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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ACTION

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

**If you have sold or transferred** all your shares in **BEIJING CAPITAL INTERNATIONAL AIRPORT CO., Ltd.**, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

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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)

## CONTINUING CONNECTED TRANSACTIONS

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



**PLATINUM**  
Securities

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A letter from the Board of the Company is set out on pages 1 to 10 of this circular. A letter from the Independent Board Committee is set out on pages 11 to 12 of this circular. A letter from Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 33 of this circular.

The Company will convene the extraordinary general meeting (“EGM”) at 9:00 a.m. on Thursday, 21 December 2017 at the Conference Room, Room 112, the Office Building of the Company, No. 9 Siwei Road, Capital Airport, Beijing, the People’s Republic of China. The supplemental notice of the EGM was despatched to the Shareholders on 24 November 2017.

5 December 2017

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## DEFINITIONS

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*In this circular, the following expressions have the meaning set out below, unless otherwise indicated in the context:*

“associates”	has the same meaning as ascribed in the Listing Rules
“Beijing Airport”	Beijing Capital International Airport
“Beijing Airport Commercial and Trading”	北京首都機場商貿有限公司 (Beijing Capital Airport Commercial and Trading Company Limited), a limited liability company incorporated in the PRC, principally engaged in trading and retail business, and is a subsidiary of the Parent Company
“Board”	the board of Directors
“Company”	Beijing Capital International Airport Co., Ltd (北京首都國際機場股份有限公司), 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(s)”	has the same meaning as ascribed in the Listing Rules
“controlling shareholder”	has the same meaning as ascribed in the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be convened at 9:00 a.m. on Thursday, 21 December 2017 by the Company for the consideration and approval of, amongst others, the International Retail Management Agreement and the transactions contemplated thereunder and their respective annual caps
“Former International Retail Management Agreement”	the international retail management agreement dated 5 January 2015 entered into between the Company and Beijing Airport Commercial and Trading for a term of three years commencing from 1 January 2015 to 31 December 2017, details of which were disclosed in the announcement of the Company dated 5 January 2015
“H Shares”	the overseas listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange

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## DEFINITIONS

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“Independent Board Committee”	independent board committee of the Company comprising all of the independent non-executive Directors
“Independent Shareholders”	the Shareholders other than the Parent Company and its associates
“International Retail Management Agreement”	the agreement dated 15 November 2017 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 in Beijing Airport by Beijing Airport Commercial and Trading to the Company
“international retailing revenue”	operating revenue received by the Company from operators of duty-free businesses in the international isolated areas of Terminal Two and Terminal Three at Beijing Airport
“Latest Practicable Date”	30 November 2017, 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”	首都機場集團有限公司 (Capital Airports Holding Company), an enterprise established in the PRC and the controlling shareholder of the Company
“Platinum Securities” or “Independent Financial Adviser”	Platinum Securities Company Limited, a licensed corporation under the SFO, 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 to the Independent Board Committee and Independent Shareholders in respect of connected transaction under the International Retail Management Agreement
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company

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## DEFINITIONS

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“Shareholders”	holders of the shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Terminal Three”	the passenger terminal numbered three which forms part of Beijing Airport
“Terminal Two”	the passenger terminal numbered two which forms part of Beijing Airport
“%”	per cent

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. Liu Xuesong  
Mr. Han Zhiliang  
Ms. Gao Lijia

*Registered office:*

Capital Airport, Beijing  
The PRC

*Non-executive Directors:*

Mr. Gao Shiqing  
Mr. Yao Yabo  
Mr. Ma Zheng  
Mr. Cheng Chi Ming, Brian

*Principal place of business in Hong Kong:*

21/F Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*Independent Non-executive Directors:*

Mr. Japhet Sebastian Law  
Mr. Jiang Ruiming  
Mr. Liu Guibin  
Mr. Zhang Jiali

5 December 2017

*To the Shareholders*

Dear Sir or Madam,

## CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

Reference is made to the announcement of the Company dated 15 November 2017 in relation to the International Retail Management Agreement entered into between the Company and Beijing Airport Commercial and Trading for a term from 1 January 2018 to 31 December 2020.

Reference is also made to the announcement of the Company dated 5 January 2015. As disclosed in such announcement, the term of the Former International Retail Management Agreement will expire on 31 December 2017. As the Company will continue to carry out such transactions after 31 December 2017, the Company presently proposes to enter into the International Retail Management Agreement as a renewal agreement.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with details of the International Retail Management Agreement, to set out the recommendation of the Independent Board Committee, to set out the letter of advice from Platinum Securities to the Independent Board Committee and the Independent Shareholders in respect of the terms of the International Retail Management Agreement.

### INTERNATIONAL RETAIL MANAGEMENT AGREEMENT

#### Date

15 November 2017

#### 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 in Beijing Airport to the Company.

#### Term

Subject to the approval of the International Retail Management Agreement by the Independent Shareholders at the general meeting, the International Retail Management Agreement is for a term of three years commencing from 1 January 2018 to 31 December 2020.

#### Consideration and Payment

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

- (i) In the event that the total international retailing revenue of the Company is less than or equals to the basis point of total international retailing revenue, the entrusted management fees payable by the Company to Beijing Airport Commercial and Trading will be calculated by the following method:

Total international retailing revenue of the Company for the current year x 22%

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## LETTER FROM THE BOARD

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- (ii) In the event that the total international retailing revenue of the Company for the current year exceeds the basis point of total international retailing revenue, the entrusted management fees payable by the Company to Beijing Airport Commercial and Trading will be calculated by the following method:

Basis point of fees + Increase of total international retailing revenue x 60% <sup>(Note 1)</sup>

*Note 1:* Basis point of total international retailing revenue = total international retailing revenue of the preceding financial year, which shall be calculated commencing from the first year of the International Retail Management Agreement

Basis point of fees = basis point of total international retailing revenue x 22%

Increase of total international retailing revenue = total international retailing revenue for the current year – basis point of total international retailing revenue.

The Company shall pay the entrustment management fee to Beijing Airport Commercial and Trading in accordance with the aforesaid calculation methods. Beijing Airport Commercial and Trading shall issue a written payment request to the Company in relation to the fee payable for the preceding month and which amount shall be confirmed by the Company on or before the 5th working day of each month. Within 5 working days from Beijing Airport Commercial and Trading's presentation of such written payment notice to the Company, the Company shall settle such payment.

