management fees paid by the Company to Beijing Airport Commercial and Trading also increased by approximately 84.5% and 26.4% for FY2018 and FY2019 respectively. As advised by the Management, such increase were mainly attributable to (i) the growing international passenger throughput; (ii) the execution of new duty-free business operation contracts, resulting in a notable increase in the revenues from the duty-free business of the Company; and (iii) the increase in sales from duty-free businesses in the international isolated areas of Terminal Two and Terminal Three at Beijing Capital Airport.

Due to the COVID-19 Outbreak, the passenger throughput decreased significantly during the first half of 2020. As disclosed in the interim report of the Company for the six months ended 30 June 2020, the decrease in international air traffic volumes of Beijing Capital Airport was greater than that of the domestic air traffic volumes. In the first half of 2020, the

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cumulative aircraft movements in Beijing Capital Airport reached 118,648 sorties, representing a decrease of approximately 59.5% as compared with the same period in 2019. The cumulative passenger throughput only reached 13,010,765 person-times, representing a decrease of approximately 73.6% as compared with the same period in 2019. We have discussed with the Management and understand that, based on the Company's prudent estimation, the international retail revenue for FY2020 may decrease by over 90% in the worst case scenario. The entrusted management fees paid by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services for FY2020 may correspondingly decrease by over 90% as compared to that for FY2019.

3.6 Proposed annual caps and basis of determination for annual caps

The following table sets out the expected maximum aggregate annual fees payable by the Company under the International Retail Management Services Agreement for each of FY2021, FY2022 and FY2023.

	FY2021	FY2022	FY2023
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Proposed annual caps for provision of international retail management services	394,000,000	658,000,000	812,000,000

We have discussed with the Management and understand that the above annual caps are determined based on the following factors:

- (i) percentage of the historical service fees paid by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services over the international retail revenue of the Company (approximately 22%);
- (ii) the Company's estimate of the number of international passengers throughput, the amount of retail consumption per international passenger, and the total turnover of international retail business at Beijing Capital Airport, for FY2021, FY2022 and FY2023; and
- (iii) the related taxes.

The proposed annual cap for FY2021 represents an increase of approximately 748.6% and a decrease of approximately 43.7% as compared with the estimated service fees for FY2020 and the annual cap for FY2020, respectively, and the proposed annual caps for

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FY2022 and FY2023 represent increases of approximately 67.0% and 23.4%, respectively, as compared with the annual cap of the preceding year. As set out in the Letter from the Board, such proposed annual caps are determined based on the following factors:

- (i) the expected international passenger traffic volume: the impact of COVID-19 pandemic on international air traffic volumes of Beijing Capital Airport is expected to gradually alleviate starting from 2021. It is expected that the international (including Hong Kong, Macau and Taiwan) passenger traffic volume for FY2021 will be approximately 13 million person-times, the international (including Hong Kong, Macau and Taiwan) passenger traffic volume for FY2022 will be approximately 19.6 million person-times and the international (including Hong Kong, Macau and Taiwan) passenger traffic volume for FY2023 will be approximately 21.7 million person-times; and
- (ii) the expected amount of consumption per international passenger: taking into account the growth rate of the amount of consumption per international passenger in 2018 and 2019 (with no reference being made to the growth rate in 2020 which is an exceptional case under the influence of the pandemic), it is anticipated that the amount of consumption per international passenger in 2021 will stay flat as compared with that of 2019, and the annual growth rate of the amount of consumption per international passenger in each of 2022 and 2023 will be approximately 11%.

In order to assess the fairness and reasonableness of the proposed annual cap, we have reviewed the calculation of the annual caps for the transactions contemplated under the International Retail Management Agreement and understand that the annual caps were principally derived by the pricing mechanism as discussed in the section headed “3.3 Principal terms of the International Retail Management Agreement” in this letter and the international retail revenue of the Company in each of the next three years.