### **Pricing Policy**

The above calculation methods are arrived at after arm's length negotiation between the parties with reference to the respective proportion of the amounts of entrustment management fees received by Beijing Airport Commercial and Trading in relation to the total international retailing revenue received by the Company for the previous three years ended 31 December 2016 and the last ten months ended 31 October 2017, which is the same for each year, i.e., approximately 22% (for details, please refer to "Historical figures").

Based on the above considerations and calculation method, the Company has considered the following factors to assess the reasonableness and fairness of such quotation: (i) the reasonable costs of Beijing Airport Commercial and Trading in providing the international retail management services; (ii) the proportion of the entrustment management fees remains at approximately 22% of the total international retailing revenue of the Company for the continuous and stable international retailing business between the Company and Beijing Airport Commercial and Trading in the previous years; (iii) the incremental incentive measures adopted for gearing up the sustainable growth of the Company's international retailing revenue after considering the passenger-diverting effect on Beijing Airport arising from the introduction of the new airport in the future (i.e. the second half of 2019); (iv) the relevant taxes.

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## LETTER FROM THE BOARD

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As there is no similar or equivalent entrustment management operation mode of international retail business in other airports in the PRC, there is no direct comparables for similar transactions. Furthermore, while some of the shopping centres in the urban districts of the PRC have adopted entrusted management operation mode, the transactions of such shopping centres are not comparable to those in Beijing 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 in determining the amount of service fees.

### Historical Figures

The following table shows the historical figures of fees paid by the Company in respect of the provision of international retail management services:

	<b>For the year ended 31 December 2015 (RMB)</b>	<b>For the year ended 31 December 2016 (RMB)</b>	<b>For the year ending 31 December 2017 (RMB)</b>
Fees paid by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services	241,447,000	270,552,000	327,000,000 <sup>(Note 2)</sup>
Percentage of such fees over the international retailing revenue of the Company	22%	22%	22%
Annual caps	280,000,000	310,000,000	340,000,000

*Note 2:* The 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 2017 is approximately RMB274,308,000. Since the audited figures for the 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 2017 are not yet available, it is only an estimate figure. The Company confirms that the relevant fees for the year ending 31 December 2017 will not exceed its annual cap.

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## LETTER FROM THE BOARD

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### **Other Material Terms**

Pursuant to the International Retail Management Agreement, Beijing Airport Commercial and Trading will be responsible for the signing of individual retail contract in relation to the use and operation of retail resources with each of the retailers, and the terms of such retail contracts shall not be in contradiction with the terms of the International Retail Management Agreement. Pursuant to the International Retail Management Agreement, Beijing Airport Commercial and Trading shall ensure 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 agreed management fee as detailed above. The Company expects that the retailers and their ultimate beneficial owners will be third parties independent of the Company and its connected persons.

In respect of commercial planning, the parties will set up a coordinated management working mechanism. The Company will be responsible for and Beijing Airport Commercial and Trading will participate in the 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 formulating and detailed implementation of the merchandising proposals, and the Company will be responsible for review of the appropriateness of resources planning in the merchandising proposals. The merchandising results will be considered and approved by Beijing Airport Commercial and Trading and finally report to the Company for filing.

In respect of daily operation and management, Beijing Airport Commercial and Trading was entrusted by the Company to undertake 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, the Company will be responsible for the overall marketing. Beijing Airport Commercial and Trading will execute the industry marketing and store promotion works in accordance with the overall marketing framework.

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## LETTER FROM THE BOARD

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### Annual Caps

In the first half of 2017, as entrusted by the Company, Beijing Airport Commercial and Trading carried out a new round of open bidding for the international retail businesses in the international isolated areas of Terminal Two and Terminal Three at Beijing Airport so as to select operators of the duty-free businesses. The Company determined the suppliers who won the bid in July 2017 and entered into the agreement on operation of duty-free businesses with such bid winners in August 2017. Pursuant to the results of the open bidding and the terms of such agreement in respect of the revenue split between the Company and the operators of duty-free businesses, there is a significant increase in the proportion of international retailing revenue to be distributed to the Company, which is expected to significantly drive up the amount of international retailing revenue of the Company in the future. If such agreement comes into operation from 1 January 2018, the Company is expected to receive the international retailing revenue of approximately RMB3 billion for the first year of the agreement, representing an increase of approximately 1.5 times over the current amounts of international retailing revenue, while international retailing revenue of the Company for each of the subsequent years will be adjusted subject to changes in the international passenger throughput.

After considering (i) the Company's anticipation on the international passenger throughput; and (ii) international retailing revenue at Beijing Airport for the next three years and with reference to the actual percentage (approximately 22%) of entrustment management fees paid by the Company to Beijing Airport Commercial and Trading over the international retailing revenue received by the Company in previous years, the Company estimates the annual caps for the future three years.

It is expected that the maximum aggregate annual fee payable by the Company to Beijing Airport Commercial and Trading under the International Retail Management Agreement for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020 shall not exceed RMB700,000,000, RMB820,000,000 and RMB700,000,000, respectively, which are determined in accordance with the following factors:

- (i) the anticipated increase in the amount of international passengers throughput, the average retailing consumption amounts of international passengers and the operating revenue of international retail business at Beijing Airport in the years ended 31 December 2018 and 31 December 2019; and
- (ii) the anticipated impact on the level of operating revenue of international retail business from the decrease in the amount of international passengers throughput in the years ended 31 December 2019 and 31 December 2020 as a result of the passenger-diverting effect upon the introduction of the new airport in Beijing which is expected to occur in the second half of 2019.

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## LETTER FROM THE BOARD

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The fact that the aggregate annual fees payable by the Company to Beijing Airport Commercial and Trading set out herein is expected to increase by approximately 1 to 1.5 times as compared with the previous annual caps set out in the “Historical figures” section is mainly due to the corresponding increase in annual caps for fees payable to Beijing Airport Commercial and Trading as calculated at a similar proportion as a result of the anticipated significant increase in international retailing revenue of the Company. Despite the above, there is no changes in the substance of the actual benefit distribution structure in relation to international retail businesses between the Company and Beijing Airport Commercial and Trading.

### **Reasons for and Benefits of Entering into the International Retail Management Agreement**

Beijing Airport Commercial and Trading maintained a good cooperative relationship with the Company in the past and is familiar with the international retail business within Beijing Airport. In addition, Beijing Airport Commercial and Trading has ample client resources in international retail and strong capability of attracting and managing retail business as well as strengths of retail operation and management. In view of the new duty-free tender results, Beijing Airport Commercial and Trading has fully presented its extensive experience in international duty-free business and a good understanding of the duty-free policy in the PRC, which will ensure the maximizing of the value of duty-free resources in Beijing Airport in conformity with the laws and regulations and in a reasonable way. Therefore, it is expected that the international retail resources of Beijing Airport to be managed by Beijing Airport Commercial and Trading will facilitate the increase in value of retail resources in Beijing Airport. Meanwhile, such consideration calculation method will incentivise the Beijing Airport Commercial and Trading and ensure the interest of all relevant parties.

In light of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be despatched to the Shareholders after considering the views of the independent financial adviser on the terms of the International Retail Management Agreement) are of the view that the terms of the International Retail Management Agreement are normal commercial terms and are fair and reasonable and the transactions under the International Retail Management Agreement are in the interest of the Shareholders as a whole.

### **GENERAL**

The Company is principally engaged in the operation of Beijing 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.

Beijing Airport Commercial and Trading is principally engaged in conducting trading and retail businesses.

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## LETTER FROM THE BOARD

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### **BOARD'S APPROVAL**

The International Retail Management Agreement was approved by the Board. Since no Director has material interest in the transactions contemplated under the International Retail Management Agreement, thus none of the Directors has abstained from voting at the Board's meeting to approve the International Retail Management Agreement.

### **LISTING RULES IMPLICATIONS**

The Parent Company is the controlling Shareholder of the Company, holding approximately 56.61% of the issued share capital of the Company as at the Latest Practicable Date. 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 under the International Retail Management Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) of the International Retail Management Agreement is more than 5%, the transactions under the International Retail Management Agreement are subject to the annual review, reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will disclose the relevant details in the next published annual report of the Company in accordance with the relevant requirements as set out in Chapter 14A of the Listing Rules.

### **INDEPENDENT BOARD COMMITTEE**

The Company has established an Independent Board Committee comprising all independent non-executive Directors for providing advice to the Independent Shareholders on whether the terms of the International Retail Management Agreement and the proposed annual caps 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 Board Committee to the Independent Shareholders is set out on pages 11 to 12 of this circular. The letter from the Independent Board Committee to the Independent Shareholders contains its recommendation on the International Retail Management Agreement and the proposed annual caps.

Having considered the pricing policies with respect to the International Retail Management Agreement, the methods and procedures established by the Company to ensure the strict compliance with the pricing policies and that the transactions under the International Retail Management Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders, and the appropriate internal control procedures in place, the independent non-executive Directors are of the view that the International Retail Management Agreement and the continuing connected transactions thereunder are fair and reasonable to the Independent Shareholders and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### **APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER**

The Company has appointed Platinum Securities as the independent financial adviser to the Company for providing advice to the Independent Board Committee and Independent Shareholders on whether the terms of the International Retail Management Agreement, and the proposed annual caps 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 13 to 33 of this circular. The letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders indicates that the independent financial adviser considers the terms of the International Retail Management Agreement and the services contemplated under the International Retail Management Agreement and the proposed annual caps are fair and reasonable to the Shareholders, and are in the interests of the Company and the Shareholders as a whole.

The Company has appointed Platinum Securities as the independent financial adviser to advise the Independent Board Committee and the Shareholders in respect of the International Retail Management Agreement.

### **CONNECTED PERSONS WHO ARE REQUIRED TO ABSTAIN FROM VOTING ON THE RESOLUTIONS**

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the relevant connected transaction is required to abstain from voting on the relevant resolution at the EGM.

Since the Parent Company is a holder of 56.61% of the issued share capital of the Company as at the Latest Practicable Date and Beijing Airport Commercial and Trading is a subsidiary of the Parent Company, the Parent Company and its associates must abstain from voting on the resolutions approving the International Retail Management Agreement at the EGM. As at the Latest Practicable Date and to the best knowledge, information and belief of the Directors, save as disclosed in this circular, none of the other Shareholders must abstain from voting on the relevant resolution.

### **THE EGM**

The Company will convene the EGM at 9:00 a.m. on Thursday, 21 December 2017 at the Conference Room, Room 112, the Office Building of the Company, No. 9 Siwei Road, Capital Airport, Beijing, the Peoples Republic of China to consider and, if thought fit, to pass the resolutions in respect of the matters set out in the supplemental notice of the EGM dated 15 November 2017. The supplemental notice of EGM and a revised form of proxy were dispatched to the Shareholders in accordance with the Listing Rules on 15 November 2017.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Board (including independent non-executive Directors) considers that the ordinary resolution to be proposed at the EGM as disclosed in the supplemental notice of the EGM dated 15 November 2017 is in the interest of the Company and the Shareholders as a whole, and accordingly, recommends the Shareholders to vote in favour of the additional ordinary resolution to be proposed at the EGM.

### ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, the letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and additional information set out in Appendix 1 to this circular.

Yours faithfully,

By Order of the Board of

**Beijing Capital International Airport Co., Ltd.**

**Luo Xiaopeng**

*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)

5 December 2017

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular issued by the Company to the Shareholders of the company dated 5 December 2017 (the “**Circular**”) of which this letter forms part. Terms defined in this Circular shall have the same meanings in this letter unless the context otherwise requires.

Given that one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the International Retail Management Agreement is more than 5%, the transactions contemplated under the International Retail Management Agreement will constitute non-exempt continuing connected transactions of the Company, and are subject to the approval of the Independent Shareholders at the EGM.