For the international retail revenue of the Company for FY2021, FY2022 and FY2023, we have discussed with the Management and understand that it is derived based on the estimated total turnover of international retail sales. In this regard, we have also assessed the Management’s estimation of the total turnover of international retail sales which is the product of (i) the international passenger throughput at Beijing Capital Airport in each of the next three years; and (ii) the average retail consumption amounts of international passengers at Beijing Capital Airport.

We noted from the calculation of the annual caps prepared by the Company that there is a significant decline in the international passenger throughput for FY2021. Although the passenger throughput in the PRC has been restored recently, taking into consideration that the vaccine for COVID-19 has yet been released, the Management expects the international passenger throughput in Beijing Capital Airport for FY2021 may not be able to recover to the level prior to the COVID-19 Outbreak. We have reviewed the estimation of the international passenger throughput made by the Company for FY2021, FY2022 and FY2023 and we noted that the Company has taken reference to the estimation results generated by various methods,

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including market share method, quantitative method and trip per capital method, during the forecast of the international passenger throughput for FY2021, FY2022 and FY2023. Based on our understanding from the Management, the international air traffic volumes of Beijing Capital Airport is expected to gradually alleviate starting from 2021 and is expected to further increase in FY2022 and FY2023. There will be increases of approximately 50.8% and 10.7% in the international passenger throughput in Beijing Capital Airport for FY2022 and FY2023, respectively, as compared to that in the preceding year.

We also noted that the Management expects the amount of consumption per international passenger in FY2021 will stay flat as compared with that of FY2019. Considering the economic impact brought by the COVID-19 Outbreak, it is reasonable to anticipate that the consumption capability of the international passengers will remain the same in FY2021 as that in FY2019. We have also reviewed the calculation of the expected annual growth rate of the amount of consumption per international passenger in each of FY2022 and FY2023 and we noted that, during the estimation, the Company has taken into account (i) the historical annual growth rates of the amount of consumption per international passenger in FY2018 and FY2019 of approximately 19.3% and 14.4% respectively; and (ii) the diminishing trend in the historical growth rates, where the Management anticipates the growth rate of the amount of consumption per international passenger in each of FY2022 and FY2023 to be approximately 11%. Given the fact that the average retail consumption amounts of international passengers at Beijing Capital Airport showed an upward trend during FY2018 and FY2019, we are of the view that the estimation of the average retail consumption amounts per international passenger at Beijing Capital Airport prepared by the Management is fair and reasonable.

As aforementioned, the total turnover of international retail sales is the result of (i) the international passenger throughput at Beijing Capital Airport; and multiply by (ii) the average retail consumption amounts of international passengers at Beijing Capital Airport. As both of the estimations of the international passenger throughput at Beijing Capital Airport and the average retail consumption amounts of international passengers at Beijing Capital Airport are fair and reasonable, we consider the estimation of the total turnover of international retail sales is also fair and reasonable.

We have reviewed the calculation of the annual caps for FY2021, FY2022 and FY2023 prepared by the Management and understand that the calculation method of annual caps are the same as the pricing formula stated in the International Retail Management Agreement. For each of the annual caps in FY2021, FY2022 and FY2023, we noted that they are determined based on 22% of the expected international retail revenue to be received by the Company.

Having considered the above review and our internal assessment, we are of the view that the determination of the proposed annual caps for the International Retail Management Agreement is fair and reasonable.

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3.7 *Internal control on pricing*

The Company has implemented a management system to monitor the pricing standards for the transactions under the International Retail Management Agreement to ensure that the terms are on normal commercial terms as follows:

1. Prior to the entering into of the International Retail Management Agreement, the business development department of the Company is responsible for gathering information on the historical entrusted management fees and relevant transactions under the Former International Retail Management Agreement and conducting assessment of the fairness of the transaction terms and pricing terms. Thereafter, the business development department of the Company is also responsible for the monitoring and ratings of the transactions contemplated under the International Retail Management Agreement. The finance department of the Company and the secretariat to the Board are responsible for gathering information of connected transactions and monitoring the implementation of connected transactions.
2. Prior to the signing of the definitive agreements and the implementation of the transactions contemplated under the International Retail Management Agreement, the principal officers in the business development department who handle the relevant matters shall lodge applications with the business development department, the finance department, the legal department and the secretariat to the Board. Such applications would only be approved upon a preliminary review conducted by the managers of the above respective departments of the Company, followed by a final review at the general manager office meeting in accordance with the internal control policies of the Company. After the above internal review process based on different functions of various departments of the Company has been completed, the relevant definitive agreements will be considered and approved by the Board.
3. The independent non-executive Directors have reviewed and would continue to review the transactions contemplated under the International Retail Management Agreement to ensure that such transactions entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to its contractual terms.
4. The auditors of the Company will conduct annual review on the transactions contemplated under the International Retail Management Agreement in relation to the pricing policy and annual caps contemplated thereunder in accordance with the Listing Rules.

Based on our review of the historical entrusted management fee payment made by the Company to Beijing Airport Commercial and Trading in relation to the provision of international retail management services during the term of the Former International Retail Management Agreement, we noted that the payments were determined based on (i) the actual international retail revenue received by the Company; and (ii) the increase of total international

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retail revenue of the Company, as stated in the Former International Retail Management Agreement. The monthly international retail revenue of the Company was confirmed among the Company, Beijing Airport Commercial and Trading and the duty-free shops operators, being China Duty Free Group Co., Ltd. (*中國免稅品(集團)有限責任公司) for Terminal Two and Sunrise Duty Free (China) Co., Ltd. (*日上免稅行(中國)有限公司) for Terminal Three. Upon the confirmation of the monthly international retail revenue of the Company, the monthly entrusted management fee amount would be prepared by Beijing Airport Commercial and Trading. The business development department of the Company would then review such amount and pass to the finance department of the Company for further review and cross check. Prior to the payment of the monthly entrusted management fee, the chief executive officer of the Company would conduct the final review and approve the payment if appropriate. We also noted that the independent non-executive Directors conducted review on the entrusted management fees payment annually to ensure that the pricing mechanism was executed properly.

We have also reviewed the abovementioned internal control procedures conducted by the relevant department of the Company for the transactions contemplated under the International Retail Management Agreement. We noted that before the provision of international retail management services, the principal officers in the business development department who handle the relevant matters prepared an application which includes the details of the international retail business to be operated, the summary of international retail revenue and the related entrustment management fees for preceding year. Secondly, the application was reviewed by the business development department and the Management. Upon passing the internal review process, the application was submitted to the Board for final review and approval.

Furthermore, we noted that the International Retail Management Agreement has been properly reviewed by the independent non-executive Directors to ensure the fairness and reasonableness for the transaction contemplated under the International Retail Management Agreement. We understand that the auditors of the Company will conduct annual review on the transactions contemplated under the International Retail Management Agreement in relation to the pricing policy and annual caps contemplated thereunder in accordance with the Listing Rules.

As such, we consider the Company has carried out appropriate internal procedures to ensure the pricing mechanism has been implemented and such pricing mechanism is fair and reasonable.

3.8 Internal control measures on review of annual caps

The Company has implemented the following internal control measures to ensure that the annual caps for the transactions contemplated under the International Retail Management Agreement will not be exceeded:

1. The finance department of the Company provides the secretariat to the Board with information in relation to the actual transaction amounts on a monthly basis.

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2. The secretariat to the Board is responsible for monitoring such transactions to ensure that the total amount of transactions does not exceed the annual caps.
3. If such amount of transactions is estimated to exceed the relevant annual cap, the person-in-charge of the relevant department of the Company will be notified so that the scale of transactions in the future may be re-estimated and arrangements may be made to issue announcements and/or to obtain the relevant approvals from the Board and the Independent Shareholders in accordance with the requirements of the Listing Rules.

We have reviewed the internal verification documents of the Company in relation to the aforementioned monitoring procedures of annual caps and noted that the secretariat to the Board have taken appropriate steps as mentioned above to monitor the utilisation of the annual caps. Therefore, we consider the Company has implemented sufficient internal procedures to ensure the transaction amounts under the International Retail Management Agreement do not to exceed the respective annual caps.