We have been appointed by the Board to consider the terms of the International Retail Management Agreement to advise the Independent Shareholders as to whether, in our opinion, its terms are fair and reasonable so far as the Independent Shareholders are concerned. Platinum Securities has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Circular issued by Platinum Securities, which contains its advice to the Independent Board Committee and the Independent Shareholders on the provision of services under the International Retail Management Agreement and its proposed annual caps (the text of the letter of advice is set out on pages 13 to 33 of the Circular). Having considered the advice of Platinum Securities, we are of the view that the terms and conditions of the provision of services under the International Retail Management Agreement are on normal commercial terms, in the ordinary and usual course of business of the Company, fair and reasonable and in the interests of the Company and its Shareholders as a whole, and its proposed annual caps are fair and reasonable. Our view related to fairness and reasonableness is necessarily based on information, facts and circumstances currently prevailing.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We also consider that the terms of the provision of services under the International Retail Management Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to approve the International Retail Management Agreement and the transactions contemplated thereunder and its proposed annual caps.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Beijing Capital International Airport Co., Ltd.**

**Mr. Japhet Sebastian Law, Mr. Jiang Ruiming,**

**Mr. Liu Guibin and Mr. Zhang Jiali**

*Independent non-executive Directors*

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.*



**PLATINUM** Securities Company Limited

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31 Queen's Road Central  
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5 December 2017

*To the Independent Board Committee and the Independent Shareholders*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transactions (the “**Continuing Connected Transactions**”) contemplated under the International Retail Management Agreement. Details of the Continuing Connected Transactions are contained in the circular of Beijing Capital International Airport Co., Ltd. (the “**Company**”, together with its subsidiaries referred as to the “**Group**”) dated 5 December 2017 (the “**Circular**”). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the International Retail Management Agreement, the Continuing Connected Transactions and the respective annual caps for the Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and to give independent advice to the Independent Board Committee.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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In formulating our opinion, we have relied on the information and facts supplied to us by the Directors and/or management of the Company. We have reviewed, among other things:

- (i) the International Retail Management Agreement;
- (ii) the announcement of the Company dated 15 November 2017 in relation to the Continuing Connected Transactions;
- (iii) the announcement of the Company dated 5 January 2015 in relation to the Continuing Connected Transactions (the “**2015 Announcement**”);
- (iv) the annual report of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”);
- (v) the interim report of the Company for six months ended 30 June 2017 (the “**2017 Interim Report**”);  
and
- (vi) 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.

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Directors and/or management of the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or management of the Company which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Continuing Connected Transactions.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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During the past two years, Platinum Securities Company Limited had acted as independent financial adviser to the Company regarding certain proposed continuing connected transaction as mentioned in the announcement of the Company dated 25 October 2017 and the circular of the Company dated 15 November 2017. The past engagement was limited to provide independent advisory services pursuant to the Listing Rules for which we received normal professional fees. Accordingly, we do not consider the past engagement give rise to any conflict of interest for us in acting as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions. As at the Latest Practicable Date, we are independent from, and are not associated with the Company or any other party to the Continuing Connected Transactions, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Continuing Connected Transactions. We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Continuing Connected Transactions or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

The Independent Board Committee, comprising Mr. Japhet Sebastian Law, Mr. Jiang Ruiming, Mr. Liu Guibin and Mr. Zhang Jiali, has been established to advise the Independent Shareholders as to whether the terms of the International Retail Management Agreement, the Continuing Connected Transactions and the annual caps in relation to the Continuing Connected Transactions are entered into on normal commercial terms, in the ordinary course of business of the Company, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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# LETTER FROM INDEPENDENT FINANCIAL ADVISER

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## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

### **1. Information on the Group, the Beijing Airport Commercial and Trading and the Parent Company**

#### ***1.1. Information on the Group***

##### *1.1.1. Business of the Group*

The Company is incorporated as a joint stock company with limited liability in Beijing, the PRC on 15 October 1999 and it was listed on the Stock Exchange on 1 February 2000. According to the 2017 Interim Report, the Parent Company held 56.61% of the total share capital of the Company as at 30 June 2017.

The Group is principally engaged in the operating and managing aeronautical and non-aeronautical businesses and certain ancillary commercial businesses at the Beijing Airport. Aeronautical business 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. In respect of the Company's non-aeronautical business, it includes the franchise-based operation, entrusted management or licensing other parties for operation of (i) ground handling agent services supplied for domestic and foreign airlines; (ii) in-flight catering services; (iii) duty free and other retail shops in the terminals; (iv) restaurants and other catering businesses in the terminals; (v) leasing of advertising spaces inside and outside the terminals and other businesses at the Beijing Airport. In addition, it also includes the self-operation of leasing properties in the terminals, provision of car parking services; and the provision of ground handling facilities for ground handling agent companies.

##### *1.1.2. Financial review of the Group*

Historical financial performance of the Group

The following table sets out the consolidated financial results of the Group for each of the financial years ended 31 December 2015 (“FY2015”) and 2016 (“FY2016”); and six months ended 30 June 2016 (“HY2016”) and 2017 (“HY2017”) as extracted from the 2016 Annual Report and 2017 Interim Report respectively.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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	FY2015 (Audited) <i>RMB in million</i>	FY2016 (Audited) <i>RMB in million</i>	HY2016 (Unaudited) <i>RMB in million</i>	HY2017 (Unaudited) <i>RMB in million</i>
Aeronautical	4,593	4,837	2,338	2,456
Non-aeronautical	3,917	3,892	1,902	2,159
<b>Revenues</b>	<b>8,510</b>	<b>8,729</b>	<b>4,240</b>	<b>4,614</b>
Operating Cost	5,603	5,786	2,752	2,857
Operating profit	2,799	2,894	1,448	1,760
<b>Profit before income tax</b>	<b>2,193</b>	<b>2,377</b>	<b>1,208</b>	<b>1,687</b>
<b>Profit for the year/period (as the case maybe)</b>	<b>1,642</b>	<b>1,781</b>	<b>905</b>	<b>1,264</b>