As such, we are of the view that the aforementioned internal control measures are properly implemented so far as the Independent Shareholders are concerned.

RECOMMENDATION

We have considered the above principal factors and reasons and, in particular, having taken into account the following in arriving at our opinion:

- (i) the entering into the Continuing Connected Transactions are in the ordinary and usual course of business of the Company;
- (ii) the terms of the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and Shareholders as a whole;
- (iii) the determination of the proposed annual caps for each of the Continuing Connected Transactions are fair and reasonable;
- (iv) the pricing mechanism for the Continuing Connected Transactions are fair and reasonable; and
- (v) the Company has implemented stringent internal control measures to govern the continuing connected transactions of the Company.

Having considered the above, we are of the view that the Continuing Connected Transactions were entered into in the ordinary and usual course of business of the Company on normal commercial terms, the terms of the Continuing Connected Transactions and the relevant proposed annual caps are fair and reasonable, and in the interest of the Company and the Shareholders as a whole. Accordingly, we advise the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions in relation to the Continuing Connected Transactions to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Opus Capital Limited
Li Lan
Executive Director

Mr. Li Lan is an Executive Director of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Li has over 14 years of corporate finance experience in Hong Kong and has participated in and completed various financial advisory and independent financial advisory transactions.

* *For identification purpose only*

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 document misleading.

2. DISCLOSURE OF INTERESTS**(a) Interests and short positions of Directors, supervisors and chief executives in the Shares, underlying Shares or debentures of the Company and its associated corporations**

To the best knowledge of the Directors, supervisors and chief executives of the Company, as at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had interests and short positions in the Shares, underlying Shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which were 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 and short positions which any such Directors, supervisors or chief executives is taken or deemed to have under such provisions of the SFO) or which were required to be entered into the register required to be kept by the Company under section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

(b) Interests and short positions of substantial shareholders in the Shares, underlying Shares or debentures of the Company and its associated corporations

To the best knowledge of the Directors, supervisors and chief executives of the Company, as at the Latest Practicable Date, the interest and short positions of the substantial shareholders in the issued share capital of the Company which will be required, pursuant to section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company were as follows:

Name of Shareholder	Notes	Class of Shares	Capacity	Number of Shares	Approximate percentage of the relevant class of Shares (%)	Approximate percentage of the total issued Shares (%)
Capital Airports Holding Company	1	Domestic	Beneficial owner	(L) 2,699,814,977	100	58.96
Citigroup Inc.		H	Approved lending agent	(L) 186,704,710	9.93	4.08
				(S) 4,276,000	0.22	0.09
				(P) 177,678,987	9.45	3.88
Blackrock, Inc.		H	Interest of corporation controlled by substantial shareholder	(L) 147,533,484	7.85	3.22
				(S) 13,322,000	0.71	0.29
Aberdeen Asset Management PLC and its associates	2	H	Investment manager	(L) 114,868,000	6.11	2.51
Causeway Capital Management LLC	2	H	Investment manager	(L) 94,794,000	5.04	2.07
Hermes Investment Funds PLC		H	Beneficial owner	(L) 94,613,662	5.03	2.07
Brown Brothers Harriman & Co.		H	Agent	(L) 94,393,357	5.02	2.06
				(P) 94,393,357	5.02	2.06

(L): Long Position

(S): Short Position

(P): Lending Pool

Notes:

- Capital Airports Holding Company was incorporated in the PRC and is the controlling shareholder of the Company. Mr. Liu Xuesong, the chairman of the Board and an executive Director, is the general manager and the deputy party secretary of Capital Airports Holding Company. Mr. Han Zhiliang, an executive Director and the general manager of the Company, is the deputy general manager of Capital Airports Holding Company. Mr. Gao Shiqing, a non-executive Director, is the deputy general manager of Capital Airports Holding Company. Mr. Jia Jianqing, a non-executive Director, is the deputy general manager of Capital Airports Holding Company. Mr. Song Kun, a non-executive Director, is the deputy general manager of Capital Airports Holding Company.