The Company recorded revenue of RMB8,729 million for FY2016, representing an increase of approximately 2.6% as compared to FY2015 and it was mainly due to the increase in revenue contribution from the aeronautical business of the Group. In respect of aeronautical business, it was benefited from the moderate growth of the aviation traffic volumes and the annual aircraft movements reached a total of 606,086 sorties in 2016, representing an increase of approximately 2.7% as compared to 2015. The increase in the passenger throughput in 2016 scaled a new high to break through 90 million person-times and steady progress, representing an increase of 5% over the previous year, and the annual cargo and mail throughput also increased by 2.8% in 2016. Despite the overall non-aeronautical revenues were restrained with a decrease of 0.6% in 2016 as compared with previous year, revenues from retailing and dining increased by 10.8% and 6.2%, respectively as compared with previous year, mainly benefited from the growth in international passengers. The concession revenues from VIP services recorded an increase of 69.5% in 2016, mainly due to adjustments in the concession arrangement following the new traveller services franchise agreement entered into between the Company and Capital Airport VIP Services Management Co., Ltd. in 2016. However, revenues from ground handling service and other concession decreased by 75.6% and 30.4%, respectively, as compared to the previous year, which were mainly due to the fact that the Company had not entered into agreement with counterparties regarding the concession fees of the ground handling service and air catering service.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Owing to the factors such as higher cost of security personnel and equipment following the upgrade of aviation security and the additional purchase of services for traveller agreements, the Company recorded an increase in operating costs by 3.3% to RMB5,786 million in 2016. In the meantime, the Company continued to optimise debt structure and effectively reduced overall capital cost and financial cost through successful completion of re-financing of matured debts and issuance of the first tranche short-term debentures. The Company further improved its capital structure, with its liability-to-asset ratio dropping to 42.8% as at 31 December 2016.

As disclosed in the 2017 Interim Report, revenues from the aeronautical business increased by 5.0% as compared with the corresponding period in 2016, attributable by the rise of passenger throughput resulted to an increase in passenger charges, as well as an increase in aircraft movement revenues. In respect of non-aeronautical business, the Company recorded an increase of 13.5% as compared with the corresponding period of the previous year. For HY2017, the unaudited profit for the period was RMB1,264 million, representing an increase of approximately 39.6% compared with the corresponding period in 2016 of RMB905 million.

### Financial position of the Group

The following table sets out certain selected balance sheet items of the Group as at 31 December 2015 and 2016 and 30 June 2017 as extracted from the 2016 Annual Report and the 2017 Interim Report respectively.

	As at 31 December 2015 (Audited) <i>RMB million</i>	As at 31 December 2016 (Audited) <i>RMB million</i>	As at 30 June 2017 (Unaudited) <i>RMB million</i>
Bank deposits and cash	2,113	4,530	2,839
Total current assets	3,504	5,819	4,220
<b>Total assets</b>	<b>32,691</b>	<b>33,904</b>	<b>31,728</b>
Bank and other loans	11,683	10,803	7,661
Total current liabilities	7,252	9,206	6,334
<b>Total liabilities</b>	<b>14,422</b>	<b>14,526</b>	<b>11,499</b>
<b>Net assets</b>	<b>18,269</b>	<b>19,378</b>	<b>20,230</b>

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As at 30 June 2017, the Group had total assets amounted to RMB31,728 million, mainly comprising (i) properties, plants and equipment of RMB26,082 million; (ii) cash and bank balances of RMB2,839 million; (iii) trade and other receivables of RMB1,207 million; and (iv) land use rights of RMB1,121 million.

On the liability side, the total liabilities of the Group amounted to RMB11,499 million, mainly comprising (i) borrowings of RMB7,661 million; and (ii) trade and other payables of RMB3,524 million. The Company recorded total equity of RMB20,230 million. As at 30 June 2017, the current ratio of the Group was 0.67, comparing to that of 0.63 as at 31 December 2016. Also, the liability-to-asset ratio of the Group was 36.2% as at 30 June 2017, as compared to that of 42.8% at the year-end of 2016.

### ***1.2. Information on the Beijing Airport Commercial and Trading***

Beijing Airport Commercial and Trading is principally engaged in trading and retail business.

As at the Latest Practicable Date, Beijing Airport Commercial and Trading is a subsidiary of the Parent Company.

### ***1.3. Information on 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.

As at the Latest Practicable Date, the Parent Company is the controlling Shareholder of the Company, holding approximately 56.61% of the issued share capital of the Company.

## **2. The International Retail Management Agreement**

### ***2.1. Background of the International Retail Management Agreement***

Reference is made to the announcement of the Company dated 5 January 2015. On 5 January 2015, the Company and Beijing Airport Commercial and Trading entered into the Former International Retail Management Agreement, pursuant to which 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 in Beijing Airport to the Company. The initial term of the Former International Retail Management Agreement will expire on 31 December 2017.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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On 15 November 2017, the Company and Beijing Airport Commercial and Trading entered into the International Retail Management Agreement, pursuant to which 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 in Beijing Airport to the Company, for a term of three years commencing from 1 January 2018 to 31 December 2020.

### **2.2. *Principal terms of the International Retail Management Agreement***

Set out below are the principal terms of the International Retail Management Agreement:

#### **Date**

15 November 2017

#### **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 in Beijing Airport to the Company.

#### **Term**

The International Retail Management Agreement is for a term of three years commencing from 1 January 2018 to 31 December 2020.

#### **Conditions precedent**

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

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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### Consideration and payment

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

- (i) In the event that the total international retailing revenue of the Company for the current year equals to or is less than the basis point of the total international retailing revenue, the entrustment management fees payable by the Company to Beijing Airport Commercial and Trading will be calculated by the following method:

Total international retailing revenue of the Company for the current year x 22%

- (ii) In the event that the total international retailing revenue of the Company for the current year exceeds the basis point of total international retailing revenue, the entrustment management fees payable by the Company to Beijing Airport Commercial and Trading will be calculated by the following method:

Basis point of fees + Increase of total international retailing revenue x 60% (*Note*)

*Note:*

1. Basis point of total international retailing revenue = total international retailing revenue of the Company in the preceding financial year, which shall be calculated commencing from the first year of the International Retail Management Agreement.
2. Basis point of fees = basis point of total international retailing revenue x 22%.
3. Increase of total international retailing revenue = total international retailing revenue for the current year – basis point of total international retailing revenue.

The Company shall pay the entrustment management fee to Beijing Airport Commercial and Trading in accordance with the aforesaid calculation methods. Beijing Airport Commercial and Trading shall issue a written payment request to the Company in relation to the fee payable for the preceding month and which amount shall be confirmed by the Company on or before the 5th working day of each month. Within 5 working days from Beijing Airport Commercial and Trading's presentation of such written payment notice to the Company, the Company shall settle such payment.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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### **Pricing policy**

Based on our discussion with the management of the Company, we understood that the total turnover of international retailing revenue comprises of (i) the entrustment management fees paid by the Company to the Beijing Airport Commercial and Trading and (ii) revenue split between the Company and the operators of the duty-free businesses based on their agreement.

After our review of the 2015 Announcement, we acknowledged the terms of the Former International Retail Management Agreement and understood that the previous calculation method of the entrustment management fees paid by the Company to the Beijing Airport Commercial and Trading were calculated based on the percentage (i.e. 5%–9%) of the total turnover of international retailing revenue in the international isolated areas of Terminal Two and Terminal Three at Beijing Airport.

In relation to the change of pricing formula in calculating the entrustment management fees for the provision of international retail management services under the International Retail Management Agreement, we have also discussed with the management of the Company and understand that such consideration calculation method for provision of international retail management services payable by the Company serves as an incentive mechanism to encourage Beijing Airport Commercial and Trading to achieve a higher international retailing revenue for the Company. We consider such pricing mechanism is similar to the high watermark mechanism that is commonly adopted in management services contracts to motivate the performance of service providers and concur with the management of the Company that it is in the interest of the Company that such pricing mechanism can motivate Beijing Airport Commercial and Trading to achieve a higher income target for the Company. In the event that the total international retailing revenue is not higher than that of the preceding year, it is indifferent for the Company that Beijing Airport Commercial and Trading can receive the basis point of fees (i.e. 22% of total international retailing revenue for the financial year) only.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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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 retailing revenue) under the new pricing mechanism, we have conducted our research for entrustment management operation mode of international retail management in other airports in the PRC but did not find any comparable transactions.

In this regard, we have reviewed the new pricing mechanism and the historical transactions figures of the Company under the terms of the Former International Retail Management Agreement. We noted that the calculation basis of the entrustment management fees paid by the Company to Beijing Airport Commercial and Trading for FY2015, FY2016 and the ten months ended 31 October 2017 was based on the terms stated in the Former International Retail Management Agreement (i.e. 5%–9% of total turnover of international retailing revenue in the international isolated areas of Terminal Two and Terminal Three at Beijing Airport), which the amount of the entrustment management fees were equivalent to approximately 22% of the international retailing revenue.

As such, we consider it is reasonable for the management of the Company to make reference to the correlation between the entrustment management fees paid by the Company to Beijing Airport Commercial and Trading and the international retailing revenue of the Company to determine the percentage payment of entrusted management fees in the new pricing mechanism. In light of the above, we consider the determination of the basis point of fees is fair and reasonable.

For the incentive part, we have discussed with the management of the Company and understand that the incentive of 60% of total international retailing revenue increment was arrived after arm's length negotiation between parties. During the negotiation with Beijing Airport Commercial and Trading, the management of the Company has considered the efforts contributed by Beijing Airport Commercial and Trading in the open bidding held in first half of 2017 for the international retail businesses in the international isolated areas of Terminal Two and Terminal Three at Beijing Airport so as to select operators of the duty-free businesses, and Beijing Airport Commercial and Trading managed to complete the open bidding with a significant increase of approximately 150% in the contract amount.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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As aforementioned, we have conducted our research for entrustment management operation mode of international retail management in other airports in the PRC but did not find any comparable transactions. In terms of future development of the international retail sales, we have discussed with the management of the Company and understand that it is expected to be a passenger-diverting effect upon the commencement of the new airport in the future and therefore the purpose of the incentive measures in determination of entrustment management fees is to motivate Beijing Airport Commercial and Trading to use its best effort to achieve a higher international retailing revenue for the Company in the next three years. Independent Shareholders should note that the entire pricing mechanism has been determined based on arm's length negotiations after considering the factors stated above and it is indifferent for the Company that Beijing Airport Commercial and Trading can receive only the basis point of fees in the event that there is no increment in the international retailing revenue of the Company.

Moreover, we have discussed with the management of the Company and understand that Beijing Airport Commercial and Trading provides value-added services, which are crucial to achieve a higher international retailing 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 will set up a coordinated management working mechanism with the Company and participate in 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 formulating 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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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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We are of the view that the effort contributed by Beijing Airport Commercial and Trading is crucial and directly affect the international retailing revenue of the Company. Also, the substantial increase in the international retailing revenue may not be achieved without the contribution from the Beijing Airport Commercial and Trading, hence we are of the view that it is justifiable for the Company to share majority of international retailing revenue increment to Beijing Airport Commercial and Trading.

Having considered the above, we consider it is in the interest of the Company that part of the entrustment management fees is determined by the incentive mechanism and such mechanism is fair and reasonable.

### ***2.3. Reasons for and benefits of the entering into of the International Retail Management Agreement***

We have discussed with the management of the Company in relation to the reasons for and benefits of entering into the International Retail Management Agreement and understand that Beijing Airport Commercial and Trading maintained a good cooperative relationship with the Company in the past and is familiar with the international retail business within the Beijing Airport.

In addition, Beijing Airport Commercial and Trading has ample client resources in international retail and strong capability of attracting and managing retail business as well as strengths of retail operation and management. In view of the new duty-free tender results, Beijing Airport Commercial and Trading has fully presented its extensive experience in international duty-free business and a good understanding of the duty-free policy in the PRC, which will ensure maximising the value of duty-free resources in Beijing Airport in conformity with the laws and regulations and in a reasonable way. Therefore, it is expected that the international retail resources managed by Beijing Airport Commercial and Trading will facilitate the increase in value of retail resources in Beijing 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 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.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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### 2.4. *Historical transaction amounts*

Set out below the historical consideration paid by the Company in respect of the provision of the international retail management services for FY2015 and FY2016 and the estimated transaction amounts for the year ending 31 December 2017 (“FY2017”), and the relevant annual caps.

	FY2015 (RMB)	FY2016 (RMB)	FY2017 (RMB)
Historical fees paid by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services	241,447,000	270,552,000	327,000,000 (Note 1)
Percentage of such fees over the international retailing revenue of the Company	22%	22%	22%
Annual caps	280,000,000	310,000,000	340,000,000
Utilisation rate for provision of international retail management services (Note 2)	86.2%	87.3%	96.2%

*Note 1:* The fee for the provision of international retail management services paid by the Company to Beijing Airport Commercial and Trading for the ten months ended 31 October 2017 is approximately RMB274,308,000. Since the audited figures for the fees payable by the Company to Beijing Airport Commercial and Trading for the provision of international retail management services for FY2017 are not yet available, it is only an estimate figure. The Company confirms that the relevant fees for FY2017 will not exceed its annual cap.