2. These Shares are held in the capacity of investment manager.
3. The information in the above table is based on information publicly available to the Company as at the Latest Practicable Date.
4. The numbers in the above table have been subject to rounding adjustments. Any discrepancies in the numbers are due to roundings.

As at the Latest Practicable Date, save as disclosed above and to the best knowledge of the Directors, supervisors and chief executives of the Company, (i) no person had any interests or short positions in the Shares or underlying Shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which would be required to be notified to the Company; and (ii) none of the Directors, supervisors and chief executives of the Company was also a director or employee of a company which has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract with the Company, which does not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. MATERIAL ADVERSE CHANGES

Reference is made to the profit warning announcements of the Company dated 14 July 2020 and 24 July 2020 and the interim results announcement and the interim report of the Company for the six months ended 30 June 2020 published on 26 August 2020 and 11 September 2020, respectively. As affected by factors such as the outbreak of the COVID-19 pandemic, there was a relatively substantial decrease in the aircraft movements, passenger throughput, and cargo and mail throughput at Beijing Capital Airport for the six months ended 30 June 2020, resulting in a decrease in the aeronautical revenues and non-aeronautical revenues of the Company. During the six months ended 30 June 2020, the Company recorded a net loss in the amount of approximately RMB737,998,000, as compared with its net profit for the six months ended 30 June 2019 which amounted to approximately RMB1,290,149,000. Notwithstanding the above, the Company will actively meet the challenges and pressures. Through structural adjustment and enhancement of quality and efficiency, the Company will consolidate the foundation of its own development and promote in full swing the development of Beijing Capital Airport with high quality, high efficiency and a high degree of satisfaction.

Save as disclosed above, as at the Latest Practicable Date, there was no other material adverse change in the financial or trading position of the Company since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up.

5. INTEREST IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Director or supervisors of the Company had any interest, direct or indirect, in any asset which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement subsisting as at the date of this circular, which was significant in relation to the business of the Company.

6. COMPETING INTEREST

As disclosed in section 2(b) of this appendix, as at the Latest Practicable Date, two executive Directors and three non-executive Directors concurrently held the position of general manager or deputy general manager in the Parent Company, which is the controlling shareholder of the Company. As such, these Directors are deemed to have interests in the Parent Company pursuant to Rule 8.10 of the Listing Rules. The Parent Company is currently engaged in the aeronautical and non-aeronautical businesses of Daxing Airport as a result of the approval in writing on 28 June 2018 by the Company which has retained the option to purchase the assets of Daxing Airport in accordance with the requirements set out in the deed of non-competition dated 26 October 1999 entered into between the Company and the Parent Company. Therefore, the Parent Company is competing with the Company which is engaged in the operation of the aeronautical and non-aeronautical businesses of Beijing Capital Airport. For further details, please refer to the inside information announcement of the Company dated 28 June 2018 and page 35 of the annual report of the Company for the year ended 31 December 2019 published on 21 April 2020.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective close associates had any competing interest (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder of the Company for the purpose of the Listing Rules).

7. EXPERT AND CONSENT

The following sets out the qualification of the expert which has given its opinion or advice as contained in this circular:

Name	Qualification
Opus Capital	a corporation licensed by the SFC to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, opinion, logo and qualification, in the form and context in which they are included.

As at the Latest Practicable Date, the above expert:

- (a) did not have any shareholding, direct or indirect, in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company; and
- (b) did not have any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to the Company, or which were proposed to be acquired or disposed of by or leased to the Company, since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Company at 37/F, One Taikoo Place, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong during normal business hours for 14 days from the date of this circular:

- (a) the Supply of Power and Energy Agreement;
- (b) the International Retail Management Agreement;
- (c) the letter of advice from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders;
- (d) the consent letter from the Independent Financial Adviser referred to in the paragraph headed "Expert and Consent" in this appendix; and
- (e) this circular.