*Note 2:* The historical utilisation rate for provision of international retail management services is calculated based on the historical fees paid by the Company to Beijing Airport Commercial and Trading for provision of international retail management services divided by the historical respective annual caps.

We have discussed with the management of the Company and understand that the historical transaction amounts increased by approximately 12.1% for FY2016 and the transaction amounts are expected to be increased by approximately 20.9% for FY2017 which were mainly attributable to (i) the growing international passenger throughput; (ii) the increase in sales from duty-free businesses in the international isolated areas of Terminal Two and Terminal Three at Beijing Airport.

We note that the annual caps for FY2015, FY2016 and FY2017 were well utilised or are expected to be substantially utilised, respectively.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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### 2.5. *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 the three financial years ending 31 December 2018, 2019 and 2020 (“FY2018”, “FY2019” and “FY2020”, respectively).

	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Proposed annual caps for provision of international retail management services	700,000,000	820,000,000	700,000,000

As illustrated in the table above, the proposed annual cap for FY2018 represents an increase of approximately 105.9% as compared with the annual caps for FY2017 and the proposed caps for FY2019 will be increased by approximately 17.1% from previous year.

We have discussed with the management of the Company and understand that the annual caps were determined after taking into account (i) the anticipated amount of international passengers throughput at Beijing Airport in each of the next three years; (ii) the anticipated average retailing consumption amounts of international passengers at Beijing Airport and the total turnover of international retail sales in each of the next three years; and (iii) the anticipated operating revenue of international retail business at Beijing Airport in each of the next three years.

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 “*Principal terms of the International Retail Management Agreement*” in this letter and the international retailing revenue of the Company in each of the next three years.

We noted from the calculation of the annual caps prepared by the management of the Company that there is a significant increase in annual caps in 2018 resulted from the expected increase in international retailing revenue of the Company in 2018 due to the fruitful result of the open bidding in 2017. We have reviewed the agreement entered between the Company and the bid winner; and noted that the term in relation to revenue split to the Company has been increased substantially. It is therefore driven up the international retailing revenue of the Company in future even the total turnover of international retail sales at Beijing Airport is expected to grow steadily. We further noted from the calculation of annual caps for FY2018 is determined based on 22% of the expected international retailing revenue to be received by the Company in FY2018.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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For the international retailing revenue of the Company for FY2019 and FY2020, we have discussed with the management of the Company and understand that it is derived based on the estimated total turnover of international retail sales and the terms of the tender agreement entered with the bid winner. 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 Airport in each of the next three years; and (ii) the average retailing consumption amounts of international passengers at Beijing Airport.

The factors that affect the total turnover of international retail sales as discussed below.

- (i) Increase in the international passenger throughput: we have reviewed the calculation of annual caps for the international retail management services and noted that the increase anticipated by the management of the Company in international passenger throughput of the Beijing Airport will be approximately 6.1% and 1.7% in 2018 and 2019 respectively, according to the estimate of the planning and development department of the Company and the consideration of the historical growth of international passenger throughput in Beijing Airport. We have reviewed the historical record of passenger throughput at the Beijing Airport and understand that the international passenger throughput at the Beijing Airport was growing continuously throughout the last decade. The international passenger throughput at the Beijing Airport was approximately 20.7 million, 22.6 million and 24.5 million in 2014, 2015 and 2016 respectively, representing a compound annual growth rate ("CAGR") of approximately 8.8% from 2014 to 2016. Given that the passenger throughput has shown an upward trend, the anticipated increase of 6.1% in international passenger throughput in 2018 is within the CAGR of international passenger throughput from 2014 to 2016. However, in the consideration of an operation commencement of the new additional international airport in Beijing expecting in the second half of 2019, a diverting effect will be occurred gradually on the level of international passenger throughput at the Beijing Airport; hence we are of the view that the estimation of a slight growth of 1.7% in the international passenger throughput in 2019 is reasonable. In addition, in a prudent basis, we concur with an estimated decrease of 8.5% in the international passenger throughput in 2020 due to the further impact of the passenger-diverting effect. As such, we consider the estimation of international passenger throughput in the next three years prepared by the management of the Company is fair and reasonable.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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- (ii) average retailing consumption amounts of international passengers at Beijing Airport: we have reviewed the calculation of annual caps for the international retail management services and noted that the management of the Company anticipated the average retailing consumption amounts of international passengers at Beijing Airport increases by approximately 6.4% in 2018 and remains unchanged in 2019 and 2020 for a prudent basis. We referred to the historical statistics in relation to the international passenger throughput and the total turnover of international retailing sales to calculate the average retailing consumption amounts of international passengers at Beijing Airport from 2014 to the end of October 2017; and noted that the CAGR of the average retailing consumption amounts of international passengers at Beijing Airport during such period was approximately 6.5%. Given that the average retailing consumption amounts of international passengers at Beijing Airport has shown an upward trend, and the CAGR of average retailing consumption amounts of international passengers at Beijing Airport is in line with the estimation of increase in the average retailing consumption amounts of international passengers at Beijing Airport, we consider the estimation of the average retailing consumption amounts of international passengers at Beijing Airport prepared by the management of the Company is fair and reasonable.

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

Based on the forecast of total turnover of international retail sales stated above and the current revenue split resulted from the open bidding in 2017, the management of the Company anticipated that the international retailing revenue to be received by the Company will be increased by approximately 6.1% in FY2019 and decreased by approximately 8.5% in FY2020.

We have reviewed the calculation of the annual caps for FY2018, FY2019 and FY2020 prepared by the management of the Company and understand that the calculation method of annual caps are same as the pricing formula stated in the International Retail Management Agreement.

For annual cap in FY2018, we noted that it was determined based on 22% of the expected international retailing revenue to be received by the Company (i.e. approximately RMB3 billion as stated in the “*Letter from the Board*” in the Circular).

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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For annual cap in FY2019, we noted that it was determined based on the estimated international retailing revenue to be received by the Company in FY2019 which is expected to be 6.1% higher than that in FY2018. We noted that the increase in annual cap (i.e. RMB120 million) was due to the increase in expected international retailing revenue to be received by the Company in FY2019 as 60% of such increment will serve as incentive and will be part of the entrustment management fee for Beijing Airport Commercial and Trading, as well as a result of the estimated increase of international passenger throughput while the retailing consumption amounts of international passengers remains unchanged.

For annual cap in FY2020, we noted that it was determined based on 22% of the estimated international retailing revenue to be received by the Company in FY2020 which is expected to be 8.5% lower than that in FY2019 due to the expected decrease of the passenger throughput. Under the pricing formula stated in the International Retail Management Agreement, no additional entrustment management fee will be entitled by Beijing Airport Commercial and Trading as the international retailing revenue to be received by the Company is less than preceding year.

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.

### **2.6. Internal control**

In respect of monitoring the pricing standards for transaction under the International Retail Management Agreement, we have discussed with the management of the Company and understand that the Company has implemented stringent measures to monitor the pricing standards for the continuing connected transactions:

- (i) the Company has adopted and implemented a management system on connected transactions. According to the system, the business development department of the Company is responsible for gathering information on the transactions, conducting evaluation on the fairness of the transaction terms and the pricing terms; the secretariat to the Board and the finance department of the Company are responsible for monitoring the amounts of transactions;
- (ii) the principal officers who handle the relevant matters shall lodge applications to the business development department of the Company before the transactions under the International Retail Management Agreement are carried out, and such applications would only be approved upon preliminary review and final review conducted by the manager of the business development department if the Company and the deputy manager of the Company who is responsible for the relevant matters pursuant to the relevant internal control policies of the Company; and

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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- (iii) the independent non-executive Directors of the Company have also reviewed and would continue to review the transactions under the International Retail Management Agreement to ensure such agreement is entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements. The auditors of the Company would also conduct an annual review on the pricing and annual caps under the International Retail Management Agreement.

In assessing the implementation of the aforementioned internal control procedures, we have selected three samples transactions in relation to the provision of international retail management services by Beijing Airport Commercial and Trading during the term of the Former International Retail Management Agreement, and noted that the fees paid by the Company were determined with reference to (i) actual international retailing revenue received by the Company; and (ii) the respective revenue split ranged from 5%–6% for international inbound retail business and 8%–9% for international outbound retail business as stated in the Former International Retail Management Agreement. The samples were selected on a random basis taking into consideration the contract size and that the contracts were entered 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 provision of international retail management services, the principal officers who handle the relevant matters would prepare an application which includes the details of the international retail business to be operated, the summary of international retailing revenue and the related entrustment management fees for preceding year. Second, the application was reviewed by the business development department and the deputy manager of the Company. Upon passing the internal review process, the application was submitted to the Board for final review and approval.

Further, we noted from our review of the selected samples that the transactions under the Former International Retail Management Agreement were properly reviewed by the independent non-executive Directors to ensure the fairness and reasonableness of such transactions.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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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 International Retail Management Agreement do not to exceed the respective annual caps.

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.

### 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 International Retail Management Agreement are in the ordinary course of business of the Company;
- (ii) the terms of the International Retail Management Agreement 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 International Retail Management Agreement are fair and reasonable;
- (iv) the pricing mechanism for the Continuing Connected Transactions contemplated under each of the International Retail Management Agreement are fair and reasonable; and
- (v) the Company has implemented stringent internal control measures to govern the continuing connected transactions of the Group.

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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Having considered the above, we are of the view that the International Retail Management Agreement were entered into in the ordinary and usual course of business of the Company on normal commercial terms, the terms of the International Retail Management Agreement 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 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

**Platinum Securities Company Limited**

**Lenny Li**

*Director and Co-Head of Corporate Finance*

*Mr. Lenny Li is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Platinum Securities Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over eleven years of experience in corporate finance industry.*

**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**

As at the Latest Practicable Date, none of the Directors, supervisors and chief executive 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 Director or chief executive 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.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest, direct or indirect, in any asset which have been since 31 December 2016, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, Mr. Liu Xuesong, an executive Director and the Chairman of the Board, is the General Manager and Vice Secretary of Communist Party of the Parent Company.

As at the Latest Practicable Date, Mr. Han Zhiliang, an executive Director and the General Manager of the Company, is the Deputy General Manager of the Parent Company.

As at the Latest Practicable Date, Mr. Gao Shiqing, a non-executive Director of the Company, is the Deputy General Manager of the Parent Company.

As at the Latest Practicable Date, Mr. Yao Yabo, a non-executive Director of the Company, is the Deputy General Manager of the Parent Company.

As at the Latest Practicable Date, Mr. Ma Zheng, a non-executive Director of the Company, is the general legal counsel and chairman of labor union of the Parent Company.

As at the Latest Practicable Date, Mr. Song Shengli is the Secretary of Communist Party Committee of the Parent Company.

### **3. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT**

As at the Latest Practicable Date, none of the Directors, nor supervisors had any existing or is proposed to have a service contract with the Company or any of its associated corporations which will not expire or is not determinable by the Company within one year without payment of compensation other than statutory compensation.

### **4. MATERIAL CHANGES**

The Directors confirm that there was no material adverse change in the financial or trading position of the Company since 31 December 2016, being the date to which the latest published audited financial statements of the Company were made up.

### **5. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors or their respective 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).

### **6. EXPERTS**

- (a) The following sets out the qualifications of the expert which has given its opinion or advice as contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Platinum Securities	Licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advise on corporate finance) regulated activities under the SFO

- (b) Platinum Securities does 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.
- (c) Platinum Securities does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to the Company, or which are proposed to be acquired or disposed of by or leased to the Company since 31 December 2016, the date to which the latest published audited financial statements of the Company were made up.
- (d) Platinum Securities 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 in the form and context in which they are included.
- (e) The letter and recommendation given by Platinum Securities is given as of the date of this circular for incorporation herein.

#### **7. 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 21/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours from the date of this Circular up to 20 December 2017 (including the date):

- (a) the International Retail Management Agreement;
- (b) the consent letter from Platinum Securities; and
- (c) the letter of advice from Platinum Securities.